

Originally Processed With FOIA(s):
2025-0373-S

FOIA Number:
2025-0373-S

FOIA MARKER

This is not a textual record. This is used as an administrative marker by the George Bush Presidential Library Staff.

Record Group/Collection: George H.W. Bush Presidential Records
Collection/Office of Origin: Chief of Staff, White House Office of
Series: Card, Andrew, Files
Subseries:

OA/ID Number: 04012
Folder ID Number: 04012-006c

Folder Title:
AHC General Correspondence June-August 1990 [3]

Stack:	Row:	Section:	Shelf:	Position:
G	15	21	6	

THE WHITE HOUSE

WASHINGTON

August 6, 1990

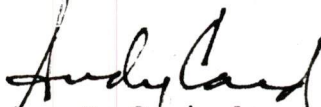
Dear Mr. Scott,

Thank you for your recent letter regarding the JENSCO GROUP's bid to acquire First American Bank in Boston, Massachusetts.

As you may already be aware, White House policy restricts me from taking part in the endorsement or promotion of any private or commercial ventures. Your situation falls into this category.

I am sorry this could not be a favorable response, but I wish you good luck in your ventures.

Sincerely,



Andrew H. Card, Jr.
Assistant to the President and
Deputy to the Chief of Staff

Mr. James M. Scott
JENSCO GROUP
1063 Commonwealth Avenue
Newton, Massachusetts 02159



Jim Scott

1063 Commonwealth Avenue, Newton, Massachusetts 02159

(617) 965-0957
JENSCO

August 4, 1990

Honorable Andrew H. Card, Jr.,
Assistant to the President and
Deputy to the Chief of Staff
The White House
Washington, D.C. 20500

Dear Andy:

Re: Letter of support for
JENSCO GROUP application
to take over a failing
Boston, Massachusetts bank
with FDIC assistance.

Once again I am writing to request a letter of support. This time, however, it is on behalf of my organization and I would not be so bold were it not for a number of significant points of view at interest here. And I write because many Americans, particularly of African-American decent, view President Bush as an extraordinarily competent and committed Chief Executive.

Briefly, JENSCO GROUP is seeking to acquire 1st American Bank, a state-chartered savings bank located in Boston, Massachusetts, and which has its headquarters and executive offices squarely in the middle of a distressed predominantly minority community. The JENSCO GROUP has received the approval and support letters from a number of significant sources, including community, political and banking communities. Enclosed are copies of some of the letters directed to the FDIC.

To our collective knowledge, this is the first time in the history of this country that a predominantly minority group is seeking to take-over a failing mid-sized bank (with assets of over \$500 million) with the ultimate infusion of white investor capital. Of course we have the sophistication to fully appreciate how difficult this task ought to be. However, we are very much encouraged and impressed by the quality and quantity of individuals who have joined us in this effort, including the indicated assistance of a major banking organization in Boston.

Ho. Andrew H. Card, Jr.
Page two
August 4, 1990

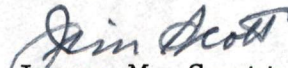
JENSCO GROUP will be forwarding our proposal(s) to the consultants to 1st American Bank (BEI/Golembe Associates in Washington, D.C.) and to the management of the bank for their consideration and favorable action. The proposals should then go to the FDIC for its determination as to the implications of cost savings; public policy advancement; community needs , etc.

JENSCO ASSOCIATES was a strong supporter of S.1949, to amend the Labor Management Relations Act to allow for the establishment of a housing trust fund, as was the present administration. So it follows that the JENSCO GROUP would and is clearly committed to doing all in its power, as the new senior management of this significant banking organization, to move the agenda of housing finance/support to the top of our list. We would not respond to outside pressure: we would have a primary internal commitment to work in this area along with our many contacts.

We will be forwarding a copy of our proposal to your office, along with other parties who we expect to be in continuing support of this activity. Please take a moment to review our proposal, which should be to your office by Wednesday, August 8, 1990 (we will attempt to FAX or FEDEX).

Finally, we ask that the Administration lend its support to this application and proposal.

Sincerely,



James M. Scott
Partner, and Group Leader

cc: The Rev. Preston N. Williams
Other JENSCO GROUP members

Enclosures
a/s

THE WHITE HOUSE
WASHINGTON

February 9, 1990

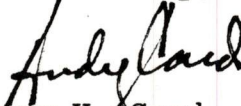
Dear Mr. Scott:

Thank you for sharing with me a copy of your letter to Congressman Frank in which you indicate your support for S. 1949 to amend the Labor Management Relations Act to allow for the establishment of a housing trust fund.

Please know that the Administration is sensitive to the needs of those who are less fortunate. I appreciate you sharing your views on this important issue with the Administration.

With best wishes,

Sincerely,



Andrew H. Card, Jr.
Assistant to the President
and Deputy to the Chief of Staff

Mr. James M. Scott
JENSCO
1063 Commonwealth Avenue
Newton, Massachusetts 02159

FEB 12 1990

THE WHITE HOUSE
WASHINGTON

February 6, 1990

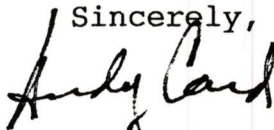
Dear Ms. Jenkins-Scott:

Thank you for sharing with me a copy of your letter to Congressman Moakley in which you indicate your support for S. 1949 to amend the Labor Management Relations Act to allow for the establishment of a housing trust fund.

Please know that the Administration is sensitive to the needs of those who are less fortunate. I appreciate you sharing your views on this important issue with the Administration.

With best wishes,

Sincerely,



Andrew H. Card, Jr.
Assistant to the President
and Deputy to the Chief of Staff

Ms. Jackie Jenkins-Scott
President
Dimock Community Health Center
55 Dimock Street
Roxbury, Massachusetts 02119



1063 Commonwealth Avenue, Newton, Massachusetts 02159

(617) 965-0957
JENSCO

July 14, 1990

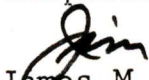
Dear Congressman:

The enclosed information is intended to be a courtesy copy for your use, should you have an interest.

To the best of our information this is the first time in the history of this country that a mid-sized failing bank (\$500 million plus) is a target of take-over by proposed senior minority management with white investment capital. The bank headquarters and executive offices and four branches are located squarely in the middle of distressed Boston minority communities.

Any thoughts or assistance which your office might be willing to extend will be very much appreciated, -and remembered.

Respectfully yours,


James M. Scott
Group Leader

Enclosures

CHOATE, HALL & STEWART

EXCHANGE PLACE

53 STATE STREET

BOSTON, MASSACHUSETTS 02109

TELEPHONE (617) 227-5020

TELECOPIER (617) 227-7566

TELEX 289374

CHARLES F. CHOATE, JR.
1899-1927

JOHN L. HALL
1899-1960

RALPH A. STEWART
1904-1926

July 3, 1990

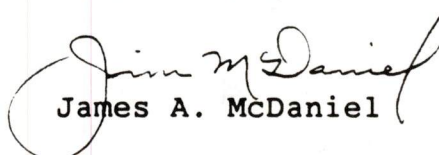
Mr. James V. McFarland
Deputy Regional Director
Federal Deposit Insurance Corporation
160 Gould Street
Needham, Massachusetts 02194

Dear Jim:

I am writing to advise you that our firm has been retained by the Jensco Group, headed by Jim Scott, to represent them in connection with developing a proposal for operating bank assistance, or other acquisition strategy, with respect to 1st American Bank for Savings. Since in this capacity I am sure I will have occasion to be in touch with you on various aspects of the process, I thought I would drop you a line to let you know that we are on board.

Best regards.

Very truly yours,


James A. McDaniel

cc: Mr. James M. Scott

2022m

CHOATE, HALL & STEWART

EXCHANGE PLACE

53 STATE STREET

BOSTON, MASSACHUSETTS 02109

TELEPHONE (617) 227-5020

TELECOPIER (617) 227-7566

TELEX 289374

CHARLES F. CHOATE, JR.
1899-1927

JOHN L. HALL
1899-1960

RALPH A. STEWART
1904-1928

July 3, 1990

The Honorable Andrew J. Calamare
Commissioner of Banks
Office of the Commissioner of Banks
Leverett Saltonstall Building
100 Cambridge Street, 20th Floor
Boston, Massachusetts 02202

Dear Commissioner:

I am writing to advise you that our firm has been retained by the Jensco Group, headed by Jim Scott, to represent them in connection with exploring the possible acquisition of 1st American Bank for Savings, a subject which I understand Jim has already discussed with you. Since in this capacity I am sure I will have occasion to be in touch with you and members of your staff on various aspects of the process, I thought I would drop you a line to let you know of our involvement as counsel.

Best regards.

Very truly yours,


James A. McDaniel

cc: Mr. James M. Scott

2023m

**Jensco
Associates**

FAX 617/445-0091

July, 1990

JENSCO GROUP

1. James M. Scott, Partner (D)(O) Group Leader
Jensco Associates
Newton, MA
2. Allan W. Fulkerson (C)(P) Consultant
Massachusetts Fiduciary Advisors
Managing Director
Boston, MA
3. Alan D. Bell, (D)(C)
President,
Bell Associates
Cambridge, MA
4. The Rev. Preston N. Williams (D)(CC)
Senior Professor of Ethics
Harvard Divinity School
Cambridge, MA
6. Choate Hall & Stewart (L)
Counsellors at Law
Exchange Place
Boston, MA
7. James W. Hunt, (D)
Executive Director
Massachusetts League of
Community Health Centers
Boston, MA

Note: Additional
directors being
screened

D = Proposed Director
O = Proposed Officer
C = Proposed Post-acquisition consultant
P = Potential investor
CC = Proposed Chair of Executive Committee
L = Legal Counsel
A - Certified Public Accountants

ABOUT THE PARTNERS

James M. Scott, Senior Partner

A seasoned executive, James M. Scott contributes over 20 years of private sector assignments in a variety of financial institutions to the operations of JENSCO Associates. He received undergraduate training at Howard University and Bentley College of Accounting. He attended Northeastern University Graduate School of Business Administration.

Prior to his full-time assignment as Senior Partner, Mr. Scott had several titles in the Massachusetts Banking Commissioner's office. As Director of Stock Conversions, Mr. Scott successfully designed and directed the very technical and complex stock conversion activity. Under his leadership state chartered banks raised over \$1.8 billion dollars in new capital. Mr. Scott also sat as a member of the Review panel of the State Teachers and State Employees Retirement Funds which had a market value of over \$3.5 billion dollars. He also streamlined the Massachusetts List of Legal Investments; investigated and analyzed suspected sophisticated money laundering operations using commercial banks; worked on Community Reinvestment Act issues; and performed Bank Holding Company and Bank Real Estate Subsidiary Examinations.

Mr. Scott is a former Commercial Loan Officer for the Bank of Boston; former Federal Reserve Examiner, New England District and a former stockbroker with Merrill Lynch and Company. He has served on numerous non-profit and civic organizations in a voluntary capacity and has served as consultant to a diverse group of non-profit and for profit organizations.

Mr. Scott is an articulate presenter and speaker, as well as an accomplished writer. He has written on finance and banking issues, and has received several awards.

Allan Fulkerson
Mass Fiduciary Advisors
1 Liberty Sq.
Boston, MA 02109

Current Position:

Chairman and Managing Trustee, Century Shares Trust, 1976 to present.

Description of Business

A Boston based, no-load mutual fund, which, although permitted by its charter to purchase both bank and insurance stocks, is noted for investing almost exclusively in insurance company stocks. Is also noted for its high performance. Founded in 1928 to allow wider ownership of shares of bank and insurance stock which otherwise would be priced out of range of average investor.

Fulkerson and one other trustee make investment decisions for the trust. Fulkerson is an Insurance Industry Analyst. He and other trustee do the research.

Century Shares Trust is not aggressively marketed..."is virtually unknown in Boston's tight-knit mutual fund community."

84 & 85 ranked in top 3% of all mutual funds.

Career History:

1958, Began career analyzing insurance company stocks for H. C. Wainwright in Boston.

1963, worked for Vance Sanders (now: Eaton Vance Corp.,) which was then the largest purveyor of mutual funds.

1966, started at Century Shares Trust where he became Chairman and Managing Trustee in 1976.

Note:

Ernest Monrad is a trustee of Century Shares Trust.

(Barron's May 16, 1988 p.63; Business Week Jan. 20. 1986 p.75)

Item 2: Properties.

The Corporation does not own or lease any real estate. The following table sets forth certain information relating to real estate owned or used by the Bank or its subsidiaries at December 31, 1989.

<u>Location</u>	<u>Net Book Value at 12/31/89</u>	<u>Owned or Leased</u>	<u>Lease Expiration Date</u>
<u>Main Office:</u>			
* Boston, MA 572 Columbia Road Dorchester, MA 02125	\$ 484,411	Owned	--
<u>Branches:</u>			
* Boston, MA 569-571 Washington St. Dorchester, MA 02124	205,140	Owned	--
* 731 Morrissey Boulevard Dorchester, MA 02122	271,589	Leased	10/01/95 (1)
581 Boylston Street Boston, MA 02116	150,483	Leased	9/30/93 (2)
160 Federal Street Boston, MA 02110	205,622	Leased	6/15/98 (3)
* 1575 Blue Hill Avenue Mattapan, MA 02126	88,143	Leased	8/31/92 (1)
* 700 American Legion Highway Roslindale, MA 02131	60,479	Leased	8/19/93
Quincy, MA 77 Granite Street Quincy, MA 02169	233,934	Leased	7/31/99 (4)
Hingham, MA 100 Derby Street Hingham, MA 02043	51,177	Leased	9/14/96
Stoughton, MA 439 Washington Street Stoughton, MA 02070	334,924	Owned	--
Walpole, MA 956 Main Street Walpole, MA 02081	9,744	Leased	10/31/94

3/27/90

**FDIC STATEMENT OF POLICY ON ASSISTANCE TO
OPERATING INSURED BANKS AND SAVINGS ASSOCIATIONS**

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 ("FIRREA") amended Section 13 of the Federal Deposit Insurance Act, as amended (the "FDIA"), 12 U.S.C. § 1823, to broaden the authority of the Federal Deposit Insurance Corporation (the "FDIC") under Section 13(c) of the FDIA to provide assistance to operating savings associations that are members of the Savings Association Insurance Fund (the "SAIF"), in addition to assisting operating banks that are members of the Bank Insurance Fund (the "BIF").

Given the importance of the statutory revisions to Section 13 of the FDIA, the Board of Directors of the FDIC has concluded that the FDIC's current policy for assistance to operating insured banks (the "Operating Bank Assistance Policy Statement"), which was published in the Federal Register on December 8, 1986,^{1/} must be revised. This policy statement replaces the Operating Bank Assistance Policy Statement.

Certain criteria in the Operating Bank Assistance Policy Statement have been revised or removed to accord with the FDIC's experience since 1986 with assistance transactions under Section 13(c) of the FDIA.

I. Introduction

Under Section 13(c) of the FDIA, the FDIC may provide financial assistance to operating insured banks and savings associations: (1) to prevent the "default" of insured depository institutions or to assist insured depository institutions that are "in danger of default,"^{2/} or (2) if, when severe financial conditions exist that threaten the stability of a significant number of insured institutions or of insured institutions possessing significant financial resources, to lessen the risk to the FDIC posed by such insured institutions under such threat of instability.

^{1/} 51 Fed. Reg. 44122 (1986).

^{2/} The terms "default" and "in danger of default" are defined in Section 3(x) of the FDIA, 12 U.S.C. § 1813(x).

(4) If the assisted institution is a subsidiary of a holding company, the proposal should be structured so that available resources from the holding company and its other insured subsidiaries and/or nondepository subsidiaries are used to make a significant contribution toward minimizing the financial exposure of the FDIC.

(5) The proposal must provide for adequate managerial resources. Renegotiation or termination of management contracts is to be completed prior to the granting of assistance. Continued service of any directors or senior ranking officers who served in a policy-making role of the assisted institution, as may be determined by the FDIC, will be subject to approval by the FDIC. Further, the FDIC may review and object to any or all parts of any new compensation arrangements (including termination clauses) covering these individuals during the period assistance is outstanding.

(6) The FDIC will consider on a case-by-case basis whether the proposal shall provide the FDIC with an equity interest in the resulting institution.^{13/}

(7) It is preferable that any proposal for FDIC assistance provide for repayment of such assistance in whole or in part.

(8) The FDIC will consider on a case-by-case basis whether to acquire or service assets of assisted institutions. Generally, assistance proposals should provide for the surviving institution to service all assets of the assisted institution. Under appropriate circumstances, the FDIC may consider such incentives as bonus fees, gain-sharing, and loss-sharing arrangements on distressed assets.

(9) Fee arrangements to attorneys, investment bankers, accountants, consultants, and other advisors incident to requests for financial assistance must be disclosed to the FDIC and will be evaluated in determining the cost of the assistance package. Excessive fees must be avoided. In no case should payment of any fee be contingent upon approval or receipt of financial assistance.

^{13/} See Section 13(c)(4)(B) of the FDIA, 12 U.S.C. § 1823(c)(4)(B). The FDIC is prohibited under Section 13(c)(4)(B) from purchasing the voting or common stock of an insured institution; however, this restriction does not preclude the acceptance by the FDIC of non-voting preferred stock, warrants, or other forms of equity or equity-equivalent arrangements.



Jim Scott

1063 Commonwealth Avenue, Newton, Massachusetts 02159

(617) 965-0957
JENSCO

D R A F T

Letter of Support

July 9, 1990

Mr. James V. McFarland,
Deputy Regional Director
Federal Deposit Insurance Corporation
160 Gould Street
Needham, MA 02194

Re: JENSCO GROUP Appli-
cation for Open Bank
Assistance with 1st
American Bank, Dorchester,
Massachusetts

Dear Mr. McFarland:

This letter is in support of the application of
Jensco Associates,

Jim Scott/Jensco Associates (Partnership) has formed
the Jensco Group, and is in process of finalizing a pro-
posal to your agency to acquire the above-referenced bank.

I have been briefed concerning the general outline
of the Jensco proposed restructuring plan which includes the
following very important features:

- *Recognition that the headquarters of this bank is
located in Uphams Corner, Dorchester, MA., and that
the area is an economically depressed section of
Boston,
- *Irrevocable plans to keep the headquarters and
executive offices of this bank in the Uphams
Corner location,
- *Re-focus and target the services to be provided
this community, in addition,
- *Re-focus and target substantially improved services
to all of the communities served by the bank,
- *Install minority management with considerable
background in banking and finance, in addition to
a high level of credibility within banking and
communities served by the bank.

Your agency, both here and in Washington, D.C., together with the Massachusetts State Banking Commissioner, have the authority to decide in this matter. It is our understanding that there is an out of state group applying for this bank.

We support the application being advanced by the Jensco Group and urge that the Jensco plan be recommended for approval by your agency to Washington, D.C., at the proper time.

Should you have any questions, please let me know.

Sincerely yours,

XXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXX

cc: Hon. Andrew J. Calamare,
State Banking Commissioner
100 Cambridge Street
Boston, MA 02202

JAMES M. SCOTT, PARTNER
JENSco ASSOCIATES
1063 COMMONWEALTH AVE
NEWTON, MA 02159

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934 (Fee Required)**

**For the fiscal year ended December 31, 1989
Commission File Number 0-16465**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934 (No Fee Required)**

1st American Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation)

04-2938465

(I.R.S. Employer Identification No.)

**572 COLUMBIA ROAD
BOSTON, MASSACHUSETTS 02125**
(Address of principal executive offices, including zip code)

(617) 436-1500
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
(Not applicable)

Securities registered pursuant to Section 12(g) of the Act:
Title of Class:

Common Stock, par value \$0.10 per share

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) for the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes No

The aggregate market value of the voting stock held by non-affiliates of the registrant, based upon the closing price of the registrant's common stock as of March 1, 1990, was \$4,739,936.*

The number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date is: Class: Common Stock, par value \$0.10 per share. Outstanding at March 1, 1990: 10,214,000 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement, to be filed pursuant to Regulation 14A for the Annual Meeting of Stockholders (the "Proxy Statement") are incorporated by reference into Parts I and III hereof.

* Solely for the purposes of this calculation, all executive officers and directors of the registrant are considered to be affiliates.

PART I.

Item 1: Business

General

1st American Bancorp, Inc. ("Bancorp", and together with its subsidiaries, "1st American", the "Corporation", the "Company" or the "Registrant") was incorporated under the laws of the State of Delaware on October 24, 1986 and was initially a wholly-owned subsidiary of 1st American Bank for Savings (the "Bank"). On January 29, 1987, the stockholders of the Bank approved the reorganization of the Bank and the formation of a holding company. After all necessary regulatory approvals were obtained, the holding company formation was consummated on December 21, 1987 (the "Reorganization"). As part of the Reorganization, each outstanding share of common stock of the Bank was converted into one share of common stock of Bancorp, and the Bank became a wholly-owned subsidiary of Bancorp.

1st American Bank for Savings is a Massachusetts-chartered savings bank which was founded in 1894 as Dorchester Savings Bank. The Bank is engaged principally in the business of attracting deposits from the general public and investing in residential mortgage loans, commercial real estate loans and consumer, commercial business and construction loans, and to a lesser extent, in various securities. The Bank offers a variety of deposit accounts to individuals and commercial customers, each of which is insured by the Federal Deposit Insurance Corporation (the "FDIC") up to \$100,000 per depositor and by the Deposit Insurance Fund of the Massachusetts Mutual Savings Central Fund, Inc. (the "DIFM") for that portion of separately insured deposits in excess of \$100,000. The Bank had total assets of \$558.9 million at December 31, 1989.

Bancorp has qualified to do business in Massachusetts and is consequently subject to tax in Massachusetts. In March 1988, the Massachusetts Department of Revenue ruled that Bancorp qualified as a Massachusetts security corporation. Generally, a security corporation is a corporation classified as such by the Massachusetts Commissioner of Revenue and is engaged exclusively in buying, selling, dealing in or holding securities on its own behalf and not as a broker. Such qualification provides Bancorp with a lower state excise tax rate on its gross income.

The main offices of the Corporation and the Bank are located at 572 Columbia Road, Boston, Massachusetts 02125 (telephone (617) 436-1500).

Summary of Adverse Factors Affecting the Corporation

Management believes that, absent an infusion of capital, 1st American's continued existence as an independent company is unlikely, given the continuing rapid reduction in the Bank's capital, current losses, a large non-performing loan portfolio, the absence of a sufficient level of performing assets to effect a corporate restructuring as a solution, and likely responses by the regulatory authorities to these matters. Management is attempting to accelerate the sale of the Bank's non-performing assets, if possible through a bulk sale, and to raise capital, by finding a buyer or investor for the Corporation. However, no assurances can be given that the Corporation will be successful in these efforts.

The Corporation lost \$105.9 million for the year ended December 31, 1989 primarily as a result of increases in non-performing assets and related expenses at the Bank. The majority of the Bank's non-performing assets consist of construction and commercial real estate loans and foreclosed properties.

During 1989, non-performing assets, including non-accrual loans, restructured loans and other real estate owned, increased from \$104.2 million to \$168.2 million, after charge-offs of \$103.0 million. This increase reflected the continuing decline in the greater Boston real estate market and resulted in a significant decline in interest income in 1989. The carrying amount of the commercial real estate and construction loan portfolio and other real estate owned is based on projected completion costs, sales prices and sell-out periods for the underlying real estate projects. Management believes that because of the present adverse market conditions, there are inherent uncertainties in the assumptions with respect to the projected sales prices and sell-out periods. Because of these inherent uncertainties, the amount ultimately realized on these commercial real estate and construction loans and other real estate owned may differ significantly from the amounts reflected in the Corporation's 1989 Consolidated Financial Statements. The Bank made provisions of \$75.7 million to its loan loss reserves and \$32.7 million to its other real estate owned loss reserves during 1989.

The Corporation is a legal entity separate from the Bank, and the principal sources of its revenues on an unconsolidated basis are dividends from the Bank and income received from the investment of such dividends. The Bank paid total dividends to Bancorp of \$6.7 million with respect to the first two quarters of 1989. No further dividends were voted in 1989 and the Bank does not anticipate paying dividends in 1990. The Corporation paid \$3.1 million in dividends to shareholders with respect to the first two quarters of 1989. No further shareholder dividends were voted during 1989 and the Corporation does not anticipate paying such dividends in 1990.

In addition, Bancorp's liquidity may be adversely affected due to the inability of the Bank to pay dividends to Bancorp. No such dividend may be paid if, after such payment, the retained earnings of the Bank would be below the amount required for the Bank's Liquidation Account. The retained deficit of the Bank, as calculated for this purpose, was \$95,110,000 at December 31, 1989. (See Note 13 of the Notes to Consolidated Financial Statements.)

As a result of the Bank's impaired financial condition, the Bank has been advised that without a waiver from the FDIC, it cannot seek or renew brokered or third party deposits during 1990. If a waiver is denied and brokered deposits are not permitted to be renewed, the Bank is likely to experience liquidity problems in 1990 which would restrict its ability to fund originations, deposit outflows and operating expenses. Depositor withdrawals resulting from reports of the Bank's financial condition may also lead to liquidity problems. The Bank intends to file for a waiver, but cannot predict with any certainty if a waiver will be granted. In the absence of a waiver, the Bank will be forced to engage in asset sales and to seek other borrowings in an effort to meet its liquidity needs. The Bank has been advised that its Federal Home Loan Bank of Boston ("FHLBB") borrowings are limited to six month maturities and that it has been placed on "Delivery Status", which requires that collateral be maintained at the FHLBB sufficient to cover outstanding advances. In addition, the Bank has been advised by the FDIC that it cannot pay

more than 50 basis points above average market rates on deposits. (See Management's Discussion and Analysis - "Liquidity and Capital Resources").

The Bank has been advised by the FDIC that it will be asked to enter into a formal regulatory order which would, among other things, require the Bank to submit, obtain approval of, and implement a capital plan addressing the measures to be taken by the Bank to produce a regulatory capital ratio of at least 8 percent over a period of time to be agreed upon. Failure to meet federal regulatory capital requirements, or to comply with the agreed upon terms of the regulatory order, could subject the Bank to actions by federal regulatory authorities, including restrictions on the Bank's operations or other forms of regulatory intervention. (See Management's Discussion and Analysis - "Liquidity and Capital Resources")

As a result of resignations at Bancorp and the Bank, there are currently three Directors serving as the Board of each. In addition, the Treasurer and Chief Financial Officer of Bancorp and the Bank has announced his resignation effective April 3, 1990, and the Controller of the Bank has announced his resignation effective April 12, 1990. The Board of Directors is presently considering candidates for their replacement. Massachusetts law requires that there be at least seven members of the Bank's Board of Directors. Accordingly, the Bank is currently seeking to add new Directors. Federal and state regulations applicable to the Bank require that the appointments of Directors and Executive Officers of the Corporation be submitted for review. On March 28, 1990 the Boards of Directors of both Bancorp and the Bank appointed five new members to fill the vacancies created by the recent resignations. It is expected that each of these individuals will assume their new position as members of the Board of Directors following the reviews mentioned above. (See "Election of Directors" on page 3 of the Proxy Statement)

The Bank

The Bank maintains eleven full service banking offices at various locations throughout its primary market area. The Bank offers its retail banking customers a wide range of deposit and loan services and also the convenience of automated teller machines ("ATMs") at six of its offices.

Market Area

The Bank defines its market area as the cities and towns in which its eleven banking offices are located, from Boston in the north to Walpole in the west and Hingham in the south. The historical focus of the Bank's lending and deposit-taking activities has been the Dorchester district of Boston, an area with low and moderate income neighborhoods. The Bank's headquarters, two of its branches and its loan center are located in the Dorchester district. Two branches are located in the nearby districts of Mattapan and Roslindale, both of which are also characterized by low to moderate household incomes. The Bank also maintains two branches in downtown Boston, one in the city's financial center and another at Copley Square. These branch offices serve both the Bank's suburban clientele as well as depositors who live and work in downtown Boston. The Bank has further extended its market area into the southern, southeastern and southwestern suburbs of Boston through branches in Quincy, Stoughton, Hingham and Walpole. These suburban areas are characterized by a stable residential population, moderate to high household income and generally low levels of unemployment.

The slowdown in the New England economy and the completion of real estate projects that had been planned and begun under stronger market conditions have adversely affected the region's real estate market. A slowdown has been particularly evident in the New England condominium market where prices have

stalled and, in many areas, declined. Slower condominium sales at lower prices have, in turn, affected the ability of some developers to repay or refinance their original construction or medium-term loan arrangements. Residential housing sales, both condominium and single family, are also subject to seasonal variation with the heaviest activity occurring in the late spring, summer, and early fall. In the single family home sector, prices have suffered and properties are taking longer to sell. The situation appears likely to worsen if banks or their borrowers attempt to liquidate real estate at further depressed prices or the New England economy further weakens. Management of the Bank cannot predict the length of time it will take for the market to absorb the current over-supply of available housing.

Lending Activities

General. Beginning in 1986, the Bank substantially increased its portfolio of commercial business, construction and consumer loans. In 1988, management determined that, as a result of real estate market conditions in the greater Boston area and difficulties encountered with its existing commercial real estate construction loan portfolio, the Bank would suspend the origination of commercial real estate construction loans on new projects and focus its efforts on the origination of residential real estate and consumer loans. The Bank has, however, continued to fund existing commitments on performing commercial real estate construction loans and has advanced funds with respect to non-performing loans in connection with its loan workout efforts in order to preserve its interest in the collateral securing the loans. Commercial loan originations of \$16.5 million in 1989 consisted of loans to existing borrowers and loans made to restructure non-performing loans and Other Real Estate Owned (OREO). OREO consists of foreclosed and insubstance foreclosed loans. Total loans declined \$171.8 million in 1989 primarily as a result of loan charge-offs and the transfer of loans to OREO.



James M. Scott

1063 Commonwealth Avenue, Newton, Massachusetts 02159

(617) 965-0957
JENSCO

July, 13, 1990

VIA FAX #202/224-2417

Senator Edward M. Kennedy
U. S. Senate
Washington, D.C.

Attn: Dave Smith, Banking Aide to Senator Kennedy

Dear Senator Kennedy:


Re: Jensco Group application
for Open Bank Assistance
from FDIC re 1st American
Bank, Dorchester, Mass-
achusetts (A failing bank).

We respectfully request that your office review
the enclosed information, submitted for information.

Our understanding is that this type of 'take-
over' has never been attempted before in the history
of this country. If this information is correct, we
anticipate that this process will involve maximum
effort on the part of all who are interested in this
activity.

May we have any thoughts which you may care
to offer?

Respectfully,


James M. Scott
Partner, and
Group Leader

Enclosures

BARNEY FRANK
4TH DISTRICT, MASSACHUSETTS

COMMITTEES:

GOVERNMENT OPERATIONS
BANKING, FINANCE, AND
URBAN AFFAIRS
JUDICIARY
CHAIRMAN,
ADMINISTRATIVE LAW AND
GOVERNMENTAL RELATIONS
AGING

Congress of the United States
House of Representatives
Washington, DC

WASHINGTON OFFICE:
1030 LONGWORTH BUILDING
WASHINGTON, DC 20515
(202) 225-5931
DISTRICT OFFICES:
437 CHERRY STREET
WEST NEWTON, MASSACHUSETTS 02165
(617) 332-3920
10 PURCHASE STREET
FALL RIVER, MASSACHUSETTS 02722
(508) 674-3551
140 PARK STREET
ATTLEBORO, MASSACHUSETTS 02703
(508) 226-4723

July 18, 1990

Mr. James V. McFarland
Deputy Regional Director
Federal Deposit Insurance
Corporation
160 Gould Street
Needham, MA 02194

Dear Mr. McFarland:

I understand that you are in the process of dealing with applications for the First American Bank in Dorchester. I am writing to express my view that, as you consider these applications, a strong consideration ought to be given to people who would be supportive of local needs in the area where the bank has historically focused so much of its activity. As a Member of Congress from Massachusetts who is pretty concerned with Banking, I believe there are clear advantages for locally based banking, from the standpoint of the important community interests that our banking system should be serving. This is particularly true when we are dealing with areas of the central city which have not always been as well served by our banking institutions as they should be. Any opportunity which we get with regard to this particular situation to improve that service ought in my judgment count in a significant way in the final decision, although obviously I realize that no one factor of this sort can or should be controlling. Thank you for your consideration of my views on this important policy issue.


BARNEY FRANK

BF/meg



The Commonwealth of Massachusetts

HOUSE OF REPRESENTATIVES
STATE HOUSE, BOSTON 02133

REP. NELSON MERCED
5TH SUFFOLK DISTRICT
ROOM 473-G, STATE HOUSE
TEL. (617) 722-2070

DALIAH LUGO
LEGISLATIVE ASSISTANT

Committees on
Energy
Housing and Urban Development

July 17, 1990

James V. McFarland
Deputy Regional Director
Federal Deposit Insurance Corporation
160 Gould Street
Needham, MA 02194

Dear Mr. McFarland:

This letter is in support of the Jenco Group's application for Open Bank Assistance with 1st American Bank, Dorchester, MA.

I have been briefed concerning the general outline of the Jenco proposed restructuring plan which includes the following very important features:

- 1) recognition that the headquarters of this bank is located in the Uphams Corner area of Dorchester, which is an economically depressed section of Boston;
- 2) irrevocable plans to keep the headquarters and executive offices of this bank in the Uphams Corner location;
- 3) plans to re-focus and target the services to be provided to this community;
- 4) plans to re-focus and target substantially improved services to all of the communities served by the Bank
- 5) intentions to install minority management with considerable background in banking and finance, in addition to a high level of credibility within banking circles and the communities served by the bank.

As the State Representative for the Uphams Corner area, I am deeply concerned about the need to maintain the 1st American Bank operational in its present location. Currently there are many individuals and institutions in the area working hard to

Mr. James V. McFarland
July 17, 1990
Page Two

revitalize this economically depressed neighborhood. I strongly believe that the closing of the 1st American Bank, or the relocation of its headquarters out of Uphams Corner would have a tremendously adverse effect on these efforts by drying up an important source of jobs and services to this community.

It is my understanding that there is an out-of-state group applying for this bank. I cannot overemphasize my concern about maintaining the 1st American Bank's presence in and ties to the North Dorchester section of Boston. I fully support the application being advanced by the Jensco Group and urge that the Jensco plan be recommended for approval by your agency to Washington, D.C. at the proper time.

Please do not hesitate to call me should you have any further questions.

Sincerely,



NELSON MERCED
State Representative

cc.: Hon. Thomas J. Curry, State Banking Commissioner
Mr. James M. Scott, Jensco Associates ✓

36 Fairmont Street
Belmont, Massachusetts 02178
July 14, 1990

Dear Joe:

I am writing to inform you about an exciting activity in which I have become involved and ask for your thoughts. We are attempting to acquire operating control of a failing Boston bank in the Uphams Corner section.

Enclosed is a packet of information prepared by us, the Jensco Group, presenting some details. To summarize, briefly, my good friend, Jim Scott who is a former Massachusetts Deputy Banking Commissioner, has organized the Jensco Group; identified the target bank (headquartered in a distressed section of Boston); and has asked several of us to join in and assist with the application to the Federal Deposit Insurance Corporation in Washington, D.C.

While this is apparently an unprecedented application to the FDIC (i.e., minority senior management looking to attract white investment capital to save this half-billion dollar banking institution) we have much reason to believe that the time is right for such an effort and count on all of our friends to assist.

We recognize that maximum effort must be exerted and that we must constantly be on guard against possible 'dirty tricks' even as we move the application process forward.

I will be in Chilmark for the next several weeks, however, Jim is leading this effort and I would ask that your office contact him directly should you have questions. He can be reached at 617/965-0957, or per business card, attached.

Looking forward to hearing from you,

Regards,

Preston N. Williams

Hon. Joseph P. Kennedy, II
1208 Longworth HOB
Washington, D.C. 20515

cc: Jim Scott



Jim Scott

1063 Commonwealth Avenue, Newton, Massachusetts 02159

(617) 965-0957
JENSCO

August 3, 1990

HAND DELIVERED

Mr. Peter J. Blampied, Chairman
and Chief Executive Officer
The Boston Five Bancorp, Inc.,
10 School Street
Boston, MA 02108

Dear Peter:

Please accept this belated thank you, on behalf of the JENSCO GROUP, for meeting with me last week, and for agreeing to consider our request for assistance in connection with our efforts to acquire the failing 1st American Bank.

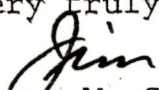
We are very pleased to have you inform me, on last Tuesday, July 30th that your organization will assist JENSCO GROUP in its efforts outlined, above, and that you have so informed Paul H. Wiekmun, Regional Director of the FDIC of this decision.

It should come as no surprise to you that JENSCO GROUP received a phone message from 1st American inquiring when they may expect to receive the JENSCO GROUP proposal(s). I have informed Dave Tapley that JENSCO GROUP's proposal outlines should be ready and delivered to them on or about August 7th.

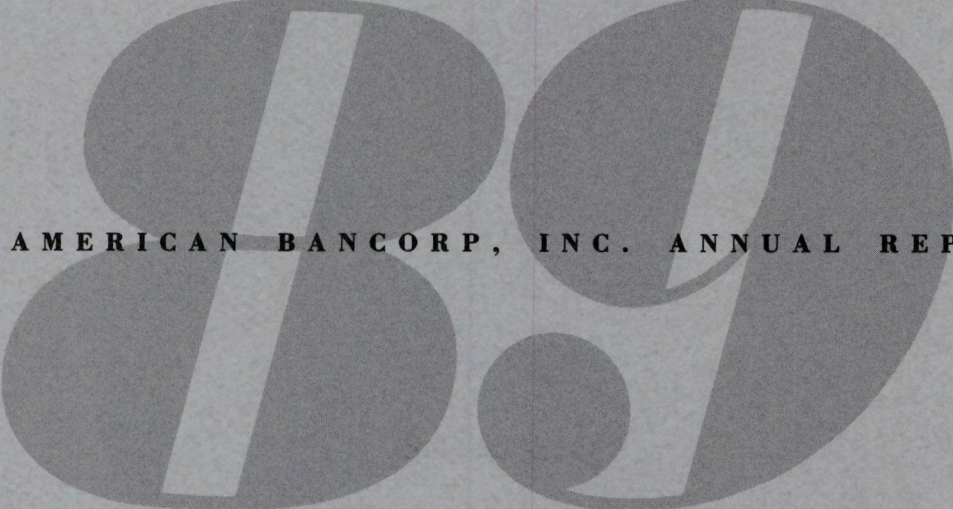
In your absence it is my understanding that I can direct any questions to Ms. Karen Hammond of your organization,

I wish you a very successful vacation and look forward to resuming our discussions when you return,

Very truly yours,


James M. Scott
Partner

cc: Ms. Karen Hammond
Senior Vice President



1st AMERICAN BANCORP, INC. ANNUAL REPORT

TO OUR SHAREHOLDERS:

In my letter to you last year, I said that bringing your Company back to profitability would be difficult given the slowdown in the local housing market. Unfortunately, as described in our various announcements during the past year, this has indeed proved to be the case. During 1989, a further dramatic deterioration in the housing and economic climate of greater Boston has had a severe adverse effect on the Company's performance and its financial condition. As reflected in the accompanying Annual Report on Form 10-K, management believes that 1st American Bank's continued existence as an independent entity is unlikely, absent an infusion of additional capital. Consequently, 1st American Bancorp has retained BEI/Golembe, Inc., a banking and real estate consulting firm, to assist the Company in seeking to effect a capital restructuring plan which may include further expense reductions, downsizing of the Company through asset sales, capital infusion or possible sale of the Company.

For the year ended December 31, 1989, the Company reported a loss of \$105.9 million. The loss was primarily due to provisions for losses of \$108.4 million for commercial real estate and construction loans and foreclosed real estate loans at 1st American Bank. Non-performing assets at year-end totalled \$168.2 million, including \$90.8 million of foreclosed real estate loans which had been transferred to "Other Real Estate Owned" (OREO) in order to facilitate their disposition. The Company realized a gain of \$3.8 million during the first quarter from the sale of a building owned by 1st American Bank.

We took a number of steps to strengthen the management of the Company, increase efficiency, and reduce operating expenses during 1989. The Boards of Directors of 1st American Bank and 1st American Bancorp were consolidated, resulting in a savings in Board compensation. Several new Board committees were formed, the most important of which was the Board Loan Committee. This committee reviews all loan commitments and oversees loan originations, loan restructurings, loan sales, and sales of foreclosed real estate. We also hired a new Senior Auditor during the year who is responsible for all internal audit functions and reports directly to the Board.

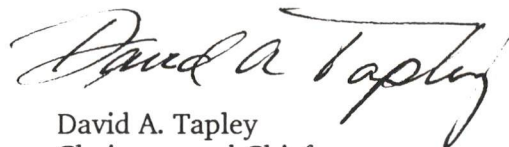
The Lending Division was divided into two distinct groups during 1989. The non-performing loan and OREO work-out group was organized as a separate department from the performing loan group. Both departments are supported by a new loan administration department that oversees the credit files, reporting systems, and other back office support. In the loan work-out area, we have increased our real estate sales staff to six people who are actively engaged in selling our loans and properties. During 1989, the Company sold approximately \$22.0 million in non-performing assets. An additional \$8.8 million in non-performing assets has been sold since year-end and \$27.6 million are under purchase and sale agreements.

The most important issue facing the Bank in the near term is the need to raise additional capital. The Bank has been advised by the Federal Deposit Insurance Corporation that it will be asked to enter into a formal regulatory order. Among other things, the order would require the Bank to submit, obtain approval of, and implement a capital plan which addresses the measures to be taken to produce a regulatory capital ratio of at least eight percent over a period of time to be agreed upon. Failure to meet federal regulatory capital requirements or to comply with the agreed-upon terms of the order could subject the Bank to actions by federal regulatory authorities, including restrictions on the Bank's operations or other forms of regulatory intervention.

We are somewhat encouraged by the efforts made so far on our behalf by BEI/Golembe to develop a workable capital plan. However, no assurances can be given that the Bank will be successful in these efforts. We urge you to review the Annual Report carefully, and draw your attention in particular to the "Summary of Adverse Factors Affecting the Corporation", set forth in Item 1 of the Report.

We are taking all actions within our power in the attempt to revitalize and strengthen the Bank.

Sincerely,

A handwritten signature in cursive script that reads "David A. Tapley". The signature is written in dark ink and is positioned above the printed name and title.

David A. Tapley
Chairman and Chief
Executive Officer

March 29, 1990

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934 (Fee Required)**

For the fiscal year ended December 31, 1989
Commission File Number 0-16465

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934 (No Fee Required)**

1st American Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation)

04-2938465

(I.R.S. Employer Identification No.)

572 COLUMBIA ROAD
BOSTON, MASSACHUSETTS 02125
(Address of principal executive offices, including zip code)

(617) 436-1500
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
(Not applicable)

Securities registered pursuant to Section 12(g) of the Act:
Title of Class:

Common Stock, par value \$0.10 per share

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) for the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes No

The aggregate market value of the voting stock held by non-affiliates of the registrant, based upon the closing price of the registrant's common stock as of March 1, 1990, was \$4,739,936.*

The number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date is: Class: Common Stock, par value \$0.10 per share. Outstanding at March 1, 1990: 10,214,000 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement, to be filed pursuant to Regulation 14A for the Annual Meeting of Stockholders (the "Proxy Statement") are incorporated by reference into Parts I and III hereof.

* Solely for the purposes of this calculation, all executive officers and directors of the registrant are considered to be affiliates.

PART I.

Item 1: Business

General

1st American Bancorp, Inc. ("Bancorp", and together with its subsidiaries, "1st American", the "Corporation", the "Company" or the "Registrant") was incorporated under the laws of the State of Delaware on October 24, 1986 and was initially a wholly-owned subsidiary of 1st American Bank for Savings (the "Bank"). On January 29, 1987, the stockholders of the Bank approved the reorganization of the Bank and the formation of a holding company. After all necessary regulatory approvals were obtained, the holding company formation was consummated on December 21, 1987 (the "Reorganization"). As part of the Reorganization, each outstanding share of common stock of the Bank was converted into one share of common stock of Bancorp, and the Bank became a wholly-owned subsidiary of Bancorp.

1st American Bank for Savings is a Massachusetts-chartered savings bank which was founded in 1894 as Dorchester Savings Bank. The Bank is engaged principally in the business of attracting deposits from the general public and investing in residential mortgage loans, commercial real estate loans and consumer, commercial business and construction loans, and to a lesser extent, in various securities. The Bank offers a variety of deposit accounts to individuals and commercial customers, each of which is insured by the Federal Deposit Insurance Corporation (the "FDIC") up to \$100,000 per depositor and by the Deposit Insurance Fund of the Massachusetts Mutual Savings Central Fund, Inc. (the "DIFM") for that portion of separately insured deposits in excess of \$100,000. The Bank had total assets of \$558.9 million at December 31, 1989.

Bancorp has qualified to do business in Massachusetts and is consequently subject to tax in Massachusetts. In March 1988, the Massachusetts Department of Revenue ruled that Bancorp qualified as a Massachusetts security corporation. Generally, a security corporation is a corporation classified as such by the Massachusetts Commissioner of Revenue and is engaged exclusively in buying, selling, dealing in or holding securities on its own behalf and not as a broker. Such qualification provides Bancorp with a lower state excise tax rate on its gross income.

The main offices of the Corporation and the Bank are located at 572 Columbia Road, Boston, Massachusetts 02125 (telephone (617) 436-1500).

Summary of Adverse Factors Affecting the Corporation

Management believes that, absent an infusion of capital, 1st American's continued existence as an independent company is unlikely, given the continuing rapid reduction in the Bank's capital, current losses, a large non-performing loan portfolio, the absence of a sufficient level of performing assets to effect a corporate restructuring as a solution, and likely responses by the regulatory authorities to these matters. Management is attempting to accelerate the sale of the Bank's non-performing assets, if possible through a bulk sale, and to raise capital, by finding a buyer or investor for the Corporation. However, no assurances can be given that the Corporation will be successful in these efforts.

The Corporation lost \$105.9 million for the year ended December 31, 1989 primarily as a result of increases in non-performing assets and related expenses at the Bank. The majority of the Bank's non-performing assets consist of construction and commercial real estate loans and foreclosed properties.

During 1989, non-performing assets, including non-accrual loans, restructured loans and other real estate owned, increased from \$104.2 million to \$168.2 million, after charge-offs of \$103.0 million. This increase reflected the continuing decline in the greater Boston real estate market and resulted in a significant decline in interest income in 1989. The carrying amount of the commercial real estate and construction loan portfolio and other real estate owned is based on projected completion costs, sales prices and sell-out periods for the underlying real estate projects. Management believes that because of the present adverse market conditions, there are inherent uncertainties in the assumptions with respect to the projected sales prices and sell-out periods. Because of these inherent uncertainties, the amount ultimately realized on these commercial real estate and construction loans and other real estate owned may differ significantly from the amounts reflected in the Corporation's 1989 Consolidated Financial Statements. The Bank made provisions of \$75.7 million to its loan loss reserves and \$32.7 million to its other real estate owned loss reserves during 1989.

The Corporation is a legal entity separate from the Bank, and the principal sources of its revenues on an unconsolidated basis are dividends from the Bank and income received from the investment of such dividends. The Bank paid total dividends to Bancorp of \$6.7 million with respect to the first two quarters of 1989. No further dividends were voted in 1989 and the Bank does not anticipate paying dividends in 1990. The Corporation paid \$3.1 million in dividends to shareholders with respect to the first two quarters of 1989. No further shareholder dividends were voted during 1989 and the Corporation does not anticipate paying such dividends in 1990.

In addition, Bancorp's liquidity may be adversely affected due to the inability of the Bank to pay dividends to Bancorp. No such dividend may be paid if, after such payment, the retained earnings of the Bank would be below the amount required for the Bank's Liquidation Account. The retained deficit of the Bank, as calculated for this purpose, was \$95,110,000 at December 31, 1989. (See Note 13 of the Notes to Consolidated Financial Statements.)

As a result of the Bank's impaired financial condition, the Bank has been advised that without a waiver from the FDIC, it cannot seek or renew brokered or third party deposits during 1990. If a waiver is denied and brokered deposits are not permitted to be renewed, the Bank is likely to experience liquidity problems in 1990 which would restrict its ability to fund originations, deposit outflows and operating expenses. Depositor withdrawals resulting from reports of the Bank's financial condition may also lead to liquidity problems. The Bank intends to file for a waiver, but cannot predict with any certainty if a waiver will be granted. In the absence of a waiver, the Bank will be forced to engage in asset sales and to seek other borrowings in an effort to meet its liquidity needs. The Bank has been advised that its Federal Home Loan Bank of Boston ("FHLBB") borrowings are limited to six month maturities and that it has been placed on "Delivery Status", which requires that collateral be maintained at the FHLBB sufficient to cover outstanding advances. In addition, the Bank has been advised by the FDIC that it cannot pay

more than 50 basis points above average market rates on deposits. (See Management's Discussion and Analysis - "Liquidity and Capital Resources").

The Bank has been advised by the FDIC that it will be asked to enter into a formal regulatory order which would, among other things, require the Bank to submit, obtain approval of, and implement a capital plan addressing the measures to be taken by the Bank to produce a regulatory capital ratio of at least 8 percent over a period of time to be agreed upon. Failure to meet federal regulatory capital requirements, or to comply with the agreed upon terms of the regulatory order, could subject the Bank to actions by federal regulatory authorities, including restrictions on the Bank's operations or other forms of regulatory intervention. (See Management's Discussion and Analysis - "Liquidity and Capital Resources")

As a result of resignations at Bancorp and the Bank, there are currently three Directors serving as the Board of each. In addition, the Treasurer and Chief Financial Officer of Bancorp and the Bank has announced his resignation effective April 3, 1990, and the Controller of the Bank has announced his resignation effective April 12, 1990. The Board of Directors is presently considering candidates for their replacement. Massachusetts law requires that there be at least seven members of the Bank's Board of Directors. Accordingly, the Bank is currently seeking to add new Directors. Federal and state regulations applicable to the Bank require that the appointments of Directors and Executive Officers of the Corporation be submitted for review. On March 28, 1990 the Boards of Directors of both Bancorp and the Bank appointed five new members to fill the vacancies created by the recent resignations. It is expected that each of these individuals will assume their new position as members of the Board of Directors following the reviews mentioned above. (See "Election of Directors" on page 3 of the Proxy Statement)

The Bank

The Bank maintains eleven full service banking offices at various locations throughout its primary market area. The Bank offers its retail banking customers a wide range of deposit and loan services and also the convenience of automated teller machines ("ATMs") at six of its offices.

Market Area

The Bank defines its market area as the cities and towns in which its eleven banking offices are located, from Boston in the north to Walpole in the west and Hingham in the south. The historical focus of the Bank's lending and deposit-taking activities has been the Dorchester district of Boston, an area with low and moderate income neighborhoods. The Bank's headquarters, two of its branches and its loan center are located in the Dorchester district. Two branches are located in the nearby districts of Mattapan and Roslindale, both of which are also characterized by low to moderate household incomes. The Bank also maintains two branches in downtown Boston, one in the city's financial center and another at Copley Square. These branch offices serve both the Bank's suburban clientele as well as depositors who live and work in downtown Boston. The Bank has further extended its market area into the southern, southeastern and southwestern suburbs of Boston through branches in Quincy, Stoughton, Hingham and Walpole. These suburban areas are characterized by a stable residential population, moderate to high household income and generally low levels of unemployment.

The slowdown in the New England economy and the completion of real estate projects that had been planned and begun under stronger market conditions have adversely affected the region's real estate market. A slowdown has been particularly evident in the New England condominium market where prices have

stalled and, in many areas, declined. Slower condominium sales at lower prices have, in turn, affected the ability of some developers to repay or refinance their original construction or medium-term loan arrangements. Residential housing sales, both condominium and single family, are also subject to seasonal variation with the heaviest activity occurring in the late spring, summer, and early fall. In the single family home sector, prices have suffered and properties are taking longer to sell. The situation appears likely to worsen if banks or their borrowers attempt to liquidate real estate at further depressed prices or the New England economy further weakens. Management of the Bank cannot predict the length of time it will take for the market to absorb the current over-supply of available housing.

Lending Activities

General. Beginning in 1986, the Bank substantially increased its portfolio of commercial business, construction and consumer loans. In 1988, management determined that, as a result of real estate market conditions in the greater Boston area and difficulties encountered with its existing commercial real estate construction loan portfolio, the Bank would suspend the origination of commercial real estate construction loans on new projects and focus its efforts on the origination of residential real estate and consumer loans. The Bank has, however, continued to fund existing commitments on performing commercial real estate construction loans and has advanced funds with respect to non-performing loans in connection with its loan workout efforts in order to preserve its interest in the collateral securing the loans. Commercial loan originations of \$16.5 million in 1989 consisted of loans to existing borrowers and loans made to restructure non-performing loans and Other Real Estate Owned (OREO). OREO consists of foreclosed and insubstance foreclosed loans. Total loans declined \$171.8 million in 1989 primarily as a result of loan charge-offs and the transfer of loans to OREO.

In 1988, the Bank refocused on its traditional lending activities of originating first mortgage loans on residential property in its market area. At December 31, 1989, \$277.1 million, or 62.2% of the Bank's total loans, consisted of loans with adjustable rates or loans with short terms, usually six months to three years.

The following table presents the Bank's total loan portfolio as of December 31, 1985, 1986, 1987, 1988 and 1989.

Dollars in thousands	DECEMBER 31,									
	1985		1986		1987		1988		1989	
Mortgage loans:										
Residential:										
Conventional	\$142,290	45.1%	\$146,623	27.2%	\$154,676	23.8%	\$149,882	24.3%	\$161,455	36.2%
FHA and VA	13,579	4.3	11,822	2.2	9,965	1.6	8,439	1.4	7,209	1.6
Commercial	57,282	18.2	97,057	18.0	147,864	22.8	160,348	26.0	124,586	28.0
Construction	29,872	9.5	177,572	32.9	190,935	29.4	163,961	26.5	63,139	14.2
Total mortgage loans	243,023	77.1	433,074	80.3	503,440	77.6	482,630	78.2	356,389	80.0
Other loans:										
Commercial business	14,468	4.6	52,696	9.8	61,376	9.5	49,107	8.0	18,422	4.1
Home equity	15,263	4.9	15,639	2.9	15,306	2.4	14,374	2.3	12,224	2.7
Home improvement	13,247	4.2	8,802	1.6	6,001	.9	4,382	.7	2,953	.7
Education	8,020	2.5	2,299	0.4	2,067	.3	2,531	.4	3,033	.7
Secured consumer	13,006	4.1	18,170	3.4	52,909	8.1	57,883	9.4	48,054	10.8
Unsecured consumer	8,259	2.6	8,534	1.6	8,046	1.2	6,246	1.0	4,284	1.0
Total other loans	72,263	22.9	106,140	19.7	145,705	22.4	134,523	21.8	88,970	20.0
Total loans	315,286		539,214		649,145		617,153		445,359	
		100%		100%		100%		100%		100%
Less:										
Due to borrowers on construction and other loans	(12,808)		(62,681)		(35,400)		(26,859)		(11,981)	
Unearned discount	(4,358)		(2,755)		(1,660)		(2,279)		(1,984)	
Allowance for possible loan losses	(1,085)		(1,641)		(2,804)		(16,882)		(13,454)	
Loans, net	\$297,035		\$472,137		\$609,281		\$571,133		\$417,940	

Residential Mortgage Loans. The Bank's residential first mortgage loan portfolio consists of one and three year adjustable rate mortgages and fixed rate mortgages, having terms of 15 to 30 years. At December 31, 1989, the Bank's residential first mortgage loan portfolio consisted of \$105.8 million (62.7%) of adjustable rate mortgages and \$62.9 million (37.3%) of fixed rate mortgages.

In 1989, the Bank began offering two mortgage programs to stimulate sales of condominiums and single family homes in developments where the Bank holds the construction loans. The EQUITRACK loan is a lease-to-buy program and the QUALIFIER loan allows 95% financing, no points and a discount on closing costs. Both loans feature below market interest rates, the effect of which is recorded as a loss at the time of origination. During 1989, the Bank originated \$8.2 million of QUALIFIER loans.

The interest rates on one and three year adjustable rate loans are generally based upon a margin of 2.75% above the weekly average yield on U.S. Treasury securities, adjusted to a constant maturity of one year; however, initial rates are discounted on a competitive basis. The payment amount and the interest rate of one and three year adjustable rate loans adjust with a maximum interest rate adjustment of 2% per adjustment period and a total of 6% above the original interest rate over the term of the loan.

Residential mortgage loans are made as permanent loans on one-to-four family residential properties and are typically written in amounts up to 80% of appraised value, although the Bank makes loans of up to 95% of value if the property is owner-occupied. The Bank generally requires all mortgage loans with a loan-to-value ratio in excess of 80% to carry private mortgage insurance, with the exception of the EQUITRACK and QUALIFIER mortgage loan programs.

Included in the residential mortgage portfolio are residential construction (one-to four-family) loans, made principally as a service to its existing clients. At December 31, 1989, residential construction loans totalled \$1.5 million. Residential construction loans are generally made on a short term, fixed rate basis in an amount up to 80% of the appraised value of the property, or up to 90% of value if the property is to be owner-occupied. Construction loans on residential properties are generally converted to residential mortgage loans upon completion of construction.

At December 31, 1989, \$4.4 million or 2.6% of all residential mortgage loans were classified as non-performing.

Commercial Real Estate Loans. In the past, the Bank has originated loans primarily secured by real estate other than one-to four-family residential properties. Generally such loans were made to finance the acquisition and/or refinancing of income producing properties located in Massachusetts, such as apartment, retail and office buildings. These commercial real estate loans include fixed rate term loans with maturities of three to five years and loans at a margin of approximately 1% to 2% over a widely published prime rate. At December 31, 1989, the Bank held a total of \$124.6 million of commercial real estate loans of which \$13.3 million were classified as non-performing loans.

Due to a declining real estate market, the appraised values of the properties underlying many of the Bank's commercial real estate loans have decreased since the dates of their originations.

In 1989, the Bank limited its commercial real estate loan originations to restructuring non-performing loans and OREO.

All property securing commercial real estate loans is revalued or inspected periodically as required under Massachusetts law.

Construction Loans. The Bank's construction loan portfolio totalled \$63.1 million at December 31, 1989, of which \$46.4 million were classified as non-performing loans. The Bank made commercial real estate construction loans primarily to finance residential subdivisions and condominium construction and conversion projects. Beginning in the spring of 1988, management determined that, as a result of real estate market conditions in the Greater Boston area and difficulties encountered with its commercial real estate construction loan portfolio, it would suspend the origination of commercial real estate construction loans on new projects and focus its efforts on the origination of residential real estate and consumer loans, although the Bank will continue to fund existing commitments on performing commercial real estate construction loans. At

December 31, 1989, the Bank was obligated to fund up to an additional \$10.7 million on existing commercial real estate construction projects.

Beginning in 1988 and continuing through 1989, the Greater Boston area real estate market experienced a significant decline in both value and number of sales due in part to decreased or negative rates of property appreciation and an over built market supply. The condominium construction and conversion market was particularly adversely affected by an oversupply of condominium units coupled with decreased demand. These factors had a negative impact on many of the commercial real estate construction projects contained in the Bank's loan portfolio, and the majority of the Bank's commercial real estate construction loan portfolio has been classified as non-performing or is currently characterized by management as a potential loan workout. A number of commercial construction loans were transferred to foreclosure and insubstance foreclosure and reclassified as Other Real Estate Owned during 1989. (See Management's Discussion and Analysis - "Loan and Other Real Estate Owned Reserve") The future performance of the Bank's commercial real estate construction loan portfolio will depend upon a variety of factors, including the individual characteristics of each project and the performance of the greater Boston area real estate market. As a matter of policy, additional amounts will be classified as non-performing loans if and when the payment of principal or interest is 90 days or more past due, or sooner if the collection of principal and interest becomes doubtful. Management will continue to evaluate the performance of these loans and will charge off problem loans when management believes the collectibility is doubtful.

Prior to 1987, the Bank originated loans to joint ventures, in which subsidiaries of the Bank participated as a joint venturer for the purpose of acquiring, developing and/or constructing various real estate condominium projects. These loans typically provided that the Bank's subsidiary was to receive a share of the profits or losses recognized upon the eventual completion and sale of the project. In 1987, management determined that no additional loans would be made to new joint ventures of this type. As a result of the real estate market conditions in the Greater Boston area noted above, all of these loans had been classified as either non-performing loans or insubstance foreclosure at December 31, 1988. At December 31, 1989, \$3.8 million, or 6.0% of the Bank's outstanding construction loan portfolio, consisted of these joint venture loans. The Bank agreed to waive interest on these loans on an ongoing basis in late 1987 and early 1988 in order to facilitate the completion and sale of the projects. At year-end, \$12.6 million of joint venture loans were classified as insubstance foreclosure.

During 1989, these properties were substantially completed and were offered for sale both as individual units and in bulk. (See Management's Discussion and Analysis- "Non-Performing Assets")

Commercial Business Loans. In the past, the Bank has offered various types of commercial loans, including secured and unsecured demand loans, term loans, lines of credit and working capital loans. Commercial business loans are originated and serviced by the Bank's commercial lending personnel and supported by credit, processing and documentation staff. Commercial business loan originations during 1989 were substantially restricted to non-performing loan and OREO workouts.

The commercial business loan portfolio totalled \$18.4 million at December 31, 1989 of which \$6.6 million were classified as non-performing loans. The interest rates on commercial loans generally vary at a margin of 2% above a widely published prime lending rate (subject to a minimum rate of interest), or are fixed for a term of no more than two to three years. The Bank requires all commercial loan customers to maintain deposits at the Bank. The Bank's commercial loans are generally secured by real estate, equipment and/or guarantees.

Consumer and Other Loans. The Bank's consumer loans totalled \$70.5 million at December 31, 1989, representing approximately 15.9% of its total loan portfolio. Of this amount, \$6.7 million, consisting primarily of second mortgage loans and home equity lines of credit, were classified as non-performing assets. Consumer loans consist primarily of automobile, time share, home equity, home improvement loans, and unsecured personal and education loans. Home equity loans, which were first offered by the Bank in 1980, have an original term of 20 years at an interest rate that is subject to repricing every three years and are secured by second mortgages on residential property. The Bank's policies require that these loans are underwritten only when the combined amount of all loans secured by the residential property, including the home equity loan, does not exceed 80% of that property's appraised value. At December 31, 1989, these loans totalled \$12.2 million, representing 17.3% of the Bank's consumer loan portfolio.

The Bank also offers its customers a consumer loan product entitled "1st Equity Access." This product consists of a line of credit, secured by residential property, with a monthly adjusted interest rate at a margin of 1 1/2% above the prime rate published in The Wall Street Journal. At December 31, 1989, these loans totalled \$40.8 million, representing 57.9% of the Bank's consumer loan portfolio, not including \$11 million in unadvanced equity lines of credit.

Origination and Underwriting. Loan originations for the year ended December 31, 1989 totalled \$79.2 million of which \$52.0 million were residential mortgage loans and the remainder were consumer loans, commercial real estate loans, and commercial business loans. Loan originations are developed by the Bank's officers, lending personnel and loan originators, as well as from realtors, brokers, builders, attorneys, customers and Directors. In addition, the Bank has developed correspondent relationships with other financial institutions in New England from whom it purchases residential loans for subsequent resale in the secondary market. Advertising media are also used to attract loan originations.

The Loan Committee of the Board of Directors of the Corporation must review and give prior approval of all loans in excess of \$1.0 million, and the Loan Committee of the Bank (the "Loan Committee") must approve all loans in excess of an individual loan officer's lending authority. The Loan Committee also put in place various written procedures to be followed by lending personnel in order to enhance the accountability of the loan process and the effectiveness of the loan department. Finally, the organizational structure of the lending function at the Bank has been centralized, both geographically and administratively. This centralization provides greater accountability, improved information flow and faster response time.

Applications for all types of loans are referred to the Bank's Loan Center for processing. The Bank's loan underwriting process includes the use of detailed credit applications, property appraisals and verification of applicants' credit histories, employment and banking relationships and economic analysis, as

applicable. Generally, all property securing real estate loans is appraised by independent appraisers selected by the Bank. Certain of the Bank's employees are authorized to approve residential and consumer loans up to a limit set by the Loan Committee for such individual. This limit is based upon the individual's experience and area of expertise. No individual's limit currently exceeds \$500,000 and in most instances does not exceed \$100,000.

In 1987, the Board of Directors of the Bank adopted a lending policy limiting the aggregate amount of loans to any one borrower to \$10 million. In 1988, the Board modified this policy to restrict generally the amount of loans to any one borrower to \$5 million in amount. These changes in policy excluded those borrowers or projects which exceeded each limit at the time of its adoption. State regulations generally prohibit making a loan to a borrower if, as a result, the total loans to that borrower would exceed 20% of the Bank's GAAP capital. Based on the Bank's GAAP capital of \$14.4 million at December 31, 1989, aggregate loans to one borrower were limited to \$2.88 million under this limitation.

On March 23, 1990, the United States Attorney for the Eastern District of Massachusetts announced indictments against Joseph Motroni, a former officer of the Bank and formerly the director of the Bank's consumer loan division, as well as three borrowers of the Bank. The indictments allege, among other things, that these individuals entered into loan transactions during 1987 and 1988 with intent to defraud the Bank and received kickbacks as a result of twenty-three separate loan transactions. The Corporation continues to cooperate with governmental authorities in their ongoing investigation.

Loan Origination Fees and Accounting Practices. The Bank receives origination fees on new residential loans. Fees to cover the cost of appraisals and credit reports are also collected. Loan origination fees vary with the amount and types of loans made and with competitive and economic conditions. The Bank also retains late charges on real estate loans and prepayment premiums on commercial mortgages. Under Massachusetts regulations, the Bank may not charge loan fees on the origination of one-to-four-family owner-occupied conventional real estate loans for its own portfolio in excess of one percent of the total amount of the loan, unless such loans are to be sold in the secondary market.

In January 1988, the Bank prospectively adopted Statement of Financial Accounting Standards (SFAS) No. 91, which required that the entire amount of loan origination and commitment fees and direct loan origination costs be deferred and amortized, using the interest method over the contractual life of the related loan. When loans are sold in the secondary market, the remaining balance of deferred fees is included in determining the gain or loss on the sale.

Purchase and Sale of Loans and Loan Servicing. The Bank participates in the secondary mortgage market, selling loans and retaining servicing rights. Loan servicing is generally performed by the loan seller, which retains a portion (normally $\frac{3}{8}$ of 1%) of the interest paid by the borrower in consideration for servicing the loan. At December 31, 1989, the Bank's loan servicing portfolio totalled \$127.2 million. Mortgage loans originated through the Bank's correspondents totalled \$10.9 million in 1989.

The Bank has originated residential fixed rate mortgage loans generally for resale in the secondary market and adjustable rate mortgage loans for its own portfolio. During 1989, the Bank sold \$21.2 million of loans in the secondary market, \$12.4 million (58.6%) of which were fixed rate mortgages. From time to time, the Bank may retain fixed rate mortgage loans in its portfolio when

management believes that such practice is warranted by market conditions. The Bank pools fixed rate mortgages to facilitate their sale to investors in the secondary market, including the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association and other banks. The Bank also participates in the Massachusetts Housing Finance Agency program in which fixed rate loans are originated and sold to that agency. Servicing rights on loans sold to investors in the secondary market are generally retained by the Bank.

The following table shows total mortgage loan origination and purchase, sale and repayment activities of the Bank during the periods indicated. Other loans, net, which are not included in the table, increased by \$39.6 million in 1987, and decreased by \$11.2 million in 1988 and \$45.6 million in 1989.

	<u>Years Ended December 31,</u>		
	<u>1987</u>	<u>1988</u>	<u>1989</u>
	(In thousands)		
Total mortgage loans at beginning of period	\$433,074	\$503,440	\$482,630
Mortgage loans originated and purchased	<u>353,203</u>	<u>139,678</u>	<u>68,421</u>
	<u>786,277</u>	<u>643,118</u>	<u>551,051</u>
Mortgage loans sold	18,766	40,809	21,579
Mortgage loan principal repayments, charge-offs and transfers to other real estate owned	<u>264,071</u>	<u>119,679</u>	<u>173,083</u>
	<u>282,837</u>	<u>160,488</u>	<u>194,662</u>
Total mortgage loans at end of period	<u>\$503,440</u>	<u>\$482,630</u>	<u>\$356,389</u>

Investment Activities

At December 31, 1989, the Corporation's investment portfolio totalled \$35.5 million or 6.3% of assets, including \$24.1 million of United States Treasury and agency obligations, \$13.3 million of which will mature within one year. The market value of such obligations on December 31, 1989 was \$24.2 million. The investment portfolio was also comprised of \$5.3 million in marketable equity securities and \$5.2 million in mortgage-backed securities. Interest and dividend income generated by the investment portfolio was 6.9% of the Corporation's total interest and dividend income for the year ended December 31, 1989.

The weighted average life to maturity of the Corporation's portfolio of short term investments, bonds and other obligations was approximately 1.12 years at December 31, 1989.

The Corporation's investment portfolio is managed by the Bank's officers and is subject to the review of the Executive Committee of the Board of Directors.

The following table sets forth certain information regarding the investment portfolio of the Corporation at carrying value.

	December 31,		
	1987	1988	1989
	(In thousands)		
Short term investments:			
Federal Funds sold	\$ 4,001	\$ --	\$ --
Interest-bearing deposits	--	1,606	386
Total short term investments	<u>4,001</u>	<u>1,606</u>	<u>386</u>
Investment securities:			
Bonds and Obligations:			
U.S. Government and agency obligations	9,920	16,891	24,073
Municipal obligations	3,000	--	--
Other bonds and obligations	<u>498</u>	<u>498</u>	<u>498</u>
Total bonds and obligations	13,418	17,389	24,571
Marketable and other equity securities, net of valuation allowance	<u>9,667</u>	<u>10,106</u>	<u>5,326</u>
Total investment securities	<u>23,085</u>	<u>27,495</u>	<u>29,897</u>
Mortgage-backed securities	<u>25,506</u>	<u>5,789</u>	<u>5,246</u>
Total	<u>\$52,592</u>	<u>\$34,890</u>	<u>\$35,529</u>

The totals listed above represent 7.7%, 5.1% and 6.3% of the Corporation's total assets in 1987, 1988 and 1989, respectively.

The following table sets forth information regarding the contractual maturities of the Bank's short term investments and bonds and obligations at the dates indicated.

	December 31,		
	1987	1988	1989
Maturity of short term investments and bonds and obligations:			
Within 1 year	97.1%	60.8%	55.0%
After 1 year but within 5 years	--	36.6	43.0
Total within 5 years	97.1	97.4	98.0
After 5 years but within 10 years	--	--	--
After 10 years	2.9	2.6	2.0
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Weighted average life to maturity (expressed in years) of short term investments and bonds and obligations	0.80	1.01	1.12

Deposits and Other Sources of Funds

General. Deposits have historically been the Bank's primary source of funds for lending and investment and will continue to be so in the foreseeable future. The Bank also derives funds from loan amortization and prepayments, sales of assets, from interest and fee income and from borrowings.

Deposit flows vary significantly and are influenced by prevailing interest rates, money market conditions, economic conditions and competition.

Deposits. The Bank offers a wide range of deposit accounts including regular passbook savings accounts, NOW accounts and money market accounts. Interest rates on NOW and money market accounts are tiered according to deposit balances. The Bank also offers three-month to four-year term deposit certificates and demand deposit accounts for commercial clients and individuals.

The Bank has adopted a selective deposit growth policy by pricing its products competitively but not necessarily at the highest rates. From time to time the Bank promotes various types of accounts with the intention of lengthening the maturity schedule of its liabilities. The Bank had a net decrease in deposits (including interest retained), of \$7.0 million for the year ended December 31, 1989. While deposit flows are by nature somewhat unpredictable, management attempts to manage the Bank's deposits by selective pricing.

As a result of the large volume of funds in demand deposit, NOW, passbook and other regular accounts, the Bank has had a fairly stable base of relatively low cost funds. These deposit accounts represented 29.9% of the Bank's total deposits at December 31, 1989.

While deregulation of deposit interest rates has permitted the Bank to remain competitive in the market for deposits, it has also resulted in a more volatile cost of funds. The Bank has attracted substantial deposits in short term certificate and money market accounts. These accounts, which are more responsive to changes in market interest rates than long term certificate accounts, are apparently attractive to depositors who desire liquidity and the opportunity to receive market rates. At December 31, 1989, 17.8% of all the Bank's deposits were in money market accounts which offer a rate of interest that is subject to change on a weekly basis. At December 31, 1989, \$82.5 million of the Bank's savings certificates represented certificates of deposit obtained from financial brokers. These deposits were primarily used to fund the Bank's loan commitments during a period when the cost of these funds was lower than local certificate of deposit rates.

As a result of the Bank's impaired financial condition, the Bank has been advised that without a waiver from the FDIC, it cannot seek or renew brokered or third party deposits during 1990. If a waiver is denied and brokered deposits are not permitted to be renewed, the Bank is likely to experience liquidity problems in 1990 which would restrict its ability to fund originations, deposit outflows and operating expenses. Depositor withdrawals resulting from reports of the Bank's financial condition may also lead to liquidity problems. The Bank intends to file for a waiver, but cannot predict with any certainty if a waiver will be granted. In the absence of a waiver, the Bank will be forced to engage in asset sales and to seek other borrowings in an effort to meet its liquidity needs. The Bank has been advised that its Federal Home Loan Bank of Boston ("FHLBB") borrowings are limited to six month maturities and that it has been placed on "Delivery Status", which requires that collateral be maintained at the FHLBB sufficient to cover outstanding advances. In addition, the Bank has been advised by the FDIC that it cannot pay

more than 50 basis points above average market rates on deposits. (See Management's Discussion and Analysis - "Liquidity and Capital Resources").

The following table reflects the amount of deposit accounts of the Bank at each date indicated below.

	December 31,						Weighted Average Rate at 12/31/89
	1987		1988		1989		
	Amount	%	Amount	%	Amount	%	
	(Dollars in thousands)						
Demand deposit accounts	\$ 10,831	2.4%	\$ 8,176	1.6%	\$ 8,305	1.7%	--
NOW accounts	47,590	10.3	39,183	7.8	35,274	7.1	7.4%
Money market accounts	115,202	25.1	91,881	18.2	88,453	17.8	8.2%
Savings accounts	117,923	25.6	115,346	22.9	104,769	21.1	5.8%
Savings certificates	129,944	28.2	176,870	35.1	191,252	38.5	9.3%
CD's greater than \$100,000	<u>38,376</u>	<u>8.4</u>	<u>72,130</u>	<u>14.4</u>	<u>68,548</u>	<u>13.8</u>	8.8%
Total deposits	<u>\$459,866</u>	<u>100%</u>	<u>\$503,586</u>	<u>100%</u>	<u>\$496,601</u>	<u>100%</u>	

Contractual maturities of certificate accounts at December 31, 1989 were as follows (dollars in thousands):

	Amount	Total	Weighted Average Rate
Maturing during 1990	\$194,623	74.9%	9.4%
Maturing during 1991 and 1992	54,336	20.9	8.3%
Maturing after 1992	<u>10,841</u>	<u>4.2</u>	9.2%
Total certificates	<u>\$259,800</u>	<u>100%</u>	9.2%

Borrowed Funds. The Bank also borrows funds from time to time for its liquidity needs. At December 31, 1989 these borrowings totalled \$38.5 million, of which \$33.5 million or 87.1% represents advances from the FHLBB. The Bank's membership in the FHLBB entitles it to borrow, on a secured basis, up to an aggregate of 30% of its total assets, but no more than twenty times the value of the FHLBB capital stock owned by the Bank. At December 31, 1989, the Bank held 35,410 shares of such stock valued at \$3.5 million. FHLBB borrowings increased by \$1.0 million in 1989 to \$33.5 million. As a result of the Bank's impaired financial condition, the Bank has been advised that its FHLBB borrowings are limited to six month maturities and that it has been placed on "Delivery Status", which requires that collateral be maintained at the FHLBB sufficient to cover outstanding advances.

At December 31, 1989 the Bank estimated that it had approximately \$40 million of additional borrowing capacity available to it through the FHLBB. However, the FHLBB has reserved the right to restrict this ability as it deems appropriate. (See Note 7 of the Notes to Consolidated Financial Statements).

Additionally, the Bank's borrowings at December 31, 1989 included \$3.8 million in securities sold under repurchase agreements, and \$1.2 million borrowed from a third party lender with respect to the Bank's Employee Stock Ownership Plan and Trust (ESOP). The ESOP loan was paid off in January 1990 as a result of a default by the Bank under certain financial covenants made in connection with the loan.

Savings Bank Life Insurance

The Bank issues and sells life insurance and annuities through its Savings Bank Life Insurance Department under the regulation and supervision of the Trustees of the Massachusetts General Insurance Guaranty Fund and the Massachusetts Commissioner of Savings Bank Life Insurance. The Bank retains and invests the premiums and pays the claims of its insured. However, the premiums to be paid are determined by the regulatory agencies based upon the experience of all the participating savings bank life insurance departments and assessments are made on the participants by the General Insurance Guaranty Fund in order that the claim payment experience of all the participants be prorated. The Bank is reimbursed for the costs incurred by its Savings Bank Life Insurance Department by the Massachusetts Savings Bank Life Insurance Council.

Massachusetts law requires that the assets, reserves and earnings of the Bank's Savings Bank Life Insurance Department be held solely for policy holders and kept segregated from all other assets and liabilities of the Bank. Accordingly, the financial results of this Department are not reflected in those of the Corporation or the Bank.

Competition

The Bank's deposit-taking activities have traditionally been concentrated in the Dorchester district of Boston. Based on the Bank's experience and customer recognition in this area, the Bank believes that it is one of the leading financial institutions in Dorchester.

The Bank faces competition both in originating loans and in attracting deposits. Competition in originating loans comes primarily from other thrift institutions, commercial banks, mortgage companies and consumer finance companies. The Bank competes for loans principally on the basis of interest rates, loan fees, the types of loans originated and the quality of services provided to borrowers.

In attracting deposits, the Bank's primary competitors are other thrift institutions, commercial banks, money market mutual funds and credit unions. The Bank's ability to attract and retain deposits depends on its ability to provide investment opportunities that satisfy the requirements of investors with respect to rate of return, liquidity, risk and other factors. The Bank attracts a significant amount of deposits through its branch offices, primarily from the communities in which those branch offices are located. Management believes that competition for those deposits derives principally from other thrift institutions and commercial banks located in the same communities. The Bank competes for these deposits by offering competitive rates, convenient branch locations, extended business hours and an automated teller network.

Employees

At December 31, 1989, the Bank had 187 employees, of whom 16 were part-time. Employee benefits include a pension plan and life, health, travel accident and long term disability insurance which are supplied by the Bank to all full-time employees. None of the employees of the Bank is represented by a collective bargaining group and management considers its relations with its employees to be good.

Subsidiaries

As of March 15, 1990, the Bank was the Corporation's only subsidiary. However, the Bank has thirteen wholly-owned subsidiaries and one of these subsidiaries has a wholly-owned subsidiary. 178 Lowell Street, Lexington Corp. holds an investment in a low income housing limited partnership located in Massachusetts. Eleven additional subsidiaries, First American Development Corporation, First American Development Corporation II, First American Development Corporation III, First American Development Corporation IV, First American Development Corporation V, First American Development Corporation VI, First American Development Corporation VII, First American Development Corporation VIII and First American Financial Services Corporation (formerly First American Development Corporation IX (d/b/a First American Financial Services Corporation), Commonwealth Avenue Realty Corporation, and Sixth Street Corporation, were formed to participate in Massachusetts residential real estate development projects or hold properties as part of the Bank's loan workout activities. Foster Street Realty Corporation is a wholly-owned subsidiary of First American Financial Services Corporation. Only seven of these subsidiaries are presently active, in addition to Foster Street Realty Corporation.

First American Short-Term Trust was organized by the Bank in 1981 to provide and channel charitable contributions.

Executive Officers of the Corporation and the Bank

The following sets forth certain information regarding the executive officers of the Corporation and the Bank as of March 1, 1990. Unless otherwise indicated, such information covers at least the last five years.

<u>Name</u>	<u>Age</u>	<u>Positions Held</u>
David A. Tapley	58	Chairman of the Board, President and Chief Executive Officer of the Corporation and the Bank
Norman B. Williamson	45	Executive Vice President of the Corporation and the Bank
Jeffrey M. Liber*	37	Senior Vice President, Chief Financial Officer and Treasurer of the Corporation and the Bank
Michael C. Hanson, Esq.**	35	Senior Vice President and General Counsel of the Corporation and the Bank
James G. B. Allardice	48	Senior Vice President of the Bank
Barry L. Queen	48	Senior Vice President of the Bank
William C. Petraitis	56	Senior Vice President of the Bank

*Jeffrey M. Liber, Senior Vice President, Chief Financial Officer and Treasurer of the Corporation and the Bank, has resigned from the Corporation and the Bank effective April 3, 1990.

**Michael C. Hanson, Senior Vice President and General Counsel of the Corporation and the Bank, has resigned from the Corporation and the Bank effective April 3, 1990.

David A. Tapley is the Chairman and Chief Executive Officer of the Corporation and the Bank. Prior to joining 1st American in January 1989, Mr. Tapley was Executive Vice President of Empire of America of Buffalo, New York, where he was Managing Officer of a subsidiary with assets of \$2.7 billion and 60 branches. From 1984 to 1985, Mr. Tapley was Executive Vice President of the Greenpoint Savings Bank, a \$2.4 billion in assets institution in Flushing, New York. Prior to 1984, Mr. Tapley served for 21 years as a senior executive with Union Trust Company, a \$1.5 billion in assets commercial bank based in Stamford, Connecticut. During his last four years at Union Trust Company, Mr. Tapley served as Executive Vice President.

Norman B. Williamson has served as Executive Vice President of the Bancorp since December 1987 and of the Bank since November 1987. He served as Chief Operating Officer of the Bancorp and the Bank from December 1987 until March 1990. Since October 1989, he has been responsible for the retail as well as the commercial and consumer lending and collections departments. He was acting President and Chief Executive Officer of the Bancorp and the Bank from October 1988 until January 1989. Previously, he served as Senior Vice President of Administration and Senior Administrative Officer of the Bancorp and the Bank from October 1986 to November 1987 and as Vice President of Administration of the Bank from 1982 to 1986. He has served the Bank in various executive capacities since 1976.

Jeffrey M. Liber has served as Senior Vice President and Chief Financial Officer of the Bancorp since December 1987 and of the Bank since November 1987 and as Treasurer of the Bancorp and the Bank since January 1989. Previously, he served as Vice President of the Bancorp from its formation in October 1986 to December 1987 and of the Bank from 1985 to November 1987. In addition, Mr. Liber served as Controller of the Bank from 1979 to 1987.

Michael C. Hanson, Esq. has served as Senior Vice President and General Counsel of the Bancorp and the Bank since October 1988 and, prior to that time, served as Vice President and Counsel of the Bancorp from December 1987 and of the Bank from February 1987. From 1985 to 1987 he was employed as an attorney with the Boston law firm of Goodwin, Procter & Hoar.

James G. B. Allardice joined the Bank in September 1987 as Vice President in charge of residential and consumer lending and collections. From October 1988 to October 1989, he served as Senior Vice President-Consumer Banking of the Bank and was responsible for the retail branch system as well as residential and consumer lending and collections. Since October 1989 he has been responsible for residential lending and collections. From 1986 to 1987 he was Senior Vice President in charge of the Mortgage Banking Group at First Federal Bank, FSB in Nashua, New Hampshire. From 1983 to 1986, Mr. Allardice was Senior Vice President in charge of Business Development at ComFed Mortgage in Lowell, Massachusetts.

William C. Petraitis joined the Bank in September 1989 as Senior Vice President of Administration and is responsible for the Human Resources, Training and General Services Departments. From 1988 to 1989, Mr. Petraitis was Senior Vice President of Schattle Personnel Consultants, Inc. in North Kingstown, Rhode Island where he was responsible for the financial services group and served as a consultant to bank clients in the New England area. From 1980 to 1988, Mr. Petraitis was Senior Vice President in charge of the Human Resources Division of People's Bank, NA, a \$900 million bank holding company with commercial, savings and mortgage banking subsidiaries.

Barry L. Queen joined the Bank in June 1988 as president of First American Financial Services Corporation, a subsidiary of the Bank. In such capacity, Mr. Queen is responsible for the Bank's loan workout activities. Since October 1988, Mr. Queen has also served as Senior Vice President-Commercial Lending of the Bank and was, until October 1989, in charge of the commercial lending division of the Bank. From 1984 to 1988, Mr. Queen was President of University Financial, Inc. a subsidiary of University Bank in Newton, Massachusetts. In such capacity, Mr. Queen was responsible for all of University Bank's commercial lending activities.

Item 2: Properties.

The Corporation does not own or lease any real estate. The following table sets forth certain information relating to real estate owned or used by the Bank or its subsidiaries at December 31, 1989.

<u>Location</u>	<u>Net Book Value at 12/31/89</u>	<u>Owned or Leased</u>	<u>Lease Expiration Date</u>
<u>Main Office:</u>			
Boston, MA 572 Columbia Road Dorchester, MA 02125	\$ 484,411	Owned	--
<u>Branches:</u>			
Boston, MA 569-571 Washington St. Dorchester, MA 02124	205,140	Owned	--
731 Morrissey Boulevard Dorchester, MA 02122	271,589	Leased	10/01/95 (1)
581 Boylston Street Boston, MA 02116	150,483	Leased	9/30/93 (2)
160 Federal Street Boston, MA 02110	205,622	Leased	6/15/98 (3)
1575 Blue Hill Avenue Mattapan, MA 02126	88,143	Leased	8/31/92 (1)
700 American Legion Highway Roslindale, MA 02131	60,479	Leased	8/19/93
Quincy, MA 77 Granite Street Quincy, MA 02169	233,934	Leased	7/31/99 (4)
Hingham, MA 100 Derby Street Hingham, MA 02043	51,177	Leased	9/14/96
Stoughton, MA 439 Washington Street Stoughton, MA 02070	334,924	Owned	--
Walpole, MA 956 Main Street Walpole, MA 02081	9,744	Leased	10/31/94

Other Property:

One Stoughton Street Dorchester, MA 02125	219,506	Owned	--
--	---------	-------	----

Loan Origination Center:

50 Redfield Street Dorchester, MA 02125	<u>313,838</u>	Leased	9/30/91(3)
--	----------------	--------	------------

\$2,628,990

-
- (1) Subject to two five-year renewal options.
 - (2) Subject to three five-year renewal options.
 - (3) Subject to one five-year renewal option.
 - (4) Subject to two ten-year renewal options.
-

The aggregate net book value of properties owned and used by the Bank at December 31, 1989 was \$1.2 million and the aggregate net book value of leasehold improvements on such properties was \$1.4 million.

The Bank's primary internal data processing equipment consists of teller terminals, ATMs and other automated equipment with a net book value of \$1.1 million at December 31, 1989.

The Bank's Main Office is located on Columbia Road in the Dorchester district of Boston and includes a full service banking office, an operations center and administrative offices. The Bank has two branch offices in Dorchester and maintains offices in convenient locations in the Mattapan and Roslindale districts of Boston.

The Bank has six other branch offices. In Boston, the Bank maintains offices in the downtown financial district and in the Copley Square area. Branch offices located in Hingham and Walpole were acquired in June 1985 in a merger with Edward Everett Federal Savings Bank. The Quincy and Stoughton branches are located on major thoroughfares and provide ample parking space for customers. The Bank maintains six ATM facilities and four drive-up facilities at its branch offices.

Item 3: Legal Proceedings

The Corporation and certain of its affiliates have been named as defendants in lawsuits arising in connection with past operations and business. These lawsuits assert various theories of liability which involve allegations of liability including, but not limited to, breach of various fiduciary duties and taking action not in good faith. Although management intends to defend such lawsuits vigorously, it should be noted that such claims often involve finders of fact, such as juries, making certain determinations of a subjective nature, often involving inferences as to a party's intent and disputed statements not subject to written or third party corroboration. Such lawsuits, if decided adversely, may give rise to an assessment of damages greatly in excess of actual damages, such as punitive or exemplary damages.

Management has reviewed and discussed with legal counsel the Corporation's pending litigation. Management believes that in light of the impaired financial condition of the Corporation, and in view of there not being a sufficient factual basis for management to conclude that such pending litigation, taken as a whole, will not have a material adverse effect on the Corporation, management is unable to express any opinion that such pending litigation will not have a material adverse effect on the consolidated financial position of the Corporation. (See Note 11 of the Notes to Consolidated Financial Statements).

Item 4: Submission of Matters to a Vote of Security Holders

Not applicable.

PART II

Item 5: Market for the Registrant's Common Equity and Related Stockholder Matters.

Stock Market Data

In the summer of 1986, 1st American Bank for Savings completed its conversion to a Massachusetts-chartered savings bank in stock form by the sale of 11,500,000 shares of Common Stock at \$10.25 per share. On December 21, 1987, the Bank became a wholly-owned subsidiary of 1st American Bancorp, Inc., a bank holding company.

The Common Stock of the Bank was initially quoted on the National Association of Securities Dealers' Automated Quotation ("NASDAQ") over-the-counter market. Since December 16, 1986, the Common Stock of the Bank (and following the holding company formation, of 1st American Bancorp, Inc.) has been quoted on the NASDAQ National Market System under the symbol "FAMB". The stock is listed in The Wall Street Journal as "FstAmBcp" and in other newspapers as "FtAmBcp".

Quarterly Common Stock Information

Information concerning the market price for the Company's Common Stock as reported by NASDAQ, together with dividends paid for the periods indicated, appears in the following table. Market price information includes high and low daily closing prices.

		High	Low	Cash Dividends paid per share
1988	1st Quarter	12 1/8	10 1/4	.15
	2nd Quarter	12	8 5/8	.15
	3rd Quarter	9 7/8	9 1/8	.15
	4th Quarter	10 1/8	6 1/4	.15
1989	1st Quarter	8	6 1/4	.15
	2nd Quarter	6 5/8	3	.15
	3rd Quarter	4	2 7/8	--
	4th Quarter	3 1/4	1	--

Common Stock Ownership

As of March 23, 1990 the Corporation had approximately 1,953 shareholders of record and 10,214,000 outstanding shares of Common Stock. This does not reflect the number of persons or entities who hold their stock in nominee or "street" name through various brokerage firms.

Item 6: Selected Consolidated Financial Data,
1st American Bancorp, Inc. and Subsidiary

The following consolidated financial information for the Company does not purport to be complete. Reference should be made to the more detailed financial information contained elsewhere herein. The reorganization and formation of 1st American Bancorp, Inc. as the parent company of 1st American Bank for Savings was completed on December 21, 1987. 1st American Bank for Savings converted from mutual to stock form on July 17, 1986.

At December 31,					
Dollars in thousands	1985	1986	1987	1988	1989
Balance Sheet and Other Data:					
Total assets	\$382,200	\$545,924	\$686,706	\$678,600	\$561,175
Investment Securities	33,224	24,071	23,085	27,495	29,897
Mortgage-backed securities, net	19,487	21,633	25,506	5,789	5,246
Loans, net	297,035	472,137	609,281	571,133	417,940
Deposits	328,742	366,456	459,866	503,586	496,601
Stockholders' equity	39,234	158,979	167,972	125,963	17,886
Number of offices	11	11	12	12	12

Years Ended December 31,					
Dollars in thousands	1985 (a)	1986	1987	1988	1989
Statement of Operations Data:					
Interest and dividend income	\$ 41,490	\$ 49,470	\$ 63,417	\$ 67,374	\$ 49,597
Interest expense	26,316	25,484	29,542	39,806	43,167
Net interest income	15,174	23,986	33,875	27,568	6,430
Provision for possible loan losses	--	705	1,600	27,350	75,688
Net interest income after provision for possible loan losses	15,174	23,281	32,275	218	(69,258)
Special dividends and distributions	1,597	1,558	--	--	--
Other income	1,975	2,404	2,586	1,777	4,132
Non-interest expense	8,039	9,442	11,667	14,153	17,331
Provision for loss on real estate owned	--	--	--	10,000	32,687
Gain (loss) on sales of mortgage loans, net	(6,289)	148	154	288	225
Gain (loss) on securities transactions	134	1,192	846	(1,244)	(2,964)

Item 6: Selected Consolidated Financial Data, . . . (continued)

1st American Bancorp, Inc. and Subsidiary

	1985	1986	1987	1988	1989
Income (loss) before taxes and extraordinary credit	\$4,552	\$ 19,141	\$24,194	\$(23,114)	\$(117,883)
Tax expense (benefit)	2,530	6,937	8,454	--	(12,000)
Income (loss) before extraordinary credit	2,022	12,204	15,740	(23,114)	(105,883)
Extraordinary credit-utilization of operating loss carry forward	156	--	--	--	--
Net income (loss)	<u>\$2,178</u>	<u>\$ 12,204</u>	<u>\$15,740</u>	<u>\$(23,114)</u>	<u>\$(105,883)</u>

*Per Share Data:

Net income (loss) per share	--	--	\$ 1.37	\$ (2.22)	\$ (10.37)
Book value at December 31,	--	--	\$ 14.61	\$ 12.33	\$ 1.75

*1st American Bank for Savings converted from mutual to stock ownership on July 17, 1986. Earnings per share for years prior to 1987 are not shown as the computations will not present meaningful results for periods in which the Bank was in mutual form. On January 29, 1987, shareholders approved a reorganization of the Bank into a bank holding company. After the required regulatory approvals were obtained, the formation of 1st American Bancorp, Inc. as the parent company of the Bank was completed on December 21, 1987.

Selected Ratios:

Return on avg. assets	0.61%	2.66%	2.57%	(3.22)%	(16.50)%
Return on avg. equity	5.74	13.17	9.51	(14.89)	(120.52)
Avg. equity to average assets	10.60	20.17	27.05	21.60	13.69
Weighted average rate spread	3.58	3.94	3.83	2.68	0.10
Net yield on average earning assets during the period	4.24	5.39	5.69	4.05	1.05
Net loan charge-offs to average loans outstanding	.02	.04	.08	2.10	13.78
Dividend payout as a percentage of net income	--	--	32.85	(b)	(b)

(a) Includes results of Edward Everett Federal Savings Bank, which was acquired in a merger transaction accounted for as a pooling of interests.

(b) Due to loss, number not meaningful.

Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations, 1st American Bancorp, Inc. and Subsidiary

Comparison of the years 1989 and 1988

GENERAL

During 1989 the Company experienced a loss of \$105.9 million as compared to a loss of \$23.1 million in 1988. The primary factors contributing to the loss for 1989 were loan and real estate owned loss provisions totalling \$108.4 million and the related adverse impact on interest income resulting from an increase in non-performing assets.

Total assets decreased to \$561.2 million at the end of 1989 from \$678.6 million at the end of 1988, representing a decrease of \$117.4 million (17.3%). The decrease is primarily attributable to the \$108.4 million loan and real estate owned loss provisions. During the same period, average net earning assets, including non-accrual loans, decreased by \$66.7 million (9.80%). Average non-performing assets increased by \$131.7 million from \$58.6 million during 1988 to \$190.3 million during 1989.

INTEREST AND DIVIDEND INCOME

Interest and dividend income decreased by \$17.7 million (26.3%) to \$49.6 million in 1989 from \$67.3 million in 1988 due primarily to a significant increase in non-accrual loans in the loan portfolio. The increase in interest income on securities was principally due to higher outstanding balances and higher interest rates. The decrease in interest income on short-term investments and mortgage-backed securities was a result of a decrease in average funds invested in 1989. The weighted average yield on all earning assets was 8.08% in 1989 versus 9.89% in 1988. Loan originations in 1989 totalled \$79.2 million as compared with \$165.2 million in 1988. As a result, loan origination fees and interest income decreased in 1989.

INTEREST EXPENSE

Total interest expense in 1989 was \$43.2 million, an increase of \$3.4 million (8.5%) from \$39.8 million in 1988. This increase resulted from higher prevailing interest rates in all categories of interest bearing deposits, retail repurchase agreements and FHLBB borrowings, partially offset by decreases in outstanding balances in interest bearing deposits and retail repurchase agreements. The average rate paid on all interest-bearing liabilities in 1989 was 7.98% as compared to 7.21% in 1988.

PROVISIONS FOR POSSIBLE LOAN AND OTHER REAL ESTATE OWNED LOSSES

The provisions for losses included in the consolidated statements of operations totalled \$108.4 million in 1989, compared to \$37.3 million in 1988. A significant portion of the increase in the 1989 provisions for losses reflects the financial difficulties related to certain commercial real estate construction and development loans originated prior to 1988. These construction and development loans were for projects located primarily in Massachusetts. Many of these loans have large individual balances and the risk of loss on such loans is difficult to quantify and is subject to fluctuations in the economy and local real estate market.

The continued weakness in the commercial and residential real estate market in greater Boston has raised concerns with respect to the future of the local economy and has had a particularly adverse impact on local area real estate values. Management believes the increases in the loss provisions were prudent in light of these concerns. The adequacy of the loan and real estate owned loss reserves is evaluated regularly by management and, as adjustments become necessary, they are reported in operations for the period in which they become known.

The Bank has experienced significant operating losses and increases in non-performing assets related to the deterioration of the Massachusetts commercial and residential real estate markets. The carrying amount of the commercial real estate and construction loan portfolio and other real estate owned is based on projected completion costs, sales prices and sell-out periods for the underlying real estate projects. Management believes that because of the present adverse market conditions, there are inherent uncertainties in the assumptions with respect to the projected sales prices and sell-out periods. Because of these inherent uncertainties, the amount ultimately realized on these commercial and construction real estate loans and other real estate owned may differ significantly from the amounts reflected in the Corporation's 1989 Consolidated Financial Statements.

NON-INTEREST INCOME

Total non-interest income in 1989 was \$1.4 million, an increase of \$600,000 from \$800,000 in 1988. This increase is the result of the sale of a building owned by the Bank for a gain of \$3.8 million in addition to higher fees of \$385,000 collected on deposit accounts. These increases were partially offset by the recognition of \$2.8 million in unrealized market depreciation on equity securities, as compared to a \$1.2 million related security loss during 1988. In addition, the Corporation recognized \$1.7 million in losses on its equity investment in limited partnerships.

NON-INTEREST EXPENSE

Non-interest expense, net of the provision for loss on real estate owned, increased by \$3.2 million (22.7%) to \$17.3 million in 1989 from \$14.1 million in 1988. This increase was attributable primarily to the expansion of the Bank's loan workout efforts and costs associated with non-performing loans.

TAX EXPENSE

A federal tax benefit of \$12.0 million was recognized through net operating loss carrybacks as a result of the 1989 net operating loss. There were no state income tax provisions during 1989 due to the net operating loss.

Comparison of the years 1988 and 1987

GENERAL

During 1988 the Company experienced a loss of \$23.1 million as compared to net income of \$15.7 million in 1987. The primary factors contributing to the loss for 1988 were loan and real estate owned loss provisions totalling \$37.3 million and the related adverse impact on net interest income resulting from an increase in non-performing assets.

Total assets decreased to \$678.6 million at the end of 1988 from \$686.7 million at the end of 1987, representing a decrease of \$8.1 million (1.2%). The decrease was primarily attributable to the \$37.3 million loan and real estate owned loss provisions. During the same period, average net earning assets, including non-accrual loans, increased by \$85.8 million (14.4%). This increase in average earning assets was partially offset by the increase in non-performing assets which averaged \$58.6 million during 1988.

INTEREST AND DIVIDEND INCOME

Interest and dividend income increased by \$3.9 million (6.2%) to \$67.3 million in 1988 from \$63.4 in 1987 due primarily to increased average outstanding loan balances partially offset by a lower average yield on the loan portfolio as a result of increased non-accrual loans. The increases in interest income on securities, interest bearing deposits and short-term investments were principally due to higher outstanding balances and higher interest rates. The decrease in interest income on mortgage-backed securities was a result of a decrease in

average funds invested in 1988. The weighted average yield on all earning assets was 9.89% in 1988 versus 10.66% in 1987. Loan originations in 1988 totalled \$165.2 million as compared with \$353.2 in 1987. As a result, loan origination fees decreased in 1988. The Company adopted the Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 91 in 1988 which requires that the entire amount of loan origination and commitment fees and direct loan origination costs be deferred and amortized, using the interest method over the contractual life of the related loan. The Company adopted this statement on a prospective basis. The impact of adoption in 1988 was not material.

INTEREST EXPENSE

Total interest expense in 1988 was \$39.8 million, an increase of \$10.3 million (34.9%) from \$29.5 million in 1987. This increase resulted from increases in all categories of interest-bearing deposits, retail repurchase agreements and FHLBB borrowings and higher prevailing interest rates during 1988. The average rate paid on all interest-bearing liabilities in 1988 was 7.21% as compared to 6.83% in 1987.

PROVISIONS FOR POSSIBLE LOAN AND REAL ESTATE OWNED LOSSES

The provisions for losses included in the consolidated statements of operations totalled \$37.3 million in 1988, compared to \$1.6 million in 1987. A significant portion of the increase in the 1988 provisions for losses reflects the financial difficulties related to certain commercial real estate construction and development loans, originated prior to 1987. These construction development loans, for projects located primarily in Massachusetts, have large individual balances and the risk of loss on such loans is difficult to quantify and is subject to fluctuations in the economy and the local real estate market.

The October 1987 stock market crash and the increased perceived potential of a recession in 1989 raised concerns over the future course of the economy and had a particularly adverse impact on local area real estate values.

NON-INTEREST INCOME

Total non-interest income in 1988 was \$800,000, a decrease of \$2.8 million from \$3.6 million in 1987. Gains on the sale of loans in the secondary market increased to \$288,000 in 1988 from \$154,000 in 1987. These gains were more than offset by net losses on the sale of securities in 1988 of \$1.2 million, which resulted from the recognition of a portion of the unrealized market depreciation in the Bank's equity portfolio of \$1.7 million, partially offset by gains of \$489,000 on securities sales. The Bank recognized gains of \$846,000 on securities sales in 1987. The recognition of the unrealized market depreciation reflects management's intention to sell certain equity securities in the foreseeable future, which will allow the Bank to restructure its investment portfolio in 1989, to improve the portfolio's net yield and earnings. The decrease in other income was primarily due to \$700,000 in profit recognized on the completion of joint venture activities in 1987. There were no such profits recognized in 1988.

NON-INTEREST EXPENSE

Non-interest expense, net of the provision for loss on real estate owned, increased by \$2.5 million (21.3%) to \$14.1 million in 1988 from \$11.6 million in 1987. The increase was attributable primarily to the expansion of the Bank's operations and costs associated with non-performing loans including the Bank's internal loan review, the establishment and staffing of the loan workout department and related expenses.

TAX EXPENSE

There were no provisions established for Federal or state taxes in 1988 due to net operating losses, compared to a provision of \$8.5 million in 1987.

Asset/Liability Management

The Bank's asset/liability strategy is to closely match the interest rate sensitivity of its assets and liabilities. The interest rate sensitivity of the Bank can have a direct impact on earnings.

The Bank's Asset/Liability Committee regularly monitors interest rate sensitivity. The asset/liability strategy has included:

- Increasing the origination and purchase of adjustable rate assets, including ARMs, construction loans, commercial real estate loans and consumer loans;
- Selling longer-term, fixed rate securities, such as mortgage-backed securities;
- Increasing the amount of the Bank's longer-term liabilities including deposits, FHLBB borrowings and brokered deposits;
- Selling the majority of newly originated, longer term, fixed rate mortgages through the secondary mortgage market;
- Selling ARMs through the secondary mortgage market.

Because the Bank continues to have more liabilities than assets repricing within one year, the Bank's net interest income can be adversely affected in a rising interest rate environment. Net interest income can also be affected in a declining interest rate environment or by any changes in non-performing loans.

The following table sets forth maturity and repricing information relating to interest sensitive assets and liabilities at December 31, 1989. The balances of such accounts have been allocated among the various periods using generally accepted techniques. For example, fixed rate mortgage-backed securities are shown in the table in the time period corresponding to computed principal amortization based on their respective weighted average maturity and weighted average rates. Adjustable rate loans and securities are allocated to the period in which the rates would be next adjusted. The table does not reflect partial or full prepayment of loans and certain securities prior to final contractual maturity. NOW accounts have been included in the "other deposits" category and are assumed to mature within 180 days. While regular savings accounts are subject to immediate withdrawal, management of the Bank considers such accounts to be "core" deposits having significantly longer effective maturity. Accordingly, all such accounts have been included in the "other deposits" category and are assumed to mature after ten years.

Dollars in thousands	1-180 Days	181-365 Days	1-3 Years	3-5 Years	5-10 Years	There- after	Total
Assets subject to interest rate adjustment:							
Short term investments	\$ 386	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 386
Investment securities	4,862	8,476	10,735	--	498	--	24,571
Adjustable rate loans	171,829	50,087	33,313	3,949	5,997	11,951	277,126
Fixed rate loans	16,282	4,720	16,914	10,636	13,366	92,350	154,268
Mortgage-backed Securities amortization	53	56	251	304	1,046	3,536	5,246
TOTAL	193,412	63,339	61,213	14,889	20,907	107,837	461,597
Liabilities subject to interest rate adjustment:							
Money market accounts	88,453	--	--	--	--	--	88,453
Savings certificates	140,769	53,854	62,684	2,439	54	--	259,800
Other deposits	35,274	--	--	--	--	104,769	140,043
Retail repurchase agreements	3,810	--	--	--	--	--	3,810
Other borrowed funds	9,644	10,000	11,500	--	3,500	--	34,644
TOTAL	277,950	63,854	74,184	2,439	3,554	104,769	526,750
Excess (deficiency) of interest sensitive assets over interest sensitive liabilities	\$(84,538)	\$ (515)	\$(12,971)	\$ 12,450	\$ 17,353	\$ 3,068	\$(65,153)
Cumulative excess of interest sensitive assets over interest sensitive liabilities	\$(84,538)	\$(85,053)	\$(98,024)	\$(85,574)	\$(68,221)	\$(65,153)	

The Bank had an excess of interest sensitive (maturing or repricing within one year) liabilities over interest sensitive assets of \$85,053 million or 15.2% of total assets, at December 31, 1989. During the periods in which there is an excess of interest sensitive liabilities over interest sensitive assets, the Bank is said to be "net liability sensitive" and would tend to benefit from falling rather than rising interest rates during the one year time frame.

Yields Earned and Rates Paid

The following table reflects the weighted average yields earned on loans and investments (including those fees which are considered as adjustments to yield) and weighted average rates paid on deposits (excluding demand deposits) and borrowings during the periods indicated. See Note 1 of the Notes to Consolidated Financial Statements for a discussion of the accounting for loan origination fees.

	Years ended December 31,								
	1987			1988			1989		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
<u>Dollars in thousands</u>									
Loans (1) (2)	\$539,336	\$59,327	11.00%	\$632,057	\$63,775	10.09%	\$574,288	\$46,176	8.04%
Investment securities	25,174	1,304	5.18	29,300	1,799	6.14	30,406	2,462	8.09
Short term investments	11,288	710	6.29	11,555	927	8.02	3,932	361	9.18
Mortgage-backed securities	19,222	2,076	10.80	7,914	873	11.04	5,492	598	10.92
Total interest-earning assets	\$595,020	\$63,417	10.66%	\$680,826	\$67,374	9.89%	\$614,118	\$49,597	8.08%
Deposits	\$407,779	\$27,729	6.80%	\$507,860	\$36,335	7.15%	\$500,388	\$39,454	7.88%
Retail repurchase agreements and other borrowings	24,975	1,813	7.26	43,923	3,471	7.90	40,798	3,713	9.10
Total interest-bearing liabilities	\$432,754	\$29,542	6.83%	\$551,783	\$39,806	7.21%	\$541,186	\$43,167	7.98%
Net interest margin (3)			3.83%			2.68%			0.10%
Net yield on average earning assets (4)			5.69%			4.05%			1.05%

(1) Non-performing loans are included in the average loan balance. Average non-performing assets in 1988 and 1989 were \$58.6 million and \$190.3 million, respectively. Average non-performing assets in 1987 were not significant.

(2) Interest on loans includes loan fee income of \$2,841,000, \$2,000,000 and \$1,189,000 in 1987, 1988, and 1989, respectively.

(3) Represents the weighted average yield on all interest-earning assets during the year less the weighted average rate paid on all interest-bearing liabilities.

(4) Determined by dividing the net interest income by the weighted average earning assets.

Rate/Volume Analysis

The following table presents, for the periods indicated, the changes in interest and dividend income and the changes in interest expense attributable to changes in interest rates and changes in the volume of interest-earning assets and interest bearing liabilities. The change attributable to both volume and rate has been allocated proportionately.

	Years ended December 31,								
	1987 compared to 1986			1988 compared to 1987			1989 compared to 1988		
	<u>Increase (Decrease)</u>			<u>Increase (Decrease)</u>			<u>Increase (Decrease)</u>		
	<u>Due to</u>			<u>Due to</u>			<u>Due to</u>		
Dollars in thousands	Volume	Rate	Total	Volume	Rate	Total	Volume	Rate	Total
Interest and dividend income:									
Loans	\$21,794	\$(4,871)	\$16,923	\$10,193	\$(5,745)	\$ 4,448	\$(5,462)	\$(12,137)	\$(17,599)
Securities and deposits	(1,029)	(847)	(1,876)	232	263	495	70	593	663
Short term investments	(992)	(69)	(1,061)	17	200	217	(700)	134	(566)
Mortgage-backed securities	(113)	74	(39)	(1,247)	44	(1,203)	(265)	(10)	(275)
Total interest and dividend income	19,660	(5,713)	13,947	9,195	(5,238)	3,957	(6,357)	(11,420)	(17,777)
Interest expense:									
Deposits	4,123	(1,528)	2,595	7,114	1,492	8,606	(589)	3,708	3,119
Retail repurchase agreements	172	(4)	168	137	17	154	(364)	110	(254)
Other borrowed funds	1,295	--	1,295	1,369	135	1,504	104	392	496
Total interest expense	5,590	(1,532)	4,058	8,620	1,644	10,264	(849)	4,210	3,361
Net interest income	\$14,070	\$(4,181)	\$ 9,889	\$ 575	\$(6,882)	\$(6,307)	\$(5,508)	\$(15,630)	\$(21,138)

Non-Performing Assets

As a matter of policy, the Bank commences collection procedures once a loan payment is more than 15 days past due. It is the practice of the Bank to discontinue accrual of interest on all loans for which collection of interest or principal is 90 days or more past due or sooner if the collection of principal and interest becomes doubtful. These loans are included in the table below as non-accrual loans.

Loans classified as restructured relate to certain loans, made to joint ventures associated with subsidiaries of the Bank, for real estate development projects. The Bank has agreed to waive interest on an ongoing basis on such loans in order to facilitate the completion and sale of these projects.

Had non-accrual and restructured loans as of December 31, 1989 accrued interest at their specified rates, interest income would have been higher by \$6,940,000 in 1989. No interest income has been recorded on these loans subsequent to the date they were placed on non-accrual status.

Real estate acquired by foreclosures, including loans accounted for as insubstance foreclosure as defined by the Securities and Exchange Commission, is recorded at the lower of cost (principal balance of the former mortgage loan plus costs of obtaining title and possession) or estimated fair value.

The following table sets forth non-performing assets at the dates indicated. As a matter of policy, additional amounts will be classified as non-accrual loans subsequent to December 31, 1989 if and when collection of interest or principal on outstanding loans is 90 days or more past due or sooner if the collection of principal and interest becomes doubtful.

Dollars in thousands	December 31,				
	1985	1986	1987	1988	1989
Loans accounted for on a non-accrual basis:					
Mortgage	\$ 926	\$1,238	\$10,591	\$ 42,049	\$ 59,616
Other	600	1,123	1,477	9,484	13,311
Total loans on non-accrual	1,526	2,361	12,068	51,533	72,927
Real estate acquired by foreclosures including insubstance foreclosure	23	--	695	45,736	90,765
Restructured loans	--	--	5,876	6,920	4,496
Total non-performing assets	<u>\$1,549</u>	<u>\$2,361</u>	<u>\$18,639</u>	<u>\$104,189</u>	<u>\$168,188</u>
Non-performing assets as a percentage of total assets	0.41%	0.43%	2.71%	15.35%	29.97%
Loans delinquent 90 days or more but still accruing interest	\$1,407	--	--	--	--

The increase in delinquencies during 1988 and 1989 reflects the financial difficulties of projects funded by certain construction and development loans originated in 1986 and 1987. These construction and development loans are primarily for condominium construction projects located in Massachusetts. The greater Boston real estate market continues to experience a slowdown in the condominium and residential development and construction markets, which will continue to adversely impact the operation of the Bank in the future.

A loan workout group was established by the Bank in the spring of 1988 with the goal of finding the most advantageous ways to reduce non-performing assets, including the sale of certain projects and loans in their entirety. Negotiations for the disposition of some of these projects are currently underway. There can be no assurance, however, that the Bank will be able to complete those dispositions or that purchasers can be found for other projects on terms acceptable to the Bank. Disposition of these projects may result in further losses or charges to the Bank's loan and real estate owned loss reserves.

Loan and Real Estate Owned Loss Reserves

Possible losses on loans are provided for under the reserve method of accounting. The adequacy of the reserves is evaluated regularly by management and, as adjustments are judged necessary, they are reported in operations for the period in which they become known. Factors considered in evaluating the adequacy of the reserve include previous loss experience, current economic conditions and their effect on borrowers, the performance of individual loans in relation to contract terms and estimated fair values of foreclosed properties. Loan and foreclosed real estate owned losses are charged against the reserve when management believes the collectibility of the principal is doubtful. At December 31, 1989, approximately \$8.4 million of the reserve for loan losses had been allocated to specific commercial real estate and construction loans, with the remainder considered a general unallocated reserve. The reserve for real estate owned losses is established to reduce the carrying value of real estate to the extent such carrying value and additional costs exceed estimated net realizable value. Costs to complete or ready a project for sale, costs of disposal and costs to carry real estate until estimated disposition are considered in the evaluation. The reserves for possible loan and real estate owned losses are based on estimates, and ultimate losses may vary from the current estimates.

The continued weakness in the commercial and residential real estate market in greater Boston has raised concerns with respect to the future of the local economy and has had a particularly adverse impact on local area real estate values. Management believes the increases in the loss provisions made during 1989 were prudent in light of these concerns.

The Bank has experienced significant operating losses and increases in non-performing assets related to the deterioration of the Massachusetts commercial and residential real estate markets. The carrying amount of the commercial real estate and construction loan portfolio and other real estate owned is based on projected completion costs, sales prices and sell-out periods for the underlying real estate projects. Management believes that because of the present adverse market conditions, there are inherent uncertainties in the assumptions with respect to the projected sales prices and sell-out periods. Because of these inherent uncertainties, the amount ultimately realized on these commercial and construction real estate loans and other real estate owned may differ significantly from the amounts reflected in the Corporation's 1989 Consolidated Financial Statements.

At December 31, 1989 the reserves for loan and real estate owned losses totalled \$32.5 million, compared to \$26.9 million at December 31, 1988. Net charge-offs increased to \$103.0 million in 1989. The 1989 charge-offs included approximately \$83.9 million of commercial real estate and construction loans related to condominium development projects. The remaining charge-offs were primarily consumer and commercial loans.

The following table summarizes changes in the reserves for loan and real estate owned losses for the years ended December 31,:

Dollars in thousands	1985	1986	1987	1988			1989		
				Loans	Real Estate Owned	Total	Loans	Real Estate Owned	Total
Balance at beginning of period	\$1,134	\$1,085	\$1,641	\$ 2,804	\$ --	\$ 2,804	\$16,882	\$10,000	\$ 26,882
Provision charged to operations	--	705	1,600	27,350	10,000	37,350	75,688	32,687	108,375
Charge-offs:									
Mortgage	21	--	--	11,541	--	11,541	60,169	23,722	83,891
Other	<u>228</u>	<u>342</u>	<u>523</u>	<u>1,783</u>	<u>--</u>	<u>1,783</u>	<u>19,083</u>	<u>--</u>	<u>19,083</u>
Total charge-offs	<u>249</u>	<u>342</u>	<u>523</u>	<u>13,324</u>	<u>--</u>	<u>13,324</u>	<u>79,252</u>	<u>23,722</u>	<u>102,974</u>
Recoveries:									
Mortgage	173	--	--	3	--	3	50	103	153
Other	<u>27</u>	<u>193</u>	<u>86</u>	<u>49</u>	<u>--</u>	<u>49</u>	<u>86</u>	<u>--</u>	<u>86</u>
Total recoveries	<u>200</u>	<u>193</u>	<u>86</u>	<u>52</u>	<u>--</u>	<u>52</u>	<u>136</u>	<u>103</u>	<u>239</u>
Net charge-offs	<u>49</u>	<u>149</u>	<u>437</u>	<u>13,272</u>	<u>--</u>	<u>13,272</u>	<u>79,116</u>	<u>23,619</u>	<u>102,735</u>
Balance at end of period	<u>\$1,085</u>	<u>\$1,641</u>	<u>\$2,804</u>	<u>\$16,882</u>	<u>\$10,000</u>	<u>\$26,882</u>	<u>\$13,454</u>	<u>\$19,068</u>	<u>\$ 32,522</u>
Reserve as a percentage of gross loan balances	<u>.34%</u>	<u>.30%</u>	<u>0.43%</u>	<u>2.74%</u>			<u>3.02%</u>		

Liquidity and Capital Resources

Liquidity management involves the ability to meet the cash flow requirements of customers who may be either depositors wanting to withdraw funds or borrowers needing assurance that sufficient funds will be available to meet their credit needs. The Bank's primary sources of funds include amortization of the loan portfolio, prepayments on loans, sales of loans in the secondary market, increases in deposits and to a lesser extent, borrowings from the FHLBB and the Federal Reserve Bank of Boston ("FRBB") and other sources such as bank lines of credit. These various sources of liquidity are used to fund withdrawals, new loans and investments, and for other business endeavors in which the Bank has the authority to engage. The Bank's membership in the FHLBB entitles it to borrow, on a secured basis up to an aggregate of 30% of its total assets, but no more than twenty times the value of its FHLBB capital stock or \$70.8 million. As a result of the Bank's impaired financial condition, the Bank is currently on a "delivery status", which requires collateral to be maintained at the FHLBB sufficient to cover outstanding advances and any potential line of credit. In addition, the Bank has been notified by the FHLBB that all future borrowings are limited to six month maturities.

At December 31, 1989, 17.8% of all the Bank's deposits were in money market accounts which offer a rate of interest that is subject to change on a weekly basis. At December 31, 1989, \$82.5 million of the Bank's savings certificates represented certificates of deposit obtained from financial brokers. These deposits were primarily used to fund the Bank's loan commitments during a period when the cost of these funds was lower than local certificate of deposit rates.

As a result of the Bank's impaired financial condition, the Bank has been advised that without a waiver from the FDIC, it cannot seek or renew brokered or third party deposits during 1990. If a waiver is denied and brokered deposits are not renewed, the Bank will experience liquidity problems in 1990. The Bank is in the process of applying for such a waiver. Depositor withdrawals resulting from reports of the Bank's financial condition may also lead to liquidity problems. The Bank has been advised by the FDIC that it may not pay more than 50 basis points above average market rates on deposits.

The Bank's primary use of funds is to originate and, to a lesser extent, purchase loans. Loan originations for the years ended December 31, 1988 and 1989 totalled \$165.2 million and \$79.2 million, respectively.

Subject to regulatory requirements governing minimum amounts of liquid assets, the level of the Bank's liquid assets and the precise mix of its investments will vary depending upon the yields available from investment alternatives and upon management's judgment as to the attractiveness of the yields then available in relation to other opportunities, as well as management's expectation of yields that will be available in the future.

As a federally insured savings institution, the Bank is subject to regulation by the FDIC. The capital maintenance requirements of the FDIC for 1989 include minimum primary capital of 5.5% and a maximum secondary capital of .5% or a total regulatory requirement of 6% in terms of total assets. In addition, the Company made the following commitments to the FRBB in connection with the formation of the Corporation as a holding company in 1987: (i) to maintain a minimum consolidated tangible primary capital ratio of at least 7.0%; and (ii) to cause the Bank to maintain a minimum tangible primary capital ratio of at least 5.5%. Effective December 31, 1990 and phased in over a two year period, the Federal Reserve Board has adopted new risk-based capital guidelines, which provide that banks must maintain a minimum capital to risk-weighted assets ratio of 7.25% by the end of 1990 increasing to 8.00% by the end of 1992. These guidelines assign a percentage weight factor to different classes of assets based on the asset's relative risk. Absent an infusion of additional capital, the Bank and the Corporation will not be able to comply with these risk-based guidelines at December 31, 1990.

The Company has retained an investment banking advisor to assist the Company with a capital restructuring plan which will include expense reductions, downsizing of the Company through asset sales, capital infusion or possible sale of the Company.

Due to the significant operating losses resulting from the current level of non-performing assets, the Company will be unable to meet required minimum levels of regulatory capital during 1990 without obtaining additional capital.

The Bank has been advised by the FDIC that it will be asked to consent to the entry of a formal regulatory order. In the draft form recently presented to the Bank, the order would require the Bank, among other things:

- (i) to submit, obtain approval of, and implement a capital plan addressing the measures to be taken by the Bank to produce a regulatory capital ratio of at least 8.0% over a period of time to be agreed upon;
- (ii) to submit and implement a plan of action to lessen the Bank's risk position in each adversely classified asset aggregating \$1,000,000 or more;
- (iii) to adopt and strictly follow revised policies designed to bring the Bank's liquidity to an acceptable level;
- (iv) to formulate and implement a plan to substantially reduce its industry concentration in residential building loans;
- (v) to develop and submit for review and comment a profit plan consisting of goals and strategies for improving the earnings of the Bank;
- (vi) to have and retain qualified management;
- (vii) to observe certain restrictions in making loans to any business which has an adversely classified loan with the Bank;
- (viii) to observe certain restrictions in declaring or paying any dividends; and
- (ix) to furnish quarterly progress reports to the FDIC.

Management is in the process of reviewing the terms and conditions of the proposed regulatory order, in order to respond to the FDIC's request. Failure to meet federal regulatory capital requirements, or comply with the agreed-upon terms of the regulatory order, could subject the Bank to actions by federal regulatory authorities, including restrictions on the Bank's operations or other forms of regulatory intervention.

Changes in Accounting Standards

SFAS No. 96, "Accounting for Income Taxes", as amended, will apply to financial statements for years beginning after December 15, 1991, although earlier adoption is permitted. While the FASB retained the existing requirement to record deferred taxes for transactions that are reported in different years for financial reporting and tax purposes, it revised the computation of deferred taxes so that the amount of deferred taxes on the balance sheet is adjusted whenever tax rates or other provisions of the income tax law are changed. This is known as the "liability" method of providing deferred income taxes. The Company is currently evaluating both the effects of implementation and the method of adoption.

Impact of Inflation

The Consolidated Financial Statements and related consolidated financial data presented herein have been prepared in accordance with generally accepted accounting principles which require the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. The primary impact of inflation on operations of the Bank is reflected in increased operating costs. Unlike most industrial companies, virtually all the assets and liabilities of financial institutions are monetary in nature. As a result, interest rates generally have a more significant impact on a financial institution's performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

ITEM 8: Financial Statements and Supplementary Data

INDEX TO FINANCIAL STATEMENTS

Report of Independent Public Accountants.	37 - 38
Consolidated Balance Sheets as of December 31, 1988 and 1989	39
Consolidated Statements of Operations for each of the three years in the period ended December 31, 1989	40
Consolidated Statements of Changes in Stockholders' Equity for each of the three years in the period ended December 31, 1989	41
Consolidated Statements of Cash Flows for the years ended December 31, 1988 and 1989	42 - 43
Consolidated Statement of Changes in Financial Position for the year ended December 31, 1987	44
Notes to Consolidated Financial Statements	45 - 62

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of 1st American Bancorp, Inc:

We have audited the consolidated balance sheets of 1st American Bancorp, Inc. (a Delaware corporation) and subsidiary as of December 31, 1988 and 1989, and the related consolidated statements of operations and changes in stockholders' equity for each of the three years in the period ended December 31, 1989, the related statements of cash flows for the years ended December 31, 1988 and 1989 and the related statement of changes in financial position for the year ended December 31, 1987. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.


We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of 1st American Bancorp, Inc. and subsidiary as of December 31, 1988 and 1989 and the results of their operations for each of the three years in the period ended December 31, 1989, their cash flows for the years ended December 31, 1988 and 1989, and their changes in financial position for the year ended December 31, 1987 in conformity with generally accepted accounting principles.

With respect to the consolidated statement of financial condition of 1st American Bancorp, Inc. as of December 31, 1989, and the related consolidated statements of operations, stockholders' equity and cash flows for the year then ended and as more fully discussed in Note 4, the Bank has experienced significant operating losses and increases in non-performing assets related to the deterioration of the Massachusetts commercial and residential real estate markets. The carrying amount of the commercial real estate and construction loan portfolio and other real estate owned is based on projected completion costs, sales prices and sell-out periods for the underlying real estate projects. Because of the present adverse market conditions, there are inherent uncertainties in the assumptions with respect to the projected sales prices and sell-out periods. Because of these inherent uncertainties, the amount ultimately realized on these commercial real estate and construction loans and other real estate owned may differ significantly from the amounts reflected in these financial statements.

As discussed in Note 17, the Company has retained an investment banking advisor to assist the Company with a capital restructuring plan which may include expense reductions, downsizing of the Company through asset sales, seeking a capital infusion or possible sale of the Company. The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. Due to the significant operating losses resulting from the current level of non-performing assets, the Company will be unable to meet required minimum levels of regulatory capital during 1990 without obtaining additional capital. As further discussed in Note 17, the Company has been advised by its principal regulator that it will be asked to consent to the entry of a formal regulatory order. The order would require the Bank, among other things, to submit a capital plan which addresses the deficiency. Failure to meet federal regulatory capital requirements or comply with the agreed-upon terms of the regulatory order (including obtaining approval of the capital plan) could subject the Bank to actions by federal regulatory authorities, including restriction on the Company's operations or other forms of regulatory intervention. In addition, as discussed in Note 11, management is unable to express an opinion as to whether pending litigation will have a material adverse effect on the consolidated financial condition of the Company. Accordingly, as a result of these matters, there is substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments, which could be significant, relating to the valuation of assets and liabilities which might be necessary should the Company be unable to continue as a going concern.

The Company adopted Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows," for the year ended December 31, 1988, but elected not to retroactively adopt this statement for 1987.



ARTHUR ANDERSEN & CO.

Boston, Massachusetts,
January 26, 1990, (except with
respect to the matters discussed
in Note 17 as to which the date
is March 26, 1990).

CONSOLIDATED BALANCE SHEETS
December 31, 1988 and 1989
1st American Bancorp, Inc. and Subsidiary

Dollars in thousands	1988	1989
Assets		
Cash and due from banks	\$ 12,368	\$ 7,379
Interest bearing deposits in banks	1,606	386
Investment securities (Note 2):		
U.S. Government and agency obligations	16,891	24,073
Other bonds and obligations	498	498
Marketable equity securities, net	10,106	5,326
<hr/>		
Total investment securities (market value of \$26,730 and \$30,022 at December 31, 1988 and 1989, respectively)	27,495	29,897
<hr/>		
Mortgage-backed securities, net (Notes 3 and 6)	5,789	5,246
Loans, net (Note 4)	571,133	417,940
Banking premises and equipment, net (Note 5)	5,268	4,734
Other real estate owned, net (Note 4)	35,736	71,697
Income tax refund receivable	5,873	12,547
Other assets (Note 1)	13,332	11,349
<hr/>		
Total	\$678,600	\$561,175
<hr/>		
Liabilities and Stockholders' Equity		
Deposits:		
Savings accounts	\$115,346	\$104,769
Money market accounts	91,881	88,453
NOW accounts	39,183	35,274
Savings certificates	176,870	191,252
CDs greater than \$100,000	72,130	68,548
Demand deposit accounts	8,176	8,305
<hr/>		
Total deposits	503,586	496,601
<hr/>		
Retail repurchase agreements (Note 6)	5,999	3,810
Mortgagors' tax and other escrow accounts	3,071	2,958
Other liabilities	6,035	5,276
Other borrowed funds (Notes 7 and 15)	33,946	34,644
<hr/>		
Total liabilities	552,637	543,289
<hr/>		
Commitments and contingencies (Notes 11, 12 and 14)		
Stockholders' equity (Notes 9, 13, 14, 15, 16 and 17)		
Serial preferred stock, \$0.10 par value per share; 10,000,000 shares authorized, none issued	--	--
Common stock, \$0.10 par value per share; 40,000,000 shares authorized, 11,500,000 shares issued	1,150	1,150
Additional paid-in capital	109,566	109,566
Retained earnings (deficit)	31,550	(77,398)
Less: unearned compensation-ESOP	(1,446)	(1,157)
Net unrealized depreciation on marketable equity securities (Note 2)	(582)	--
Treasury stock-at cost, 1,286,000 shares	(14,275)	(14,275)
<hr/>		
Total stockholders' equity	125,963	17,886
<hr/>		
Total	\$678,600	\$561,175

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS
For the years ended December 31, 1987, 1988 and 1989
1st American Bancorp, Inc. and Subsidiary

Dollars in Thousands, Except Per Share Amounts	1987	1988	1989
Interest and dividend income:			
Interest and fees on mortgage loans	\$46,721	\$ 48,082	\$ 33,784
Interest and dividends on securities and deposits	1,304	1,799	2,462
Interest on federal funds sold	710	927	361
Interest on mortgage-backed securities	2,076	873	598
Interest on other loans	12,606	15,693	12,392
Total interest and dividend income	63,417	67,374	49,597
Interest expense:			
Interest on deposits	27,729	36,335	39,454
Interest on retail repurchase agreements	518	672	418
Interest on other borrowed funds	1,295	2,799	3,295
Total interest expense	29,542	39,806	43,167
Net interest income	33,875	27,568	6,430
Provision for possible loan losses (Note 4)	1,600	27,350	75,688
Net interest income after provision for loan losses	32,275	218	(69,258)
Non-interest income:			
Equity in losses on limited partnerships (Note 11)	--	--	(1,706)
Gain on sale of loans	154	288	225
Gain (loss) on securities transactions	846	(1,244)	(2,964)
Other income	2,586	1,777	2,056
Gain on sale of other assets	--	--	3,782
Total non-interest income	3,586	821	1,393
Non-interest expense:			
Provision for loss on real estate owned	--	10,000	32,687
Salaries and employee benefits (Note 10)	6,029	6,477	7,395
Occupancy expenses (Notes 5 and 12)	1,135	1,433	1,548
Equipment expenses (Note 5)	752	832	822
Other general and administrative expenses	3,751	5,411	7,566
Total non-interest expense	11,667	24,153	50,018
Income (loss) before taxes	24,194	(23,114)	(117,883)
Tax expense (benefit) (Note 8)	8,454	--	(12,000)
Net income (loss)	\$15,740	\$(23,114)	\$(105,883)
EARNINGS (LOSS) PER SHARE (Note 1):			
Weighted average number of shares outstanding	11,500,000	10,406,810	10,214,000
Net income (loss) per share	\$ 1.37	\$(2.22)	\$(10.37)

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the years ended December 31, 1987, 1988 and 1989
1st American Bancorp, Inc. and Subsidiary

	Common Stock		Additional Paid-in Capital	Retained Earnings	Unearned Compensation ESOP	Net Unrealized Depreciation On Marketable Equity Securities	Treasury Stock	Total
	Number of Shares	\$0.10 Par Value						
<u>Dollars in Thousands</u>								
Balance at December 31, 1986	11,500,000	\$1,150	\$109,566	\$ 50,288	\$(2,025)	\$ --	\$ --	\$158,979
Net income	--	--	--	15,740	--	--	--	15,740
Unearned compensation- ESOP (Note 15)	--	--	--	--	290	--	--	290
Dividends declared on common stock	--	--	--	(5,175)	--	--	--	(5,175)
Increase in valuation reserve for marketable equity securities	--	--	--	--	--	(1,862)	--	(1,862)
Balance at December 31, 1987	11,500,000	1,150	109,566	60,853	(1,735)	(1,862)	--	167,972
Net loss	--	--	--	(23,114)	--	--	--	(23,114)
Unearned compensation- ESOP (Note 15)	--	--	--	--	289	--	--	289
Dividends declared on common stock	--	--	--	(6,189)	--	--	--	(6,189)
Common stock repurchased (1,286,000)	(1,286,000)	--	--	--	--	--	(14,275)	(14,275)
Decrease in valuation reserve for marketable equity securities	--	--	--	--	--	1,280	--	1,280
Balance at December 31, 1988	10,214,000	1,150	109,566	31,550	(1,446)	(582)	(14,275)	125,963
Net loss	--	--	--	(105,883)	--	--	--	(105,883)
Unearned compensation- ESOP (Note 15)	--	--	--	--	289	--	--	289
Dividends declared on common stock	--	--	--	(3,065)	--	--	--	(3,065)
Decrease in valuation reserve for marketable equity securities (Note 2)	--	--	--	--	--	582	--	582
Balance at December 31, 1989	10,214,000	\$1,150	\$109,566	\$(77,398)	\$(1,157)	\$ --	\$(14,275)	\$ 17,886

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
1ST AMERICAN BANCORP, INC. AND SUBSIDIARY
FOR THE YEARS ENDED DECEMBER 31, 1988 AND 1989

In Thousands (000's)	<u>1988</u>	<u>1989</u>
Operating Activities:		
Net loss	\$(23,114)	\$(105,883)
Adjustments to reconcile net loss to net cash provided (used) by operating activities		
Provision for loan and real estate owned losses	37,350	108,375
Equity in losses on limited partnerships	--	1,706
Provision for depreciation and amortization	1,132	1,005
Compensation-Employee Stock Ownership Plan	289	289
Accretion of mortgage-backed securities discounts and premiums, net	(12)	(46)
Accretion of investment security discounts	(105)	(100)
Accretion of loan discounts	(2,451)	(366)
Loss on securities transactions	1,244	2,964
Gains on sales of loans, net	(288)	(225)
Gains on sales of other assets	--	(3,782)
Decrease in income taxes and expenses payable	(1,838)	(330)
Increase in interest and taxes receivable	(6,134)	(5,452)
Increase (decrease) in interest payable	349	(64)
Increase in other assets	(874)	(911)
Increase (decrease) in other liabilities	776	(365)
	<u>6,324</u>	<u>(3,185)</u>
Net cash provided (used) by operating activities		
Investing Activities:		
Proceeds from sales and maturities of investment securities	14,101	13,638
Purchases of investment securities	(18,370)	(18,316)
Proceeds from sales of mortgage-backed securities	18,761	--
Principal collected on mortgage-backed securities	968	589
Net decrease in short-term investments	2,394	1,220
Proceeds from loan sales	40,809	21,579
Principal collected on loans	95,275	77,191
Loans originated or acquired	(165,164)	(79,241)
Increase in investment in limited partnerships	(1,054)	(1,763)
Purchases of premises and equipment	(1,476)	(253)
Net advances on other real estate owned	(4,846)	(17,430)
Sale of other real estate owned	--	7,343
Sale of other assets	--	5,293
Other	64	--
	<u>(18,538)</u>	<u>9,850</u>
Net cash provided (used) by investing activities		
Financing Activities:		
Net decrease in non-certificate accounts	(36,957)	(17,785)
Proceeds from sales of certificates of deposits	134,539	75,713
Payments for maturing certificates of deposits	(53,859)	(64,913)
Repayments of short-term borrowings	--	(51,000)
Proceeds from short-term borrowings	--	61,987
Repayments of long-term borrowings	(15,000)	(10,000)
Proceeds from long-term borrowings	10,000	--
Net decrease in short-term repurchase agreements	(1,688)	(2,189)
Net decrease in mortgagors' escrow accounts	(44)	(113)
Payment of principal on Employee Stock Ownership Plan	(289)	(289)
Payments for acquisition of treasury stock	(14,275)	--
Cash dividends paid on common stock	(6,189)	(3,065)
	<u>16,238</u>	<u>(11,654)</u>
Net cash provided (used) by financing activities		

CONSOLIDATED STATEMENT OF CASH FLOWS . . . (continued)

Increase (decrease) in cash and cash equivalents	\$ 4,024	\$ (4,989)
Cash and cash equivalents at beginning of year	8,344	12,368
Cash and cash equivalents at end of year	<u>\$ 12,368</u>	<u>\$ 7,379</u>
Supplemental cash flow disclosures:		
Interest paid	\$ 39,457	\$ 43,283
Income taxes paid, net of refunds	\$ 7,404	\$ (3,230)
Disclosure of accounting policy:		
For purposes of reporting cash flows, cash and cash equivalents include cash on hand and amounts due from banks.		

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
For the year ended December 31, 1987
1st American Bancorp, Inc. and Subsidiary

Dollars in Thousands	1987
Financial resources were provided by:	
Operations:	
Income before extraordinary credit	\$ 15,740
Items not requiring the use of funds	
Deferred income taxes	542
Provision for possible loan losses	1,600
Depreciation and amortization	693
Financial resources provided by operations	18,575
Increase (decrease) in:	
Deposits	93,410
Retail repurchase agreements	1,633
Other liabilities, net	(1,006)
Other borrowed funds	37,210
Unearned compensation - ESOP	290
Total financial resources provided	\$150,112
Financial resources were used for:	
Cash dividends	\$ 5,175
Increase (decrease) in earning assets:	
Loans	138,744
Investment securities	876
Federal funds sold	(6,523)
Mortgage-backed securities	3,873
Net increase in earning assets	136,970
Increase in non-earning assets:	
Cash and due from banks	965
Banking premises and equipment	963
Other assets, net	6,039
Total financial resources used	\$150,112

The accompanying notes are an integral part of these consolidated financial statements.

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the accounts of 1st American Bancorp, Inc. (the "Company") and its wholly-owned subsidiary, 1st American Bank for Savings (the "Bank"). All significant intercompany balances and transactions have been eliminated in consolidation.

Investment Securities

Investment securities, other than marketable equity securities, are stated at cost, adjusted for amortization of premiums and accretion of discounts when it is management's intention to hold the securities for the foreseeable future. Securities are generally purchased for long-term investment purposes and, therefore, differences between carrying values and quoted market values may fluctuate significantly during the investment period. Marketable equity securities are stated at the lower of aggregate cost or market, as further described in Note 2. During 1988 and 1989 unrealized losses totalling \$1,700,000 and \$2,800,000, respectively, were charged to operations reflecting management's intention to sell certain equity securities in the foreseeable future. Realized gains and losses on the disposition of investment securities are computed by the specific identification method, except for marketable equity securities which are computed by the average cost method.

Mortgage-Backed Securities

These investments are carried at cost, adjusted for amortization of premiums and accretion of discounts on the straight-line method over their estimated average lives less principal payments received.

Loans, Fees and Reserves

Interest on loans is not accrued on loans delinquent in excess of 90 days. At December 31, 1988 and 1989, non-accrual loans were \$51,533,000 and \$77,424,000, respectively. Had these loans been accruing interest, interest income would have been higher by \$3,608,000 and \$6,940,000 in 1988 and 1989, respectively. No interest income has been recorded on these loans subsequent to the date they were placed on non-accrual. The Bank has commitments of \$7,142,000 to make additional advances on loans which were non-accrual at December 31, 1989.

Prior to 1988, fees obtained for loan originations were deferred to the extent the amounts received exceeded loan origination costs. Deferred loan fees were recognized as income using a level-yield method over the lives of the loans.

On January 1, 1988, the Bank adopted, prospectively, SFAS No. 91 which requires that the entire amount of loan origination and commitment fees and direct loan origination costs be deferred and amortized using the interest method over the contractual lives of the loans. The impact of adoption in 1988 was not material. Net unamortized deferred fees of \$1,301,000 and \$1,084,000 in 1988 and 1989, respectively, are classified with loans in the consolidated balance sheets.

December 31, 1989

1st American Bancorp, Inc. and Subsidiary

The reserve for possible loan losses is based on estimates, and ultimate losses may vary from the current estimates. The adequacy of the reserve is evaluated regularly by management and, as adjustments become necessary, they are reported in operations for the period in which they become known. Factors considered in evaluating the adequacy of the reserve include previous loss experience, current economic conditions and their effect on borrowers, the performance of individual loans in relation to contract terms and estimated fair values of foreclosed properties. Losses are charged against the reserve when management believes the collectibility is doubtful.

Bank Premises and Equipment

Land is carried at cost. Buildings, leasehold improvements and equipment are stated at cost, less accumulated depreciation and amortization, computed on the straight-line method over the estimated useful lives of the respective assets or the terms of the lease, if shorter. The cost of maintenance and repairs is charged to income as incurred.

Other Real Estate Owned

Real estate acquired through foreclosure and loans accounted for as insubstance foreclosure are recorded at the lower of cost or estimated fair value. If there are subsequent declines in market value, the property is adjusted to net realizable value through the provision for loss on real estate owned. At December 31, 1989 the Bank had unadvanced commitments of \$7.3 million related to other real estate owned.

The reserve for other real estate owned losses is based on periodic analysis of the real estate holdings by management. Factors considered in evaluating the adequacy of the reserve include, but are not limited to, general economic and market conditions, geographic location, the composition of the real estate holdings and property conditions.

Investments in Limited Partnerships

The Bank invests as a limited partner in low income housing limited partnerships. The investments are accounted for on the equity method and are classified as other assets. Tax credits are recognized when realized.

Tax Expense

Certain income and expense items are recognized in different periods for financial reporting purposes than for tax purposes. Accordingly, appropriate provisions are made in the consolidated statement of operations for deferred taxes in recognition of these timing differences.

SFAS No. 96, "Accounting for Income Taxes," as amended, will apply to financial statements for years beginning after December 15, 1991, although earlier adoption is permitted. While the FASB retained the existing requirement to record deferred taxes for transactions that are reported in different years for financial reporting and tax purposes, it revised the computation of deferred taxes so as to adjust the amount of deferred taxes on the balance sheet whenever tax rates or other provisions of the income tax law are changed. This is known as the "liability" method of

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS . . . (continued)
December 31, 1989
1st American Bancorp, Inc. and Subsidiary

providing deferred income taxes. The effect of implementing SFAS No. 96 will depend on the nature of the components of deferred taxes, the tax rates in effect at the date of adoption and the method of implementation. The Company is currently evaluating both the effects of implementation and the method of adoption.

Earnings (Loss) Per Share

Earnings (loss) per share are based upon weighted average shares outstanding.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS . . . (continued)
 December 31, 1989
 1st American Bancorp, Inc. and Subsidiary

2. Investment Securities

The book value and estimated market value of investment securities are as follows (in thousands):

	Years ended December 31,			
	1988		1989	
	Book Value	Market Value	Book Value	Market Value
U.S. Government and agency obligations	\$16,891	\$16,750	\$24,073	\$24,243
Other bonds and obligations	498	456	498	453
Marketable equity securities, net	3,933	3,351	--	--
Marketable equity securities held for sale	6,173	6,173	5,326	5,326
Total investment securities	\$27,495	\$26,730	\$29,897	\$30,022

Marketable equity securities are carried at the lower of their aggregate cost or market value. A corresponding valuation allowance representing the net unrealized depreciation is reported as a reduction of stockholders' equity when aggregate cost exceeds aggregate market value and the Bank intends to hold the securities for the foreseeable future. Gross unrealized gains and losses on marketable equity securities were as follows (in thousands):

	December 31,	
	1988	1989
Unrealized gains	\$ 148	\$--
Unrealized losses	(730)	--
Net unrealized loss	\$(582)	\$--

A schedule of the maturity distribution of investment bonds and obligations follows (dollars in thousands):

	December 31,			
	1988		1989	
	Book Value	% of Total	Book Value	% of Total
Within 1 year	\$9,946	57.2%	\$13,338	54.3%
Over 1 year to 3 years	6,945	39.9	10,735	43.7
Over 5 years to 10 years	--	--	498	2.0
Over 10 years	498	2.9	--	--
Total	\$17,389	100.0%	\$24,571	100.0%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS . . . (continued)

December 31, 1989

1st American Bancorp, Inc. and Subsidiary

3. Mortgage-Backed Securities

These investments consist primarily of pass-through certificates guaranteed by the Government National Mortgage Association and the Federal Home Loan Mortgage Corporation. At December 31, 1988 and 1989, the approximate market value of these investments was \$5,777,000 and \$5,318,000, respectively.

4. Loans, Net

A summary of the balances of loans follows (in thousands):

	December 31,	
	1988	1989
Principal balances:		
Real estate mortgage loans-residential	\$158,321	\$168,664
Real estate mortgage loans-commercial	160,348	124,586
Real estate construction loans	163,961	63,139
Commercial loans	49,107	18,422
Consumer loans	85,416	70,548
	617,153	445,359
Less:		
Due to borrowers on loans in process	(26,859)	(11,981)
Unearned income	(2,279)	(1,984)
Reserve for possible loan losses	(16,882)	(13,454)
Net loans	\$571,133	\$417,940

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS . . . (continued)
 December 31, 1989
 1st American Bancorp, Inc. and Subsidiary

An analysis of the reserve for possible loan losses and the reserve for other real estate owned follows (in thousands):

	Years ended December 31,						
	1987	1988			1989		
	Loans	Loans	Real Estate Owned	Total	Loans	Real Estate Owned	Total
Balance at beginning of period	\$1,641	\$ 2,804	\$ --	\$ 2,804	\$16,882	\$10,000	\$ 26,882
Provision charged to operations	1,600	27,350	10,000	37,350	75,688	32,687	108,375
Charge-offs	(523)	(13,324)	--	(13,324)	(79,252)	(23,722)	(102,974)
Recoveries	86	52	--	52	136	103	239
Balance at end of period	\$2,804	\$16,882	\$10,000	\$26,882	\$13,454	\$19,068	\$ 32,522

In the ordinary course of business, the Bank makes loans to directors and their associates. At December 31, 1988 and 1989, such loans (to the extent that they exceeded \$60,000 for any individual director at any time during the year) amounted to, in the aggregate, \$3,492,000 and \$ 0, respectively. An analysis of these loans for 1989 is as follows (in thousands):

Balance, December 31, 1988	\$ 3,492
Loans sold	(108)
Reductions due to director resignations	(508)
Charge-offs	(2,876)
Balance, December 31, 1989	\$ --

The Bank has experienced significant operating losses and increases in non-performing assets related to the deterioration of the Massachusetts commercial and residential real estate markets. The carrying amount of the commercial real estate and construction loan portfolio and other real estate owned is based on projected completion costs, sales prices and sell-out periods for the underlying real estate projects. Management believes that because of the present adverse market conditions, there are inherent uncertainties in the assumptions with respect to the projected sales prices and sell-out periods. Because of these inherent uncertainties, the amount ultimately realized on these commercial real estate and construction loans and other real estate owned may differ significantly from the amounts reflected in these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS . . . (continued)
 December 31, 1989
 1st American Bancorp, Inc. and Subsidiary

5. Banking Premises and Equipment

A summary of the cost and accumulated depreciation and amortization of banking premises and equipment and their estimated useful lives follows (dollars in thousands):

	<u>December 31,</u>		Useful Lives
	1988	1989	
Banking premises:			
Land	\$ 433	\$ 433	
Buildings	1,634	1,640	3-50 years
Leasehold improvements	2,207	2,229	7-40 years
Equipment	3,967	4,060	3-20 years
	8,241	8,362	
Less accumulated depreciation and amortization	2,973	3,628	
Total	\$5,268	\$4,734	

Total depreciation and amortization expenses for the years ended December 31, 1987, 1988 and 1989 amounted to \$652,000, \$780,000 and \$773,000, respectively.

6. Retail Repurchase Agreements

Repurchase agreements, sold at current market rates, mature principally on a daily basis and are collateralized by U.S. Government and agency securities having a carrying value at December 31, 1988 and 1989 of \$5,999,000 and \$3,810,000, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS . . . (continued)
 December 31, 1989
 1st American Bancorp, Inc. and Subsidiary

7. Other Borrowed Funds

Other borrowed funds are as follows (in thousands):

	December 31,	
	1988	1989
Secured advances from the Federal Home Loan Bank:		
Variable rate due on demand (9.50%)	\$ --	\$ 987
7.91% due January 5, 1989	10,000	--
8.90% due January 5, 1990	--	10,000
8.67% due November 26, 1990	7,500	7,500
7.65% due March 27, 1991	4,000	4,000
10.41% due March 15, 1992*	7,500	7,500
8.95% due April 25, 1997	3,500	3,500
	32,500	33,487
Employee stock ownership plan obligation:		
Interest is payable at 83% of the prime rate (10.5% as of December 31, 1989); seven-year term with annual principal payments of \$290 commencing on March 31, 1987 (Note 15)	1,446	1,157
Total	\$33,946	\$34,644

*One year U.S. Treasury constant maturity rate plus 1/2%.

Advances from the Federal Home Loan Bank are secured by the Bank's stock in the Federal Home Loan Bank of Boston and mortgage loans on residential property with unpaid principal amounts equal to 200% of the advances. As a result of the Bank's impaired financial condition, the Bank is currently on a "delivery status", which requires collateral to be maintained at the FHLBB sufficient to cover outstanding advances and any potential line of credit. In addition, the Bank has been notified by the FHLBB that all future borrowings will be limited to six month maturities. At December 31, 1989, the Company had available for its use lines of credit totalling \$2,000,000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS . . . (continued)
 December 31, 1989
 1st American Bancorp, Inc. and Subsidiary

8. Tax Expense (Benefit)

Tax expense (benefit) is comprised of the following (in thousands):

	Years ended December 31,		
	1987	1988	1989
Currently payable:			
Federal	\$6,023	\$ --	\$(12,000)
State	1,889	--	--
	7,912	--	(12,000)
Deferred:			
Federal	413	--	--
State	129	--	--
	542	--	--
Total	\$8,454	\$ --	\$(12,000)

A reconciliation between the average applicable statutory Federal income tax rate and the reported effective income tax rate is as follows:

	Years ended December 31,		
	1987	1988	1989
Average Federal statutory rate	40.0%	(34.0%)	(34.0%)
State taxes, net of Federal benefit	5.0	--	--
Percentage bad debt deduction	(10.0)	--	--
Provision for losses on loans and real estate owned in excess of tax bad debt deduction	--	34.0	23.8
Dividends received deduction	--	--	--
Other	--	--	--
Effective tax rate	35.0%	--%	(10.2%)

9. Retained Earnings and Reserves

The reserve for possible loan losses (Note 4) represents a portion of the total reserve held for absorbing loan losses under Federal income tax regulations. The remainder of the reserve for possible loan losses for tax purposes is included in retained earnings.

The Bank has qualified under certain provisions of the Internal Revenue Code, which permit the deduction from taxable income of an allowance for loan losses based upon a percentage of taxable income before such deduction. The maximum allowable deduction was reduced from 32% to 8% of taxable income by the Tax Reform Act of 1986, provided that certain minimum levels of qualifying assets are maintained. At October 31, 1989, the Bank's most recent Federal income tax reporting period, the total reserve for possible loan losses for Federal income tax purposes amounted to approximately \$13,500,000. If this amount, or any portion thereof, is used for purposes other than to absorb the losses for which it was established, the amount so used must be included in gross income for Federal income tax purposes in the year in which it was used. Management of the Bank does not anticipate, under current conditions, that retained earnings will be used or qualifying asset levels will be reduced in such a way as to require the payment of taxes on taxable income which would result from the recapture of these deductions.

10. Pension and Other Benefit Plans

The Company provides pension benefits for eligible employees electing participation through the Savings Banks Employees Retirement Association's (SBERA's) Pension Plan. Contributions are intended to provide not only for the benefits attributed for service to date, but also for benefits expected to be earned in the future. Net pension expense for the years ended December 31, included the following components:

	1988	1989
Service costs-benefits earned during the period	\$163,783	\$227,293
Interest cost on projected benefit obligation	360,172	432,666
Actual return on assets	(343,776)	(594,790)
Net amortization of transition asset	(27,441)	(27,441)
Amortization of net loss	38,071	275,267
Net periodic pension cost	190,809	312,995
Supplemental pension and other costs	78,459	21,201
Total pension expense	\$269,268	\$334,196

Assumptions used in the accounting were:

Discount rates	8.25%	7.50%
Rates of increase in compensation levels	6.00%	6.00%
Expected long-term rate of return on assets	8.25%	7.75%

The following sets forth the plan's funded status as of October 31:

Projected benefit obligation	\$4,889,682	\$3,797,643
Plan assets at fair value, primarily listed securities and temporary investments	4,784,431	3,639,631
Plan assets less than projected benefit obligation	(105,251)	(158,012)
Unrecognized transition asset	(658,584)	(631,143)
Unrecognized net loss	951,775	734,197
Prepaid (accrued) pension expense	\$ 187,940	\$ (54,958)

The Bank also provides a supplemental retirement income plan, funded through a life insurance program, covering certain officers. The cost of providing benefits under this plan for the years ended 1987, 1988, and 1989 amounted to \$140,000, \$45,000, and \$122,000, respectively. At December 31, 1989, the Bank had in effect an incentive compensation plan covering all officers. Amounts paid to officers annually are determined based upon the Bank's performance. Amounts charged to operations under this plan for the years ended December 31, 1987, 1988, and 1989 amounted to \$398,000, \$0, and \$0, respectively.

11. Commitments and Contingencies

In the normal course of business, there are outstanding commitments to extend credit which are not reflected in the consolidated balance sheets. Firm commitments to grant loans at December 31, 1987, 1988 and 1989 amounted to approximately \$37,310,000, \$14,500,000 and \$3,970,000 respectively. The Bank and certain of its subsidiaries have been named as defendants in a complaint filed on December 4, 1987 and subsequently amended in February, 1988. The case involves a joint venture comprised of First American Development Corporation IV ("FADC IV"), a subsidiary of the Bank, and H&P Limited Partnership II ("H&PII"), also a defendant in this action, which sold a building to the plaintiffs in 1986. The acquisition and rehabilitation of this property by the plaintiffs was financed by a \$2,400,000 mortgage loan from the Bank. A dispute arose between the joint venture and the plaintiffs in early 1987 concerning the terms of the sale of the building and the construction performed by the general contractor. The plaintiffs included in the complaint claims against the Bank essentially upon the theory that (a) the Bank was involved in and directly controlled the actions of FADC IV and (b) the Bank misled them and acted unfairly and deceptively in connection with the disbursement of loan funds. The complaint seeks unspecified damages, including treble damages and attorneys' fees under applicable law. The Bank, FADC IV and other Bank subsidiaries named as defendants have denied liability and are defending the complaint vigorously, asserting all available defenses and remedies, including claims against the plaintiffs.

The Company and various of its affiliates have been named as defendants in the litigation discussed above and other lawsuits arising in connection with past operations and business. Certain of these lawsuits assert theories of liability which involve allegations of liability including, but not limited to, breach of fiduciary duties and taking action not in good faith. Although management intends to defend such lawsuits vigorously, it should be noted that such claims often involve finders of fact, such as juries, making certain determinations of a subjective nature, often involving inferences as to a party's intent and disputed statements not subject to written or third party corroboration. Such lawsuits, if decided adversely, may give rise to an assessment of damages greatly in excess of actual damages, such as punitive or exemplary damages.

Management has reviewed and discussed with legal counsel the Company's pending litigation including (but not limited to) the matters specifically discussed above. Management is unaware, after such review and discussion, of any facts which would require the recognition as of December 31, 1989, of actual potential losses. However, management believes that in light of the impaired financial condition of the Company, as discussed in Note 17, and in view of there not being a sufficient factual basis for management to conclude that such pending litigation, taken as a whole, will not have a material adverse effect on the Company, management is unable to express any opinion that such pending litigation will not have a material adverse effect on the consolidated financial position of the Company.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS . . . (continued)

December 31, 1989

1st American Bancorp, Inc. and Subsidiary

Management can give no assurance that by reason of future developments the Company will not hereafter incur material costs and liabilities in connection with its pending litigation and/or litigation which may hereafter arise.

The Bank has entered into three limited partnerships for the development of rental housing generating both rehabilitation investment and low income housing tax credits and tax losses. Future contributions to these partnerships are expected to be as follows (in thousands):

1990	\$1,064
1991	1,002
1992	834
Total	\$2,900

12. Lease Commitments

Pursuant to the terms of all non-cancelable lease agreements in effect at December 31, 1989 pertaining to banking premises, future minimum rent commitments are as follows (in thousands):

Years Ended December 31,	
1990	\$ 579
1991	554
1992	430
1993	361
1994	267
Thereafter	794
Total	\$2,985

Certain leases contain options to extend for periods 5 to 20 years. The cost of such rentals is not included above. Rent expense for the years ended December 31, 1987, 1988 and 1989 amounted to \$338,000, \$498,000 and \$727,000, respectively.

13. Conversion to Stock Form of Ownership

Upon conversion from a Massachusetts-chartered savings bank in mutual form to a Massachusetts-chartered savings bank in stock form, eligible account holders who continued to maintain their deposit accounts in the Bank were granted priority in the event of the future liquidation of the Bank through a proportional interest in a special "Liquidation Account" established in an amount equal to the consolidated net worth of the Bank at July 31, 1985. The Liquidation Account amounted to \$6,957,000 at December 31, 1989. Each eligible account holder's share in the Liquidation Account shall be reduced by any reductions in the balance of such eligible account holder's account with the Bank at the close of business on July 31, 1985 or at the close of any subsequent year, as determined at each fiscal year end following the conversion. No dividends may be paid by the Bank to Bancorp if such dividend would reduce the retained earnings of the Bank below the amount required for the Liquidation Account. At December 31, 1989, the Bank's retained deficit was \$95,110,000 and, accordingly, the Bank is prohibited from paying any such dividends.

14. Holding Company Reorganization

1st American Bancorp, Inc. made the following commitments to the Federal Reserve Bank of Boston as part of its application for approval of the holding company formation: (i) to maintain a minimum consolidated tangible primary capital ratio of at least 7.0%; (ii) to cause the Bank to maintain a minimum tangible primary capital ratio of at least 5.5%; and (iii) to comply, within a reasonable period of time, with the final results of any rule making proceeding of the Federal Reserve Board regarding real estate investments by bank holding companies. (See Note 17 for further discussion of capital levels.)

15. Employee Stock Ownership Plan

Under the Company's Employee Stock Ownership Plan, the Bank makes annual contributions to a trust for the benefit of eligible employees in the form of either cash or common stock of the Company. The amount of the annual contribution is discretionary except that it must be sufficient to enable the trust to meet its current obligations. The Bank's contribution for the year ended December 31, 1988 and 1989 was \$304,000 and \$346,000, respectively.

In July 1986, the trust purchased 200,000 common shares from the Bank as part of the latter's conversion from mutual to stock form of ownership at the public offering price of \$10.25 per share. The purchase was paid for by a contribution of \$25,000 from the Bank, with the balance of \$2,025,000 funded by a loan from an unrelated bank. The Bank is obligated to contribute sufficient cash to the trust to repay the loan, which is due in seven equal annual installments commencing March 31, 1987. The loan is secured by the shares purchased with the loan proceeds. A \$1,000,000 irrevocable standby letter of credit issued by the Bank secures the obligation to repay the loan.

The outstanding balance of the loan has been recorded as a liability in the accompanying balance sheets with a corresponding amount of deferred compensation being recorded as a reduction of stockholders' equity. Subsequent to year end, the balance on the loan was repaid.

16. Stock Option Plan

The Company has a stock option plan for key employees, covering 1,150,000 shares of common stock. Under the terms of the plan, the purchase price of shares subject to each option granted will be at least equal to their fair market value at the date of grant. Options granted are exercisable for either five or ten years from the date of grant. The plan also permits stock appreciation rights in any option granted. Such rights, if included in any option, entitle the option holder to surrender an option or portion thereof for cancellation and to receive cash or shares of common stock equal to the excess, if any, of the then fair market value of the common stock subject to such option or portion thereof over the option exercise price.

At December 31, 1989, options for 635,000 shares were outstanding and there were 515,000 shares available for future grant under the plan. No stock appreciation rights have been granted to date.

	1987	1988	1989	Option price per share
Unexercised options at beginning of year	350,000	690,000	642,000	\$9.25-\$13.00
Granted	355,000	--	216,000	\$5.75-\$13.00
Cancelled	(15,000)	(48,000)	(223,000)	\$5.75-\$10.25
Unexercised options at end of year	690,000	642,000	635,000	\$5.75-\$13.00

17. Restructuring Plan and Regulatory Matters

The Company has retained an investment banking advisor to assist the Company with a capital restructuring plan which may include expense reductions, downsizing of the Company through asset sales, seeking a capital infusion or possible sale of the Company. Due to the significant operating losses resulting from the current level of non-performing assets, the Company will be unable to meet required minimum levels of regulatory capital during 1990 without obtaining additional capital.

The Bank has been advised by the FDIC that it will be asked to consent to the entry of a formal regulatory order. In the draft form recently presented to the Bank, the order would require the Bank, among other things:

- (i) to submit, obtain approval of, and implement a capital plan addressing the measures to be taken by the Bank to produce a regulatory capital ratio of at least 8.0% over a period of time to be agreed upon;

- (ii) to submit and implement a plan of action to lessen the Bank's risk position in each adversely classified asset aggregating \$1,000,000 or more;
- (iii) to adopt and strictly follow revised policies designed to bring the Bank's liquidity to an acceptable level;
- (iv) to formulate and implement a plan to substantially reduce its industry concentration in residential building loans;
- (v) to develop and submit for review and comment a profit plan consisting of goals and strategies for improving the earnings of the Bank;
- (vi) to have and retain qualified management;
- (vii) to observe certain restrictions in making loans to any business which has an adversely classified loan with the Bank;
- (viii) to observe certain restrictions in declaring or paying any dividends; and
- (ix) to furnish quarterly progress reports to the FDIC.

Management is in the process of reviewing the terms and conditions of the proposed regulatory order, in order to respond to the FDIC's request. Failure to meet federal regulatory capital requirements, or comply with the agreed-upon terms of the regulatory order, could subject the Bank to actions by federal regulatory authorities, including restrictions on the Bank's operations or other forms of regulatory intervention.

Due to the Bank's impaired financial condition, the Bank has been advised that without a waiver from the FDIC, it cannot seek or renew brokered or third party deposits during 1990. If a waiver is denied and brokered deposits are not permitted to be renewed, the Bank is likely to experience liquidity problems in 1990. The Bank is in the process of applying for the waiver.

Management has prepared the 1989 consolidated financial statements in conformity with generally accepted accounting principles on the basis that the Company will continue in its present form. Accordingly, the 1989 consolidated financial statements included herein do not include any adjustment, which could be significant, relating to the valuation of assets and liabilities on a liquidation basis, which might be necessary should the Company be unable to continue in its present form.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS . . . (continued)

December 31, 1989

1st American Bancorp, Inc. and Subsidiary

18. Parent Company Statements

The investment of 1st American Bancorp, Inc. is presented on the equity method of accounting. Information relative to the balance sheets at December 31, 1988 and 1989 and statements of operations and cash flows for the period from December 21, 1987 (the date of the holding company formation) to December 31, 1987 and for the years ended December 31, 1988 and 1989 of 1st American Bancorp, Inc. (parent company only) is as follows (in thousands):

Balance Sheet	1987	1988	1989
Assets			
Cash and due from banks		\$ 426	\$ 1,176
Investment securities		--	901
Investment in 1st American Bank for Savings		125,219	14,449
Other assets		318	1,360
Total assets		\$125,963	\$ 17,886
Liabilities and Stockholders' Equity:			
Other liabilities		\$ --	\$ --
Stockholders' equity		125,963	17,886
Total liabilities and stockholders' equity		\$125,963	\$ 17,886
Statement of Operations			
Income:			
Dividend income	\$15,000	\$ 6,500	\$ 6,700
Interest on investment securities	--	--	21
Total income	15,000	6,500	6,721
Expenses			
Operating expenses	--	292	963
Total expenses	--	292	963
Income before income taxes and equity in undistributed net income of 1st American Bank for Savings			
Applicable income taxes	15,000	6,208	5,758
	--	--	--
		6,208	5,758
Equity in undistributed net income (loss) of 1st American Bank for Savings	740	(29,322)	(111,641)
Net income (loss)	\$15,740	\$(23,114)	\$(105,883)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS . . . (continued)
 December 31, 1989
 1st American Bancorp, Inc. and Subsidiary

Statement of Cash Flows	<u>1987</u>	<u>1988</u>	<u>1989</u>
Operating activities:			
Net income (loss)	\$15,740	\$(23,114)	\$(105,883)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Amortization of organization costs	--	79	81
Equity in undistributed net income (loss) of 1st American Bank	(740)	29,322	111,641
Increase in other assets	--	--	(1,123)
Net cash provided by operating activities	15,000	6,287	4,716
Investing activities:			
Organization costs	(337)	(60)	--
Proceeds from maturity of investment securities		--	890
Purchases of investment securities		--	(1,791)
Net cash used by investing activities	(337)	(60)	(901)
Financing activities:			
Common stock repurchased	--	(14,275)	--
Dividends paid on common stock	--	(6,189)	(3,065)
Net cash used by financing activities	--	(20,464)	(3,065)
Increase (decrease) in cash and cash equivalents	14,663	(14,237)	750
Cash and cash equivalents at beginning of year	--	14,663	426
Cash and cash equivalents at end of year	\$14,663	\$ 426	\$ 1,176

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS . . . (continued)

December 31, 1989

1st American Bancorp, Inc. and Subsidiary

19. Quarterly Results of Operations (Unaudited)

(in thousands, except per share data):

	Quarters Ended				Quarters Ended			
	3-31-88	6-30-88	9-30-88	12-31-88	3-31-89	6-30-89	9-30-89	12-31-89
Interest income	\$18,053	\$17,075	\$16,394	\$15,852	\$13,561	\$ 13,103	\$11,747	\$11,186
Interest expense	9,522	9,846	10,016	10,422	10,400	11,107	10,992	10,668
Net interest income	8,531	7,229	6,378	5,430	3,161	1,996	755	518
Provision for loan losses	500	500	16,350	10,000	750	58,375	750	15,813
Other income	363	447	586	381	4,411	381	536	(1,196)
Other operating expenses	3,298	3,316	3,587	3,952	3,555	4,209	3,821	5,746
Provision for real estate losses	--	--	--	10,000	--	14,000	--	18,687
Gains (losses) on sales of loans and securities, net	436	59	85	(1,536)	351	(11)	72	(3,151)
Income before income taxes	5,532	3,919	(12,888)	(19,677)	3,618	(74,218)	(3,208)	(44,075)
Income taxes	2,215	1,669	(3,231)	(653)	98	(10,098)	--	(2,000)
Net income (loss)	\$3,317	\$2,250	\$(9,657)	\$(19,024)	\$ 3,520	\$(64,120)	\$(3,208)	\$(42,075)
Earnings per common share	\$0.31	\$0.22	\$(0.93)	\$(1.86)	\$0.34	\$(6.28)	\$(0.31)	\$(4.12)
Weighted average number of outstanding shares:	10,723	10,350	10,341	10,216	10,214	10,214	10,214	10,214

Item 9: Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not applicable.

Item 10: Directors and Executive Officers of the Registrant

The response to this Item is incorporated herein by reference to the discussion under the captions "Election of Directors" and "The Board of Directors and its Committees" at pages 3 through 7 of the definitive Proxy Statement (the "Proxy Statement") of the Corporation to be filed pursuant to Regulation 14A. Information regarding the executive officers of the Corporation is included under a separate caption in Part I of this report.

Item 11: Executive Compensation

The response to this Item is incorporated herein by reference to the discussion under the caption "Executive Compensation" at pages 7 through 15 of the Proxy Statement.

Item 12: Security Ownership of Certain Beneficial Owners and Management

The response to this Item is incorporated herein by reference to the discussion under the captions "Election of Directors" at pages 3 through 5 and "Principal Stockholders" at page 15 of the Proxy Statement.

Management of the Corporation knows of no existing arrangements, including any pledge by any person of securities of the Corporation, the operation of which may at a subsequent date result in a change in control of the Corporation.

Item 13: Certain Relationships and Related Transactions

Information required by this Item is incorporated herein by reference to the discussion under the caption "Indebtedness of Management" at page 15 of the Proxy Statement.

PART IV

Item 14: Exhibits, Financial Statement Schedules and Reports on Form 8-K

- (a) (1) Financial Statements: All Financial Statements are incorporated herein by reference in Item 8 above.
- (a) (2) Schedules to the consolidated financial statements required by Article 9 of Regulation S-X are not required under the related instructions or are inapplicable, and therefore have been omitted.
- (a) (3) The following exhibits are either filed or attached as part of this Report or are incorporated herein by reference.

Exhibit Numbers

- 3.1 Certificate of Incorporation of 1st American Bancorp, Inc.(1)
- 3.2 By-laws of 1st American Bancorp, Inc.(1)
- 4 Form of Stock Certificate of 1st American Bancorp, Inc.(2)
- 10.1 1st American Bancorp, Inc. Stock Option Plan (1)
- 10.2 Employment Agreements with Robert G. Lee, Arthur C. Murray, Loretta J. Philbrick, Norman B. Williamson and Jeffrey M. Liber (3)
- 10.3 Employment Agreements with Michael C. Hanson and Frank P. Celino (3)
- 10.4 Executive Supplemental Retirement Agreements with Robert G. Lee, Arthur C. Murray, William J. Collins, Loretta J. Philbrick, Norman B. Williamson and Jeffrey M. Liber (1)
- 10.5 Special Termination Agreements with Robert G. Lee, Arthur C. Murray, Loretta J. Philbrick, Norman B. Williamson, and Jeffrey M. Liber (1)
- 10.5(a) Special Termination Agreements with Michael C. Hanson and Frank P. Celino (3)
- 10.6 Deferred Compensation Plan for Directors of 1st American Bank for Savings (dated December 31, 1987) (3)
- 10.7 Deferred Compensation Plan for Directors of 1st American Bancorp, Inc. (dated January 28, 1988) (3)
- 10.8 Future Service Employment Agreement with Arthur F. Shaw, Jr. dated October 19, 1979 (3)
- 10.9 Employment Agreement with Barry L. Queen (4)
- 10.10 Employment Agreement with David A. Tapley (5)
- 10.11 Executive Supplemental Retirement Agreement with David A. Tapley (6)
- 10.12 Special Termination Agreement with David A. Tapley (6)
- 10.13 Employment Agreement with James G. B. Allardice
- 10.14 Employment Agreement with William C. Petraitis
- 22 List of Subsidiaries

-
- (1) Incorporated herein by reference to the similarly numbered Exhibit to 1st American's Registration Statement on Form S-4 filed on November 20, 1986.
 - (2) Incorporated herein by reference to the similarly numbered Exhibit to Post-Effective Amendment No. 1 to 1st American's Registration Statement on Form S-4 filed on December 10, 1986.
 - (3) Incorporated herein by reference to the similarly numbered Exhibit to the 1987 Form 10-K of 1st American filed on March 30, 1988.
 - (4) Incorporated herein by reference to Exhibit 19 to the Form 10-Q of 1st American for the quarter ended June 30, 1988 filed on August 12, 1988.
 - (5) Incorporated herein by reference to the similarly numbered Exhibit to the 1988 Form 10-K of 1st American filed on March 31, 1989.
 - (6) Incorporated herein by reference to the similarly numbered Exhibit to the Form 10-Q of 1st American for the quarter ended June 30, 1989 filed on August 14, 1989.
-

(b) Reports on Form 8-K:

No reports on Form 8-K were filed by the Corporation during the fiscal quarter ending December 31, 1989.

(c) Exhibits

Exhibits have been filed separately with the Securities and Exchange Commission in conjunction with this Form 10-K.

(d) Financial Statement Schedules - none.

SHAREHOLDER INFORMATION 1st American Bancorp, Inc. and Subsidiary

Annual Meeting

The Annual Meeting of Shareholders will be held at 10:00 a.m. on Wednesday, May 16, 1990, in the first floor auditorium of the Bank of Boston, 100 Federal Street, Boston, Massachusetts 02110.

Form 10-K and Other Reports

Additional copies of the Annual Report/Form 10-K and copies of quarterly reports may be obtained without charge by contacting: 1st American Bancorp, Inc., Shareholder Relations, 572 Columbia Road, Boston, Massachusetts, 02125, (617) 436-1500.

Transfer Agent and Registrar

Bank of Boston
Shareholder Services Division
P.O. Box 644
Boston, MA 02105-0644

Shareholder Information

Cathleen M. Maloney
Vice President
1st American Bank for Savings
572 Columbia Road
Boston, MA 02125
(617)436-1500

Independent Public Accountants

Arthur Andersen & Co.
One International Place
Fort Hill Square
Boston, MA 02110

Stock Market Data

In the summer of 1986, 1st American Bank for Savings completed its conversion to a Massachusetts-chartered savings bank in stock form by the sale of 11,500,000 shares of Common Stock at \$10.25 per share. On December 21, 1987, the Bank became a wholly-owned subsidiary of 1st American Bancorp, Inc., a bank holding company.

The Common Stock of the Bank was initially quoted on the National Association of Securities Dealers' Automated Quotation ("NASDAQ") over-the-counter market. Since December 16, 1986, the Common Stock of the Bank (and following the holding company formation, of 1st American Bancorp, Inc.) has been quoted on the NASDAQ National Market System under the symbol "FAMB". The stock is listed in *The Wall Street Journal* as "FstAmBcp" and in other newspapers as "FtAmBcp".

Quarterly Common Stock Information

Information concerning the market price for the Company's Common Stock as reported by NASDAQ, together with dividends paid for the periods indicated, appears in the following table. Market price information includes high and low daily closing prices.

		High	Low	Cash Dividends paid per share
1988	1st Quarter	12 1/8	10 1/4	.15
	2nd Quarter	12	8 5/8	.15
	3rd Quarter	9 7/8	9 1/8	.15
	4th Quarter	10 1/8	6 1/4	.15
1989	1st Quarter	8	6 1/4	.15
	2nd Quarter	6 5/8	3	.15
	3rd Quarter	4	2 7/8	---
	4th Quarter	3 1/4	1	---

Common Stock Ownership

As of March 23, 1990 the Corporation had approximately 1,953 shareholders of record and 10,214,000 outstanding shares of Common Stock. This does not reflect the number of persons or entities who hold their stock in nominee or "street" name through various brokerage firms.

1st AMERICAN BANCORP, INC. and 1st AMERICAN BANK FOR SAVINGS BOARD OF DIRECTORS

Robert J. Jones*
Owner
Robert Jones & Associates

E. Douglas Leake
Owner
Earl D. Leake Insurance Agency

Arthur E. Johnson*
Owner/Manager
Video of New England, Inc.

Harold Masterman*
Owner
Masterman Associates

Aidan G. Maguire*
President
Controlled Environmental Engineering, Inc.

Peter J. Meade
Owner/Administrator
Orleans Convalescent and
Retirement Center

David A. Tapley
Chairman of the Board, President,
and Chief Executive Officer
1st American Bancorp, Inc.
and 1st American Bank for Savings

James R. Webster*
District Manager
Boston Edison Co.

1st AMERICAN BANCORP, INC. OFFICERS

David A. Tapley
Chairman of the Board, President
and Chief Executive Officer

Jeffrey M. Liber+
Senior Vice President, Chief
Financial Officer and Treasurer

Michael C. Hanson, Esq. +
Senior Vice President and
General Counsel

Norman B. Williamson
Executive Vice President

1st AMERICAN BANK FOR SAVINGS PRINCIPAL OFFICERS

David A. Tapley
Chairman of the Board, President
and Chief Executive Officer

Norman B. Williamson
Executive Vice President

Jeffrey M. Liber+
Senior Vice President, Chief
Financial Officer and Treasurer

Michael C. Hanson, Esq. +
Senior Vice President and
General Counsel

James G. B. Allardice
Senior Vice President

William C. Petraitis
Senior Vice President

Barry L. Queen
Senior Vice President

* Appointed effective April 2, 1990, pending regulatory review.

+ Messrs. Hanson and Liber have resigned from the Bank and the Corporation effective April 3, 1990.



1063 Commonwealth Avenue, Newton, Massachusetts 02159

(617) 965-0957
JENSCO

TELECOPIER TRANSMITTAL SHEET

DATE: 8/7/90

TOTAL NUMBER OF PAGES (including this cover sheet): 13

TO: Andy Card

FIRM NAME: The White House

TELECOPIER NUMBER: 202-456-2397

FROM: Jim Scott

RE: attached

TIME OF TRANSMISSION: 10:45 a.m.

COMMENTS: _____

1063 Commonwealth Avenue, Newton, Massachusetts 02159



Jim Scott

(617) 965-0957
JENSCO

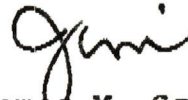
August 7, 1990

Mr. Andrew H. Card, Jr.
Assistant to the President and
Deputy to the Chief of Staff
The White House
Washington, D.C. 20500

Dear Andy,

As a follow-up to my letter of August 4th, please find attached the preliminary proposal submitted to BEI/Golembe Associates in Washington, D.C., Consultants to First American Bank for Savings, Boston, Massachusetts and the F.D.I.C. We welcome your acknowledgment and your comments.

Sincerely,



James M. Scott
Partner and Group Leader

JMS:cj

Attachment

Preliminary Proposal - Subject to Amendment

THE JENSCO GROUP
1063 Commonwealth Avenue
Newton, Massachusetts 02159

August 6, 1990

The Board of Directors
1st American Bancorp, Inc.
572 Columbia Road
Boston, Massachusetts 02125

Dear Sirs:

The Jensco Group is pleased to submit to you our proposal for the reorganization of 1st American Bancorp, Inc. We believe that our proposal provides you with an exciting opportunity to achieve a very positive ending to an unfortunate chapter in the history of a great community bank by returning the bank to local ownership and at the same time addressing, in both real and symbolic ways, the banking needs of Boston's most underserved communities. In addition, our proposal will accomplish a number of other extremely important objectives:

- First, it provides for the creation of a healthy bank to continue serving the communities that 1st American Bank for Savings and its predecessor, the Dorchester Savings Bank, served so well for so many years as a community-oriented bank.
- Second, it calls for the new bank's management to be supplied both from the Jensco Group and from key members of existing top management, if they so choose. The Jensco Group, which is comprised of prominent and well-qualified minority businesspeople and professionals from the Boston area, will add enormous practical assistance in serving the bank's communities and will also make an important symbolic statement to the bank's customers that the bank's tradition of community orientation will continue. If current top management of the bank choose to participate, they will provide considerable expertise as well as a continuity of knowledge about the bank that would be extremely helpful.
- Third, it calls for the formation of a collecting bank, to be capitalized by the FDIC, and recognizes the interests of the stockholders of the existing holding company by issuing to them the common stock of the collecting bank.
- Fourth, it satisfies the interests of the FDIC, not only by meeting their requirements for minimum cost to the FDIC but also by providing for the new bank to continue to work out the troubled loans transferred to the collecting bank by way of a management contract between the two banks.

SUMMARY OF PROPOSAL

The balance of this letter describes the basic structure of the proposed reorganization (the "Reorganization") of 1st American Bancorp, Inc. ("FAB") and 1st American Bank for Savings (the "Bank"). In summary, the Reorganization will consist of the following components:

1. The nonperforming, past due, and other troubled or low-quality assets will be removed from the books of the Bank and transferred to a newly-chartered collecting bank (the "Collecting Bank");
2. The remaining assets of the Bank, subject to its deposit liabilities, will be transferred to a second newly-chartered bank ("American Bank");
3. New capital will be injected into American Bank by private investors; and
4. Certain personnel of American Bank will continue to work out the troubled assets transferred to the Collecting Bank, pursuant to a management services contract between the banks.

Our proposal is designed to accomplish the following objectives:

1. Provide American Bank with the capital it needs to operate as a viable, profitable community bank;
2. Reduce the potential costs to the FDIC of resolving the financial problems of the Bank;
3. Afford existing shareholders of FAB with a limited opportunity to participate in any profits from settlement of the Bank's troubled assets and any growth in value of the shares of American Bank; and
4. Preserve the Bank's present headquarters in the Dorchester area of Boston and continue to serve the important banking needs of the population it currently serves.

DESCRIPTION OF THE REORGANIZATION

The Reorganization will include the following significant steps, in addition to the obtaining of necessary shareholder and regulatory approvals.

Preliminary Proposal - Subject to Amendment

1. Formation and Funding of the Collecting Bank.

- (a) The Bank will pay a dividend to FAB in such amount that the FDIC shall require to meet minimum regulatory requirements for initial capitalization of the Collecting Bank (This step may be unnecessary if FAB has sufficient assets at the parent company level to meet such minimum regulatory requirements);
- (b) FAB will organize the Collecting Bank, and purchase 100% of its common stock for the amount described in (a) above;
- (c) The FDIC will purchase approximately \$20,000,000 face value of Collecting Bank Subordinated Notes and shares of Collecting Bank Preferred Stock for cash or cash equivalents totaling approximately \$85,000,000. The precise amount of FDIC funding will depend on the amount of nonperforming loans and other assets transferred to the Collecting Bank, as described below.

2. Formation and Funding of American Bank.

The Investors will cause American Bank to be chartered and will purchase 100% of the American Bank Common Stock for cash or cash equivalents. The precise amount of the investment cannot be determined at this time, since it will depend on the amount of assets and liabilities transferred from the Bank (pursuant to paragraph 4). However, the amount invested will guarantee a tangible capital to assets ratio of at least 4.5%. This ratio will be reached within a period of not more than 12 months after the Closing, during which period American Bank expects to (a) pay off certain brokered deposits and advances and (b) sell certain of the Bank's branches that are located in suburban communities.

3. Sale of Nonperforming and Troubled Assets to the Collecting Bank.

The Bank will be placed in receivership pursuant to the Federal Deposit Insurance Act, as amended. The FDIC as receiver will sell all of the Bank's nonperforming assets and other troubled assets (including claims and rights of action against borrowers and other parties not affiliated with FAB or the Bank arising in connection with (a) nonperforming, "90 days past due", nonaccruing, restructured, and charged-off loans; (b) "other real estate" and property acquired in connection with the settlement of troubled loans; and (c) securities of and loans to subsidiaries and partnerships formed to own or manage troubled loans or other assets of the Bank) to the Collecting Bank at

Preliminary Proposal - Subject to Amendment

Closing for cash or cash equivalents and Collecting Bank Senior Notes. The precise amount of non-performing loans and troubled assets that would be transferred at Closing, and therefore the amount of cash and Senior Notes that would have to be contributed by the FDIC, would be subject to due diligence review by the Jenco Group which would commence prior to the Closing. It is contemplated that the major portion of the Bank's nonperforming loans and troubled assets could be identified prior to the Closing. To the extent that completion of this process is not feasible prior to the Closing, all nonperforming and troubled assets identified up to that point would be transferred to the Collecting Bank at the Closing, and American Bank will undertake to complete its review of the assets transferred to it no later than 60 days following the Closing, with the additional assets so identified as nonperforming or troubled to be transferred to the Collecting Bank for appropriate consideration. In addition, for a 6 month period following the Closing, American Bank would retain the right to put back to the Collecting Bank any nonperforming or other troubled assets transferred to American Bank for cash or cash equivalents.

4. Sale of Certain Assets to American Bank.

The FDIC as receiver will sell all or substantially all of the remaining assets of the Bank to American Bank at market value in return for the assumption by American Bank of disclosed liabilities of the Bank. The FDIC will indemnify American Bank against contingent and undisclosed liabilities of the Bank. (The sale of certain branches by the Bank to American Bank may precede this step.)

5. Distribution of American Bank Warrants.

American Bank will distribute to FAB a warrant to purchase American Bank Common Stock at a price equal to the book value per share of American Bank Common Stock at the Closing Date, within 5 years of that date, for a total of 2% of the total outstanding American Bank Common Stock after exercise of such warrants, based upon the number of shares of American Bank Common Stock on the Closing Date, and adjusted for stock splits and dividends.

6. Intangible Adjustments.

The FDIC will provide sufficient funds to the Collecting Bank, in return for Collecting Bank Subordinated Notes and Preferred Stock, to enable the purchase of the Bank's troubled assets by the Collecting Bank at a price which causes the fair value of the remaining net assets of the Bank after that purchase to equal or exceed a negative amount such that the

Preliminary Proposal - Subject to Amendment

amount paid by American Bank in cash or cash equivalents to the FDIC, when combined with deposits assumed and offset against the fair market value of the assets transferred and FDIC notes, would effectively represent a .7% premium on the deposits transferred.

7. The Management Services Contract.

American Bank will enter into a Management Services Contract with the Collecting Bank pursuant to which certain staff and facilities of American Bank will manage the operations of the Collecting Bank, including the management and collection of the nonperforming and troubled assets acquired from the Bank. This contract will reimburse American Bank for its costs in performing such services and will provide certain incentive fees to American Bank to maximize the amount realized on the assets held by the Collecting Bank.

8. Indemnification; Assignment of Certain Claims.

- (a) The FDIC will indemnify American Bank and the Investors for expenses arising out of existing litigation, future litigation relating to events that transpired prior to the consummation of the Reorganization, litigation arising from the Reorganization, other undisclosed liabilities, and certain other events. The Collecting Bank will indemnify the FDIC against losses and expenses incurred in connection with the Reorganization, including any payments made pursuant to the FDIC's indemnification of other parties in connection with the Reorganization.
- (b) FAB will assign any and all claims against officers and directors to the FDIC.

ALTERNATIVE PROPOSAL

Although the Jenco Group believes the above-described proposal fairly and equitably addresses the interests of the various parties concerned with FAB, it is prepared to discuss with the FDIC a variant to its proposal under which steps 1, 3 and 5 are eliminated, leaving the Bank itself as the "collecting bank" following a transfer of its good assets and its deposits to American Bank. In addition, the Jenco Group would be willing to discuss alternatives under which American Bank would not manage the Collecting Bank, if the FDIC wishes to obtain such management services elsewhere.


Preliminary Proposal - Subject to Amendment

THE JENSCO GROUP

We have previously provided to the Bank background information regarding the members of the Jenco Group, and such material is on file with the Regional Office of the FDIC. If our proposal is accepted and we commence discussions with the FDIC regarding the final terms of the restructuring, the Jenco Group will seek the necessary equity capital from institutional investors who have already expressed an interest in this proposal. Although we plan to involve the potential investors in the process of finalizing the terms of the restructuring, any actual investment on their part will depend upon and be subject to their review and approval of the final terms of the transaction as negotiated with the FDIC.

If you have any questions regarding our proposal, please do not hesitate to contact the undersigned. We look forward to working with you on a favorable resolution to the present situation.

Very truly yours,


James M. Scott
Partner

2312m



Jim Shott

1063 Commonwealth Avenue, Newton, Massachusetts 02159

(617) 965-0957
JENSCO

August 4, 1990

Honorable Andrew H. Card, Jr.,
Assistant to the President and
Deputy to the Chief of Staff
The White House
Washington, D.C. 20500

Dear Andy:

Re: Letter of support for
JENSCO GROUP application
to take over a failing
Boston, Massachusetts bank
with FDIC assistance.

Once again I am writing to request a letter of support. This time, however, it is on behalf of my organization and I would not be so bold were it not for a number of significant points of view at interest here. And I write because many Americans, particularly of African-American decent, view President Bush as an extraordinarily competent and committed Chief Executive.

Briefly, JENSCO GROUP is seeking to acquire 1st American Bank, a state-chartered savings bank located in Boston, Massachusetts, and which has its headquarters and executive offices squarely in the middle of a distressed predominantly minority community. The JENSCO GROUP has received the approval and support letters from a number of significant sources, including community, political and banking communities. Enclosed are copies of some of the letters directed to the FDIC.

To our collective knowledge, this is the first time in the history of this country that a predominantly minority group is seeking to take over a failing mid-sized bank (with assets of over \$500 million) with the ultimate infusion of white investor capital. Of course we have the sophistication to fully appreciate how difficult this task ought to be. However, we are very much encouraged and impressed by the quality and quantity of individuals who have joined us in this effort, including the indicated assistance of a major banking organization in Boston.

How Andrew H. Card, Jr.
Page two
August 4, 1990

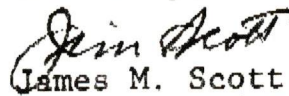
JENSCO GROUP will be forwarding our proposal(s) to the consultants to 1st American Bank (BEI/Golembe Associates in Washington, D.C.) and to the management of the bank for their consideration and favorable action. The proposals should then go to the FDIC for its determination as to the implications of cost savings; public policy advancement; community needs, etc.

JENSCO ASSOCIATES was a strong supporter of S.1949, to amend the Labor Management Relations Act to allow for the establishment of a housing trust fund, as was the present administration. So it follows that the JENSCO GROUP would and is clearly committed to doing all in its power, as the new senior management of this significant banking organization, to move the agenda of housing finance/support to the top of our list. We would not respond to outside pressure: we would have a primary internal commitment to work in this area along with our many contacts.

We will be forwarding a copy of our proposal to your office, along with other parties who we expect to be in continuing support of this activity. Please take a moment to review our proposal, which should be to your office by Wednesday, August 8, 1990 (we will attempt to FAX or FEDEX).

Finally, we ask that the Administration lend its support to this application and proposal.

Sincerely,



James M. Scott
Partner, and Group Leader

cc: The Rev. Preston N. Williams
Other JENSCO GROUP members

Enclosures
a/s

BARNEY FRANK
4TH DISTRICT, MASSACHUSETTS

COMMITTEES:
GOVERNMENT OPERATIONS
BANKING, FINANCE, AND
URBAN AFFAIRS
JUDICIARY
CHAIRMAN,
ADMINISTRATIVE LAW AND
GOVERNMENTAL RELATIONS
AGING

Congress of the United States
House of Representatives
Washington, DC

WASHINGTON OFFICE:
1030 LONGWORTH BUILDING
WASHINGTON, DC 20515
(202) 225-5931
DISTRICT OFFICES:
437 CHERRY STREET
WEST NEWTON, MASSACHUSETTS 02165
(617) 332-3920
10 PURCHASE STREET
FALL RIVER, MASSACHUSETTS 02722
(508) 674-3551
140 PARK STREET
ATTLEBORO, MASSACHUSETTS 02703
(508) 226-4723

July 18, 1990

Mr. James V. McFarland
Deputy Regional Director
Federal Deposit Insurance
Corporation
160 Gould Street
Needham, MA 02194

Dear Mr. McFarland:

I understand that you are in the process of dealing with applications for the First American Bank in Dorchester. I am writing to express my view that, as you consider these applications, a strong consideration ought to be given to people who would be supportive of local needs in the area where the bank has historically focused so much of its activity. As a Member of Congress from Massachusetts who is pretty concerned with Banking, I believe there are clear advantages for locally based banking, from the standpoint of the important community interests that our banking system should be serving. This is particularly true when we are dealing with areas of the central city which have not always been as well served by our banking institutions as they should be. Any opportunity which we get with regard to this particular situation to improve that service ought in my judgment count in a significant way in the final decision, although obviously I realize that no one factor of this sort can or should be controlling. Thank you for your consideration of my views on this important policy issue.


BARNEY FRANK

BF/meg



The Commonwealth of Massachusetts

HOUSE OF REPRESENTATIVES
STATE HOUSE, BOSTON 02133

REP. NELSON MERCED
5TH SUFFOLK DISTRICT
ROOM 473.G, STATE HOUSE
TEL. (617) 722-2070

DALIAH LUGO
LEGISLATIVE ASSISTANT

Committees on
Energy
Housing and Urban Development

July 17, 1990

James V. McFarland
Deputy Regional Director
Federal Deposit Insurance Corporation
160 Gould Street
Needham, MA 02194

Dear Mr. McFarland:

This letter is in support of the Jenco Group's application for Open Bank Assistance with 1st American Bank, Dorchester, MA.

I have been briefed concerning the general outline of the Jenco proposed restructuring plan which includes the following very important features:

- 1) recognition that the headquarters of this bank is located in the Uphams Corner area of Dorchester, which is an economically depressed section of Boston;
- 2) irrevocable plans to keep the headquarters and executive offices of this bank in the Uphams Corner location;
- 3) plans to re-focus and target the services to be provided to this community;
- 4) plans to re-focus and target substantially improved services to all of the communities served by the Bank
- 5) intentions to install minority management with considerable background in banking and finance, in addition to a high level of credibility within banking circles and the communities served by the bank.

As the State Representative for the Uphams Corner area, I am deeply concerned about the need to maintain the 1st American Bank operational in its present location. Currently there are many individuals and institutions in the area working hard to

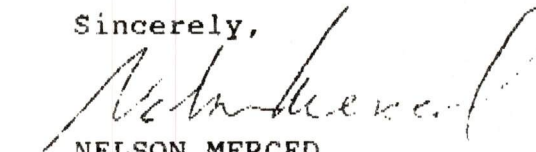
Mr. James V. McFarland
July 17, 1990
Page Two

revitalize this economically depressed neighborhood. I strongly believe that the closing of the 1st American Bank, or the relocation of its headquarters out of Uphams Corner would have a tremendously adverse effect on these efforts by drying up an important source of jobs and services to this community.

It is my understanding that there is an out-of-state group applying for this bank. I cannot overemphasize my concern about maintaining the 1st American Bank's presence in and ties to the North Dorchester section of Boston. I fully support the application being advanced by the Jensco Group and urge that the Jensco plan be recommended for approval by your agency to Washington, D.C. at the proper time.

Please do not hesitate to call me should you have any further questions.

Sincerely,



NELSON MERCED
State Representative

cc.: Hon. Thomas J. Curry, State Banking Commissioner
Mr. James M. Scott, Jensco Associates



© U.S.S. CONSTITUTION

PHOTOGRAPHY By
Marilyn R. Cotton
65 Gilbert St.
Watertown, MA 02172

Cindy,

Please express
my support to the

President and beyond
at the White House

Bruce F. D'Agostino
5 Tournament Road
Natick, Mass.
01760 U.S.A.

Dear Cindy,

I've enclosed an
article that may interest
you.

Please know that
everyone here, that
I have talked to says
if we fight, then,
GIVE THEM HELL! Not
like Vietnam. Love
Bruce

THE WHITE HOUSE
WASHINGTON

Mr. Joe Malone
296 Newton Street
Waltham, Massachusetts 02154

THE WHITE HOUSE

8/8

Joe —

Thank you for your note.
I was glad to help.

Yes, I'll do what I can
in the Bay State. — Keep in touch.

Sincerely,
Ardrey

JOE MALONE
TREASURER

August 6, 1990

Hon. Andrew H. Card, Jr.
The White House
Washington, D.C. 20500

Dear Andy,

Thank you very much for helping to make my fundraiser at the Capitol Hill Club a great success. Your kind words of introduction and Ron's letter were terrific.

Linda and I deeply appreciate your support and friendship.

It would be a great boost for my campaign if you could do an event in Boston for us in the Fall. I will have Steve Roche get in touch with your office to see if anything can be worked out.

Again, thanks!

Sincerely,



296 Newton Street, Waltham, MA 02154
617-899-9393

Paid for by Citizens for Joe Malone

THE WHITE HOUSE

WASHINGTON

August 9, 1990

MEMORANDUM FOR KIM RILEY

FROM: KATIE WINKELJOHN *KW*

SUBJECT: Request for Senator Locke's Office

Andy Card received a call this week from Lois with State Senator David Locke of Sherborn, Massachusetts. They have a constituent, MS. LAURA HAROTIAN, who works as Congressional Liaison at the Department of Labor in Boston. She took this job on a part-time basis because, at the time, her husband was dying of a brain tumor and she needed to be with him. He has since passed away.

Apparently Secretary Dole has now declared that all part-time employees will phased out by September 1st. Ms. Harotian, who doesn't want to lose her position, is willing to become a full-time employee. Her boss, Charities Benz, is aware of her desire to stay on but isn't certain if the budget will allow an additional full-time staffer.

Will you please at least check with the Department of Labor and see how they would handle this situation and follow-up with Senator Locke's office?

Many thanks - sorry to dump this on you!

Lois (617) 722-1555

THE WHITE HOUSE

WASHINGTON

August 7, 1990

Dear Mr. Walker,

I have enclosed four tickets for your son, Geof, and his family to tour the White House on Saturday, August 18th at 8:45am.

They should proceed to the East Executive Entrance of the White House located between the Residence and the Treasury Building. A map is located on the back of your ticket which they will need to present at the gate. The tour will last approximately 45 minutes and will take you through the public and social rooms of the White House. I would advise that the group arrive a little early as tours are always crowded in the Summer.

With best wishes for a wonderful visit,

Sincerely,



Katie Winkeljohn
Special Assistant to the Chief of Staff

Mr. Hank Walker
173 High Road
Newbury, Massachusetts 01951

#1376-1379

Dear Andy,

It seems I am always dropping you a line on something. You must get tired as hell trying to do all the things that is requested of you.

One thing you don't have to worry about is: when I ask you to do something - you have many reasons why they couldn't be done. This I realize, and now at 70 years old - I'm not that concerned.

I realize the pressure on your office and the presidents' concerning our environment. That is why I have designed my "NET LANDERS" the way I have.

It will take time to get it going; because, I have the correct concept...

Today I am writing to you asking for a favor.

My son GEOF will be in Washington Aug 18 and 19 with his beautiful wife and 2 sons.

GEOF is now 43 years old. He has a good business in New Hampshire, and he and his wife worked hard for Bush 9 years ago.

Geof would like to see part of the WHITE HOUSE on August 18th, and he is concerned that there might be long lines. Geof will be there at 10 AM on the 18th of August.

It is his intention to visit the White House - The Smithsonian and the Lincoln Memorial during these 2 days... Geof is a member of my "WETLANDERS."

Please let me know if you can help him.

Sincerely,

Hank Walker

Hank joined the Air Force on Dec. 8, 1941 and took his flight training in California. Flying in the farm valleys of Northern California, he observed the farmer encroaching on the wetlands. Late 1944 and 1945, after returning from combat in Europe, he taught combat crews in Florida. Flying over the waterways there, he was disturbed at developer encroachment upon nature's wetlands.

During the late 1940's, his work with the Federal Fish and Game department and Clyde Beatly, head biologist for the Department of the Interior illustrated to him the great value of saltwater marshlands to the marine food chain: one acre of saltwater marsh is 10 times more productive than one acre of prime farmland.

After leaving the Air Force after the Korean Conflict in 1953, Hank Walker and his wife Alice relocated and purchased a run down colonial house in Salisbury, built in 1735. Hank was approached to run for politics, and though disliking politics, decided he was obligated because someone had to find a way to save the marshland in his town. The developers had started to run drag lines out across the marshes, scoop up the precious marshlands to form boat canals and high ground for a road to build cottages. Then they planned to collect the money, and leave the town with an awesome responsibility.

Hank Walker was successful as the town voted for protective by-laws. He was elected six times and later three times as state representative concentrating on environmental issues.

In 1978, he retired from government to devote all his time to his wildlife artwork and environmental issues. During the next 10 years his artwork earned Ducks Unlimited more than 2 million dollars throughout the United States and Canada. He holds all three Palette and Chisel Awards, the Canadian "Gold Teal Award" Atlantic Flyway Artist of the Year 1984, six times Massachusetts Ducks Unlimited Artist of the Year Award, finalist in the 1984 Federal Duck Stamp and finalist in the National Ducks Unlimited Artist of the Year Award.

Hank Walker has been involved with Ducks Unlimited — the largest and most active wetland conservation group in the world — for several years in trying to save and protect our wetlands. Because of restriction upon conservation groups due to tax statutes, it became important to have an organization with one purpose only, and Hank Walker created the "WETLANDERS" an organization formed by all peoples from the 100million or more Americans interested in our great out-of-doors, an organization designed to influence Congress.

February 4, 1989, he was awarded the impressive non-member Sportsman of the Year Award by the New England Chapter of the Outdoor Winter Association for his extensive work as founder and creator of the "WETLANDERS:" soon to be a large national organization of concerned Americans devoted to saving wetlands that replenish our underground water supplies, are necessary resources to our farm productions, and are the habitat that nourishes our water, song and game birds, fish life, and 70 related wetland animals. North America is losing 700,000 acres a year of precious wetlands. The United States is losing 1200 acres a day. Most of this loss is through our farm subsidy programs. The Wetlanders, an active watchdog group can be supportive to Congress in their efforts to save these resources.

The "WETLANDERS" design shows great promise — one function only — to save our wetlands for human beings (the same areas utilized by waterfowl and animals) and the attractive economical fee structure: \$5 for adult annual membership and \$2 for student annual membership.



Hank Walker shoots a huge caribou in the Arctic while on the MacGregor-Goodale Arctic sailing expedition in 1937.

Hank Walker's "WETLANDERS"

Hank Walker was fortunate to grow up in the poor tidewater section of Newburyport: "JOPPA." He tagged along with the last of the market hunters in the late 1920's, and was allowed to shoot over live decoys from pit blinds during the 30's.

These experiences paid off as he tried to join a Byrd South Pole Expedition in 1936. Admiral Byrd — laughing at his youth — set up an appointment with Ed Goodale and Caswell MacGregor. Goodale had been in charge of Byrd's dogs on 3 South Pole expeditions, and MacGregor had sailed the Yankee around the world twice.

While a member of the 1937 MacGregor-Goodale Arctic Sailing Expedition, Hank Walker — the only member with a gun — shot a huge, lone caribou to save the lost inland exploration expedition. The inland trip was to last 5 days but stretched into 12 days, because of faulty maps.

Hank Walker became concerned with environmental issues when his Essex County Sportsmen's Club joined Ducks Unlimited in 1938.



“AFTER HOURS GEESE”

It seems the geese waited until the last evening shot was fired, and then moved into the cove for the night. The wind is still brisk from the Northwest, kicking up white caps, as darkness starts to settle in. Gear laden hunter and Lab pause to watch the setting geese, as they start homeward. Theirs has been a quiet, but windy cold day in the blind. Woodbridge Island, Plum Island, and Salisbury Beach in the background.

Hank Walker has earned Ducks Unlimited more than 2 million dollars in the United States and Canada thru sale of his prints. He is the only artist in the nation to hold all 3 Palette and Chisel Awards: Bronze, Silver, and Gold .

He was presented DU's Canada's Highest Award in June of 1988 making him the only artist in the world to hold both the United States and Canada's Highest Awards

He has been chosen Massachusetts' Ducks Unlimited Artist of the Year for 1983, 1984, 1985, 1986, 1987, 1988 . . .

He was one of the 25 finalists in the National Ducks Unlimited Artist of the Year Contest 1984. A finalist in the Federal Duck Stamp Contest 1984. One of the last DU Atlantic Flyway Artists 1984 . . .

He is the President and Founder of the new “Wetlanders” Organization. This dedicated group working with Congress to save our fresh water for humans, waterfowl, fish, and wildlife.

173 High Road
Newbury, Mass. 01951

HANK WALKER ART

508-465-3523
508-462-7873

WETLANDERS AND KIDS!!

A New Approach to an Old Problem

We look at our world's environment and know there will be great emphasis placed on Global Warming, Acid Rain, and the destruction of our world's rain forests. Unfortunately, this doesn't do anything to solve the problem of supplying food to our nation. Our basic food problems in our future hinges on the supply of fresh water: our wetlands.

This year, when the Bush administration is going to inject the educational system with money and new ideas, we, the Wetlanders, SUGGEST that the awareness should begin with the children in our elementary and junior high schools. The usefulness of this approach is proven by the success of the "Stop Smoking" message and programs.

I PROPOSE the Wetlanders sponsor a movement at the congressional level that will influence congressmen to pass legislation that would mandate a responsible educational program on ground water with Wetlands and its importance to wildlife, humans, and our environment as a part of the existing science programs. This should become a state educational requirement in our school systems throughout the United States.

This would be accomplished through curriculum changes in existing science programs by offering teaching aids or kits to stimulate participation. This type of pressure would accomplish awareness, in the earliest and most important time in our children's development, for it is they who will shape and control our world.

Hank Walker, *President*
173 High Road
Newbury, Mass. 01951
(508) 465-3523
(508) 462-7873



The WETLANDERS
"Wetland Environment Teammates"
"W.E.T."



GREAT BLUE HERON

by Hank Walker

950 signed & numbered edition
Image 16 x 21

Price \$75.00
Pencil remarque \$25.00

Dear Legislator,

It's an honor and a privilege for me, one of the last Ducks Unlimited Atlantic Flyway Artists, to present this special print to the legislators of each New England state for their support of Ducks Unlimited programs over the years. Ducks Unlimited, leader in wetland conservation, has saved and restored over 4 million acres of North America's wetlands these past 50 years; and in so doing has saved several species of waterfowl and wetland related wildlife from extinction

Now, with the United States losing over 1200 acres of these precious wetlands a day to developers' drainage and filling; it is more important than ever to take a closer look at how important these wetlands are to our environment, and most important, to our fresh water supply . . . These wetlands are the feeder source to our natural aquifers that are drying up . . . : drying up because of over utilization; and filling of wetlands feeder sources.

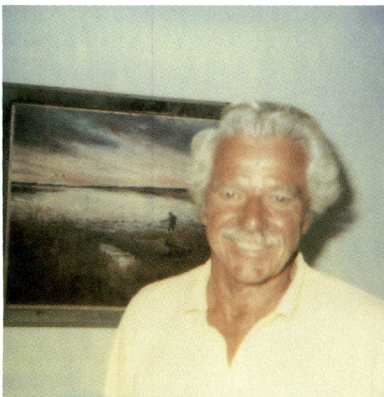
Ducks Unlimited has a new program called: "Wetland America" which will save these fresh water sources, and perform a dual service of saving these natural habitats for our waterfowl and wetland related wildlife Ducks Unlimited has it's own space capsule plotting America's wetlands.

This past year, Ducks Unlimited raised nearly 70 million dollars thru its active 4000 United States chapters and 800,000 membership Ducks Unlimited's programs are supported by sportsmen and conservationists alike Their new "Wetlands America" programs will have projects in every state

It is my wish, that in the future the current State Ducks Unlimited Artist of the Year design a suitable limited edition print and a report of Ducks Unlimited progress for a presentation to their state legislature

Again, I thank you for past support and consideration for Ducks Unlimited's future programs.

Hank Walker



Hank Walker started art school in 1939 His training was interrupted by WWII. He served in the Air Force from 1941-1945. Back to art schools for 5 years and active Air Force duty during the Korean conflict.

He was a finalist in the 1984 Federal Duck Stamp Contest, one of 25 finalists in the 1984 Ducks Unlimited Artist of the Year Contest, "The Ducks Unlimited Atlantic Flyway Artist of the Year" (encompassing the area from Maine to Florida - out to the Mississippi). He was the first artist in the nation to win the National Ducks Unlimited "Palette and Chisel" award; earning Ducks Unlimited over a million dollars thru his print donations. This year he will receive Ducks Unlimited Canada's highest national art award "The Gold Teal Award".

HANK WALKER PRINTS

173 High Road, Newbury, Mass. 01951 (617) 465-3523 (617) 462-7873

THE WHITE HOUSE
WASHINGTON

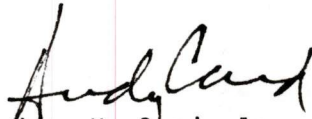
August 6, 1990

Dear Ken,

Thank you for your recent letter regarding the position of Special Assistant to the President for Public Liaison being vacated by Doug Wead.

While the position you are interested in has been filled, we appreciate your desire to assist the Administration.

Sincerely,



Andrew H. Card, Jr.
Assistant to the President and
Deputy to the Chief of Staff

Mr. Kenneth R. Craycraft, Jr.
Calihan Research Associate
American Enterprise Institute
for Public Policy Research
1150 17th Street, N.W.
Washington, D.C. 20036

American Enterprise Institute for Public Policy Research



KENNETH R. CRAYCRAFT JR.
CALIHAN RESEARCH ASSOCIATE

Mr. Andrew Card
Deputy to the Chief of Staff
The White House
Washington, D.C. 20500

Thu, Aug 2, 1990

Dear Mr. Card:

I am writing to inquire about the position of special assistant to the president for public policy liaison recently vacated by R. Douglas Wead, as reported in today's *Washington Times*.

If the position is to be filled, I hope that you will consider my qualifications for it, as attested to in the enclosed *curriculum vita* and articles.

I am currently a research associate here at AEI, working with Michael Novak, while finishing my PhD at Boston College. (Should I be appointed to this White House position, I would suspend the PhD for the time being.)

As far as particular qualifications for this position, I was educated as an evangelical, including seminary and ordination, but have since converted to Roman Catholicism. Thus, I have the unique advantage of knowing both worlds fairly well.

I thank you for considering my *vita*, and I look forward to hearing from you in the near future.

Sincerely,

A handwritten signature in black ink, appearing to read 'K R Craycraft Jr.', is written over the typed name.

Kenneth R. Craycraft Jr.

copy: Bobbie Greene Kilberg



Good legislation and governmental services are a right—not a gift—and we shouldn't have to write a thank you note when we receive them. It's about time we stopped appreciating them and started demanding that which is rightfully ours.

Washington Post, 7-27-90

LETTERS TO THE EDITOR

'An Arrest in Kenya'

As Bill Kovach reported ["An Arrest in Kenya," op-ed, July 18], the Alfred Friendly Press Fellowships had invited Gitobu Imanyara, editor of the Nairobi Law Monthly, to be one of the dozen foreign journalists it placed in U.S. newsrooms this year for five months of working exposure to the traditions and techniques of a free press. Gitobu wanted to learn, but he did not feel that he could leave his own embattled journal or the campaign for democratic institutions in Kenya.

Even in view of his release from prison two days ago, his arrest remains a sign of how imperiled those institutions are and how much they

need defenders as patriotic, brave and eloquent as he. On a smaller scale, it is also a blow to our program. Over seven years we have been fortunate to have three able fellows from Kenya, more than from any other African nation except South Africa.

We try to take fellows from countries where press freedom is either newly in being or realistically in prospect. If Gitobu is not allowed to continue his exemplary work as a journalist, however, the fellowship program will find it hard to regard Kenya as meeting our criteria.

JEAN FRIENDLY
Chairman, Alfred Friendly Press Fellowships
Washington

Virtues, Not Values

E. J. Dionne's report "Struggling to Find a Way to Teach Values" (July 9) does illustrate a crisis in modern American education, but the crisis is implicit rather than explicit in the article.

The crisis consists not in the fact that we do not know how to teach values but rather in that we even use such language as "values." Even such conservatives as Phyllis Schlafly participate in this conversation, which is little more than deciding what method we will use to tell children that we cannot talk any longer about truth and falsehood, virtue and vice, beauty and vulgarity, etc. To use the language of values—even former secretary of education William Bennett's "absolute values"—is to demonstrate that we have given up on rational moral language in American education.

Almost 45 years ago, C. S. Lewis warned of this state of affairs in his book "The Abolition of Man." Lewis concludes that the schoolchild who is taught in terms of values "will believe two propositions: firstly, that all sentences containing a predicate of value are statements about the emotional state of the speaker, and secondly, that all such statements are unimportant." Conservatives especially do not intend to teach such heresy.

Teaching a child that any moral judgment is merely an expression of what the child values says nothing about the morality or immorality inherent in the situation being judged. Or worse, it says that nothing can be said about such an inherent morality or immorality. To build an educational system around such a debate as E. J. Dionne describes is to facilitate the decline of American "values" even while we think we are saving them. Worse, it contributes to the rapid decline in our ability as a nation to have rational conversations about justice, truth and goodness. These are not values, but virtues—virtues necessary for a democracy to work.

KENNETH R. CRAYCRAFT JR.
Research Associate, American Enterprise Institute
Washington

Mrs. Barry's Choice

While Dorothy Gilliam ["The Cost of Keeping a Family Together," Metro, July 5] is free to bestow her compassion on Effi Barry, she certainly is not free to make the statement that Mrs. Barry "did what we all would have done: Stood by her man." Like heck we would have! What self-respecting woman, unless penniless or incapacitated, would condone the behavior of a man whose apparent adultery defies the broadest concept of decency?

If Effi Barry, for reasons which may range from a very tenuous conjugal relationship to the overwhelming desire to play the role of "mayoress," chose for years to endure mental and psychological abuse (if that is indeed what she felt), when there were alternatives open to her, that's her business. But to attribute the same standard of conduct to all women is an insult thrown at them by the arbitrary judgment of a writer who doesn't know the meaning of the word "dignity."

GABRIELLA CAHILL
Springfield

A Ball Team for D.C.

I disagree with Benjamin Forgy's assessment that the Baltimore Orioles' stadium under construction will "without question be a delight for ordinary fans" ["Baltimore's Dream of a Field," Style, July 12].

As a season ticket holder, I rushed over to the baseball store to view the display model. The new facility will be lacking for those fans who, like myself, prefer to stay out of the rain (few seats are protected), want to take youngsters (the lower deck is only slightly raked) or prefer to sit behind home plate (the press box occupies the entire mid-level).

I may enjoy the palette, skyline and concessions, but for watching baseball I now long even more for a team in Washington.

JAMES CARROLL
Washington

That Tenure Decision at Boston U. (Cont'd.)

I am writing as Prof. Julia Brown's attorney to respond to acting Boston University President Jon Westling's letter of July 13 concerning the U.S.

The jury ruled that Prof. Brown had been denied tenure because of her sex. The U.S. Court of Appeals for the First Circuit affirmed the judg-

ment" is therefore as ill-founded as President Silber's original decision to deny tenure and suggests that even now improper prejudicial factors cloud

only ethics issue
Six more senators
committee, five for
wings-and-loan case
large political contri-
be called upon again
did last year and it
raise and give up the
ests in the form of
en. Durenberger in
the virtuous pose the
will be in campaign
and the money chase
ate will be a better

bas?

to put the Senate-
s, but two factors
Rep. Morrison is a
atic nomination for
has spent more than
is year in his home
a complicated new
extensive debate and
d about the possible
workers by immi-
employers who hire
for retraining Ameri-
hile the objective is
on reform bill should
ause of uncertainty

in situation changes
es, the Senate bill
Congress to reexam-
ree years. If changes
d by the Senate bill
ts can be made on
passed by the House,
ous system now in
initely.

all the more chilling is
ent that by tampering
ds and computerized
ern "did cause aircraft
ntained or repaired to
passengers."
line maintenance pro-
vided increasing atten-
been more aggressive.
here are no foolproof
ircraft inspections can-
the-shoulder check of
requires an assumption
t it demands extraordi-
the case of an airline
ement relations, efforts

Why Marx Hated Christianity

A Reply to Leonardo Boff

Kenneth R. Craycraft, Jr.

ONE KEYSTONE in the overall system of many liberation theologians is the claim that Karl Marx's view of religion has been misunderstood. The argument may take one of several tacks, but all try to show that Christians can indeed employ Marxist analysis in theology. Some claim that Marx was only attacking the bourgeois Christianity of his day and that "true Christianity" (as defined by liberation theologians) is immune from this attack. Others may say that Marx's attitude toward religion was simply bemused indifference and under the proper circumstances religion can easily coexist with a Marxist political economy.

Leonardo Boff's "Case for Liberation Theology" in the January issue of *Crisis* makes the truly outrageous claim that "Marx in reality was never an atheist." Marx never attacked religion directly, claims Boff; he only attacked the political manifestation that "other worldly" religion had on society. Boff goes on in his revisionist reading of Marx to say that Marx "is not opposed to religion *per se*, but . . . is opposed to the social and alienating effect that religion may engender."

Boff's view ignores Marx's materialist ontology. Marx never separated religion from its manifestation in society because he never separated the essence of anything from its existence in society. The existence (or "social effect") of something in society is its essence. If religion as political reality is alienating and to be rejected, argues Marx, then religion as religion is alienating and to be rejected.

What, in fact, did Marx have to say about religion? On this one can hardly trust Father Boff, especially when he makes such a ludicrous comment as, "Well,

socialism eradicated misery; in spite of that, religion did not disappear." If Boff understands Marx's comments about religion as well as he understands the criteria of eradicating misery, then one must seriously question his ability to be objective at all. In fact, Marx hated religion with an unrelenting passion; he saw the eradication of religion as the absolute *sine qua non* of a "just" socialist society.

As is well known, Marx depended heavily upon the highly influential German philosopher, and contemporary of Marx, Ludwig Feuerbach. The most important contribution Feuerbach made to philosophy was his thoroughgoing materialism. The famous maxim "*Der Mensch ist was er isst*" (man is what he eats) is a crude expression of the idea that all human relationships are results of natural, material processes. Elsewhere, Feuerbach says, "A particular man is what he is, has his existence, his reality, only in his particular conditions." Materialism is the necessary and primary element in Feuerbach's theories about Christianity and the nature of human beings.

APPLIED TO RELIGION, Feuerbach says in the preface of his book *The Essence of Christianity*, "The true sense of theology is anthropology." For him, religion is a projection of man's own attributes into a fabricated absolute being called God. Consciousness of God is consciousness of humankind. The object of man's veneration, God, is nothing but man venerating himself. "Consciousness of God is self-consciousness, knowledge of God is self-knowledge," Feuerbach

writes. It is proper to speak of God only in the sense that "the qualities of God are nothing else than the essential qualities of man."

In a sense, it is not proper to speak of Feuerbach as an atheist. In fact he objected to being called an atheist. Those who called him that misunderstood what he was saying. One cannot negate religion, says Feuerbach, because in so doing one negates *man*. He explains, "I by no means say: God is nothing, the Trinity is nothing, the Word of God is nothing. I only show that they are not *that* which the illusions of theology make them." In Karl Barth's words, "Feuerbach does not deny either God or theology. In denying the existence of an abstract Being, divorced from nature and man, he is merely affirming God's nature as man's true nature. And in denying a false theology distinguishing theological and anthropological tenets, he is affirming anthropology as the true theology." For Feuerbach, religion is the highest expression of humanity. But this is not the view of Feuerbach's admirer Karl Marx. If for Feuerbach religion is the apex of human longing, for Marx it is the nadir of human alienation.

K.L. Clarkson and J.D. Hawkin write in their influential article "Marx on Religion": "Marx could never say with Feuerbach that those who negate religion also negate man. Rather, for Marx, the negation of religion, atheism, was preliminary to the affirmation of man, communism." Klaus Bockmuehl in *The Challenge of Marxism* observes that "The critique of religion is the prerequisite . . . of the entire economic, political, judicial and aesthetic critique and of all critiques which may yet come." David McLellan in *Marxism and Religion* says that for Marx "religion is metaphysically and sociologically misguided and that its disappearance is the necessary pre-condition for any radical amelioration of social conditions."

Marx in his eloquent introduction to *Toward A Critique of Hegel's Philosophy of Right* acknowledges that "The criticism of heaven is transformed into the criticism of earth, the criticism of religion into the criticism of law, and the criticism of theology into the criticism of politics." Only when the criticism of religion is complete can it be time to turn attention to all those earthly forces which work to alienate man.

"The struggle against religion is indirectly the struggle against the world whose spiritual aroma is religion," says Marx. "Religion is the sigh of the oppressed creature." In perhaps Marx's single most famous sentence—religion is the opium of the people—he suggests that religion dulls people into not recogniz-

ing their alienation. It makes them think they are liberated, when in fact they are even more alienated by religion's intoxicating aroma.

"Criticism has plucked the imaginary flowers from the chains," Marx exclaims, "not so that man may bear chains without any imagination or comfort, but so that he may throw away the chains and pluck living

"The criticism of religion," Marx writes, "disillusions man . . . so that he may revolve around himself as a real sun. Religion is only the illusory sun which revolves around man as long as he does not revolve around himself."

flowers." This, it may be asserted, is Marx's central theme in his entire life's work. This is humanism. "The criticism of religion," he goes on to explain, "disillusions man so that he may think, act, and fashion his own reality as a disillusioned man come to his senses; so that he may revolve around himself as a real sun. Religion is only the illusory sun which revolves around man as long as he does not revolve around himself." The goal of Marx's entire system of thought is that man would revolve around himself. Indeed, Marx may properly be called, if not the first, at least the most influential secular humanist as we understand this term today.

THIS IS MARX'S main interest in Feuerbach's *Essence of Christianity*. Marx's atheism was already firmly grounded through the influence of his teacher Bruno Bauer. What Marx found in Feuerbach was not the negative message of atheism, but the positive message of humanism. Marx could never say, with Feuerbach, that "those who negate religion also negate man." For Marx the negation of religion was necessary for the affirmation of man, and obversely religion necessarily must be negated if man is to be affirmed. Clarkson and Hawkin distinguish between the two men by explaining, "Feuerbach wanted not to abolish, but to purify religion. Feuerbach simply wanted man to reclaim his alienated attributes and to return to himself. Marx, on the contrary, never granted any dignity to religion."

Paris Manuscripts

The place that Marx begins his shift to a positive program is the so-called "Paris Manuscripts." As the title suggests, these were written in the Summer of 1844 during a brief stay in Paris. They were not published until after Marx's death, 50 years after they were written. "In these manuscripts," McLellan explains, "Marx applied his interpretation of Feuerbach's theory of religious alienation to the field of political economy." He was not yet criticizing Feuerbach; in fact he still depends heavily upon Feuerbach's analysis. His criticism of Feuerbach comes shortly after the "Paris Manuscripts" in the "Theses on Feuerbach" written about a year later.

In the section of the manuscripts titled "Alienated Labor," Marx equates the alienation caused by wage labor—where man objectifies himself in a product which then becomes hostile to him—with the alienation caused by religion, where man makes a God which then becomes hostile by making man the object. In alienated labor, man makes a product which then confronts man hostilely and objectifies him when it is "appropriated" by the capitalist. "The appropriation of the object," Marx claims, "appears as alienation to such an extent that the more objects the worker produces, the less he can possess and the more he falls under the domination of his product, capital." This results in a "loss of reality for the worker." Marx explains that "the more the worker externalizes himself in his work, the more powerful becomes the alien, objective world that he creates opposite himself, the poorer he becomes himself in his inner life and the less he can call his own." And "it is just the same in religion," adds Marx. "The more man puts into God, the less he retains of himself."

MARX HAD compared private property to religion in "On the Jewish Problem," and in the "Paris Manuscripts" he again draws the parallel. Private property, the main target of political economic criticism, is *not* the central alienating process, even though criticism of private property is the first economic criticism. Rather, alienated (appropriated) labor is the central or underlying problem, of which private property is a manifestation. Nonetheless, criticism of private property (like that of religion) is the premise of criticism. Marx says, "It is evident from the analysis of this concept that, although private

property appears to be the ground and reason for externalized labor, it is rather a consequence of it, just as the gods are originally not the cause but the effect of the aberration of the human mind, although later the relationship reverses itself."

Under the heading "Private Property and Communism," Marx says that it is time to move beyond the denial of the existence of God to the positive program of affirming man as "species-being," that is, as communal or communist being. He explains: "The positive abolition of private property and the appropriation of human life is therefore the positive abolition of all alienation, thus the return of man out of religion, family, state, etc. into his human, i.e. social being. Religious alienation as such occurs only in man's interior consciousness, but economic alienation is that of real life, and its abolition therefore covers both aspects."

Man becoming subjective man, and thereby affirming his self-consciousness, does not come through criticism or theory, but rather through the positive action of abolishing private property. When this is done, religion will naturally fall away.

Thus, we do not criticize religion any longer. We know what it is; now it is time to do something about it, *viz.* establish "communism as the positive abolition of private property and thus of human self-alienation," and thus of religion. "Atheism," says Marx, "has no longer any meaning, for atheism is a denial of God and tries to assert through this negation the existence of man; but socialism as such no longer needs this mediation." One need not deny the existence of God in order to affirm the existence of self-conscious man. Rather, man is affirmed positively when man begins positively to implement a communist political economy. This is "the positive self-consciousness of man, no longer mediated through the negation of religion," Marx summarizes, "just as real life is the positive reality of man no longer mediated through . . . the negation of private property." Thus humankind will realize its real *Gattungswesen*, its "species-being," and no longer will it need, want, or have religion. Religion is necessarily excluded from a Marxist society. The criticism of religion is complete.

Theses on Feuerbach

"The only point that I do not like about Feuerbach's aphorisms is that he talks too much about nature and too little about politics," Marx wrote to his friend Arnold Ruge in 1843. "This latter is the only means by which present philosophy can become a

reality.” The problem with Feuerbach is that he did not move beyond contemplation (criticism) to action (praxis). The outline of Marx’s criticism of religion is his “Theses on Feuerbach,” the last and most famous of which says, “The philosophers have only interpreted the world in various ways; the point is to change it.” Feuerbach certainly was correct in his criticism of religion, but that was not enough, thought Marx. To criticism must be added practice. The correct conclusions of criticism had to be put into practice in order to change the world.

Man is not what he thinks, nor merely what he eats, as Feuerbach says; rather man is what he *does*. And man can only realize his true humanity—his self-consciousness—through praxis. “The question whether objective truth can be attributed to human thinking is not a question of theory but is a practical question,” Marx says in “Thesis II.” “The dispute over the reality or non-reality of thinking that is isolated from practice is a purely scholastic question.” One cannot separate thinking man from doing man. Feuerbach has said that man’s essence precedes his thought, but Marx is saying that one cannot make this distinction at all.

Feuerbach has spoken of an abstract man shaped by man’s environment and relationships. But this, for Marx, is inverted. “Thesis III” says, “The materialist doctrine concerning the changing of circumstances and upbringing forgets that circumstances are changed by men and that it is essential to educate the educator himself.” Man is not made by the forces of materialism; man *is* the force of materialism. Man makes these changing circumstances, they do not make man. There is no abstract “society” as over against man, nor is there some abstract being “man” as over against a particular social situation. There is only man in his social relations in historically concrete situations. Thus man only changes through change in these social relations. “The coincidence of the changing of circumstances and of human activity or self-changing can be conceived and rationally understood only as revolutionary practice.”

Thus, continues “Thesis VII,” Feuerbach “does not see that the ‘religious sentiment’ is itself a social product, and that the abstract individual whom he analyzes belongs to a particular form of society.” There is no individual “man” abstracted from history or from social relations. Man is only man in particular social situations. This is Marx’s doctrine of internal relations. Man “A” in social situation “X” is a different man than if he were in social situation “Y.” In social situation “Y,” he becomes man “B.” His “essence” has



Latin American murals depict the exploitation of the proletariat.

changed because his “essence” is known only in his social relationship. And social relationships are practical ones. So for man to realize his subjective identity, he must *act*. If man is alienated, he must act in a revolutionary manner. He must, as Marx would later say, become a New Man.

The German Ideology (and to a lesser extent “The Holy Family”) is the first concentrated exposition of Marx’s own doctrine of historical materialism, “the thesis that the nature of individuals and society ultimately depended on the material conditions which determined their production.” Alasdair MacIntyre says, “By 1844, Marx had [in] hand all the materials that he needed for his philosophy of history,” the philosophy known as historical materialism. In this philosophy, religion, like other ideologies, is parasitic upon material social forces. Ideologies have no history of their own. They are always products of the material forces of men. “Morality, religion, metaphysics, all the rest of ideology and their corresponding forms of consciousness . . . no longer retain the semblance of inde-

pendence. They have no history," says Marx. Rather, these ideologies supervene upon the products of material forces in history. "In this respect," McLellan explains, "religion was just like other forms of ideol-

The very presence of religion, Marx argues, means that real human emancipation cannot yet have occurred.

ogy, only more so. And thus it had even less of an autonomous history than did other forms of ideology."

Arthur McGovern writes in *Marxism: An American Christian Perspective*: "The writings . . . on historical materialism thus contain two different, if interrelated, approaches to religion: religion is a reflection of the economic structure of society and hence of secondary importance; religion is the ideological force which tends to justify the status quo and impede change."

Religion is an ideology, and like all ideologies it is both produced by material forces, and then used by the class in power to further its own goals. Different ideologies accompany different historical epochs and are used by different classes. "For instance," says Marx, "in an age and in a country where royal power, aristocracy and bourgeoisie are contending for mastery

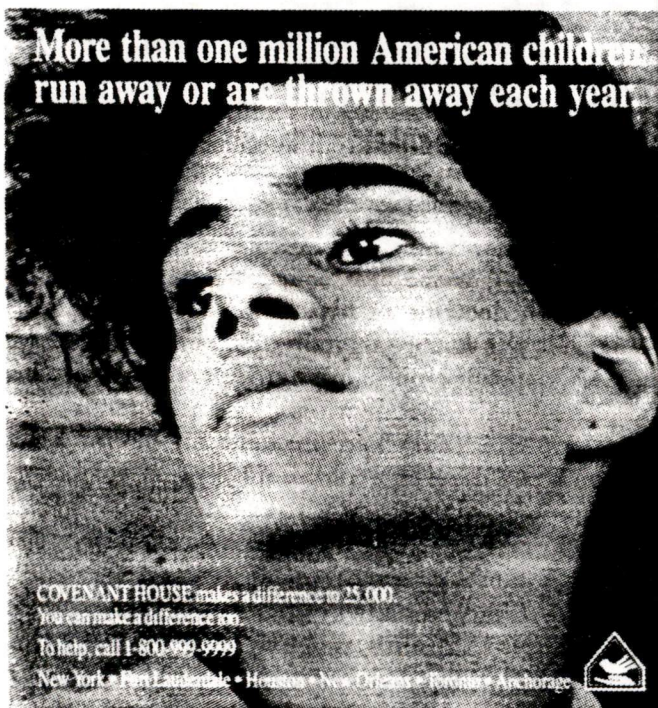
and where, therefore, mastery is shared, the doctrine of the separation of powers proves to be the dominant idea and is expressed as eternal law." Separation of powers is produced by the struggle for power, and used by those in power to justify the outcome of the struggle, in this case shared power. Ideology is used by the dominant class to obscure the "real world" of exploitation. Ideology legitimates the status quo by making the status quo appear to be pre-ordained, or given as a natural law.

The *Communist Manifesto* declares that in the place of "exploitation, veiled by religious and political illusions, the bourgeoisie has substituted naked, shameless, direct, brutal exploitation." The bourgeoisie has converted the priest into a wage laborer for its own oppressive ends. Where religion had veiled the miserable conditions of humanity, it is now used to create and sustain those miserable conditions. The inherent alienating character of religion is used by the bourgeoisie to further carry out its own program of exploitation. And Christianity is the most appropriate religion to effect this program. In *Capital* Marx writes,

The religious world is but the reflex of the real world. And for society based upon the production of commodities, in which the producers in general enter into social relations with one another by treating their products as commodities and values, whereby they reduce their individual private labor to the standard of homogeneous human labor—for such a society, Christianity with its *cultus* of abstract man, more especially in its bourgeois developments, Protestantism, Deism, etc., is the most fitting form of religion.


The fact remains, contends Marx, that where religious institutions are present, *eo ipso*, exploitation and alienation also are present. Religion is an ideology which always supervenes upon material forces in history, and which, like any other ideology, is used by the ruling class to legitimate its power. The very presence of religion, by definition, means that real human emancipation cannot yet have occurred. This is why Bauer's and Feuerbach's criticism of religion were not sufficient. Religion will not be abolished by criticism, but rather by action, i.e., changing the situation in which religion is fostered. Religion is just another form of illusion which disappears when other forms of illusion (including ultimately the state) also disappear.

Kenneth R. Craycraft, Jr. is the Bradley Doctoral Fellow for the Study of Religion and Politics at Boston College.



More than one million American children run away or are thrown away each year.

COVENANT HOUSE makes a difference to 25,000.
You can make a difference too.
To help, call 1-800-999-9999
New York • Fort Lauderdale • Houston • New Orleans • Toronto • Anchorage



It is false religion—Platonism, Buddhism, Manichaeism—that denies or attributes evil to the body. (What is weak is not the flesh but the will.) In Howard's words: "The seamless web of Creation: body and soul united and one."

ANOTHER unity that Howard restores with equal assurance is that between passive reception and act. We do not go to church simply or even mainly for what we may "get out of it," as implied by

the Evangelical term "worship experience," but to *do* something: "to make the act of worship." And to those who say that the language of liturgy is artificial, he offers a homely example: the special menu of Thanksgiving dinner—turkey and cranberry sauce and pumpkin pie—which enhances the day precisely *because* it is distinctive, not ordinary. So, too, there is a special epic language from Homer to Milton; and, indeed, a special language—metrical—for all poetry worth the name. Thus a special, set-apart language for the liturgy is very right. Once again, liturgists, often keen to make the lan-

guage *ordinary*, make it as boring and non-enhancing as those who call "chopped prose" a poem. God grant us wisdom!

God has granted Tom Howard wisdom, and that is what both Catholic and Evangelical readers of this book will find. All will be enriched.

Sheldon Vanauken, author of A Severe Mercy and Under the Mercy, writes from Lynchburg, Virginia. His first volume of poetry, Mercies, has just been published by Christendom College Press.

Democracy as Profanity

ON EVERY PIECE of metal and paper currency that is printed by the treasury of the United States of America are inscribed the words "In God We Trust." Exactly what that means can be a subject of some debate. Does it mean, for instance, that we recognize that we live in a "Christian" (or at least a "Theist") nation? Or more benignly, does it remind us that our political order is founded upon *some* (albeit vague) sort of religious presup-

positions? Or, rather does the motto have a less direct, but perhaps even more profound meaning, *viz.*, that we do not recognize any sacred foundation to our political order, but on the contrary recognize that the sacred—the transcendent—stands over and above all of our political striving? Might this inscription betray a national consciousness that (at least historically) sees the inherent limitations of this and every other political regime? Politics

may help us to order our lives *together*, on this last view, but politics cannot tell us how, ultimately, best to order our own individual lives. For that we must recognize something greater than mere human convention, of which politics is necessarily a part.

THOMAS Molnar would certainly answer "No" to the first set of questions regarding the American political order, but he would like an order which recognizes that its foundations are rooted somehow in the "sacred." In a brief but wide-ranging book, Molnar presents what he *sees* as the disintegration of the role of the sacred in the way that people and

**Twin Towers
Politics and the Sacred**

By Thomas S. Molnar
Eerdmans, 147 pp., \$9.95

Reviewed by Kenneth R. Craycraft, Jr.

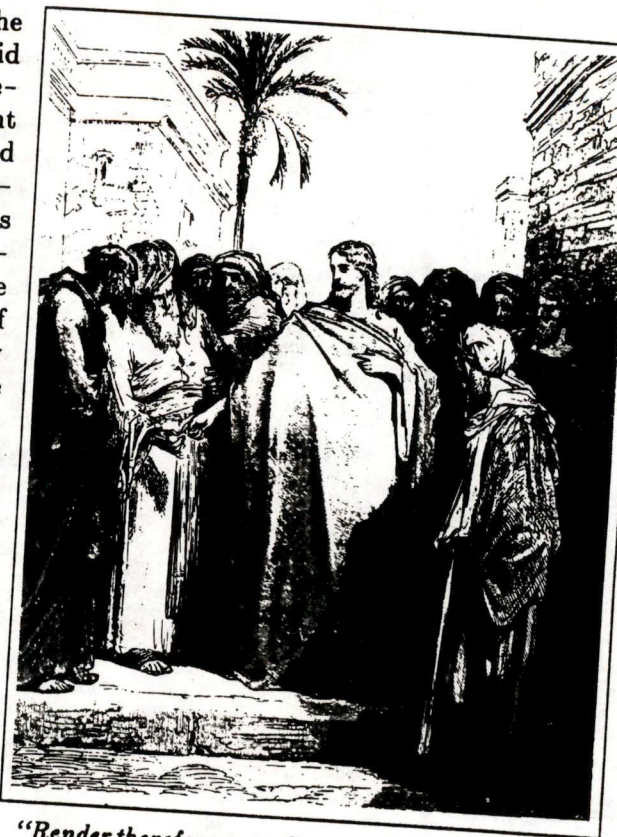
civilizations order themselves. Molnar believes that the best periods in world history have been those that acknowledged the role of the sacred in making life cohesive. Most importantly, he insists that the great periods of history are those in which the political regime recognized that the legitimacy of its power was rooted in some commonly held sense of transcendence.

Invoking Mircea Eliade's categories of the "sacred" and "profane," Molnar takes the reader through a whirl-wind tour of history, in which he demonstrates the directly proportionate relation between the decline of the sense of the sacred and the rise of disorder and fragmentation. The sacred—communicated through myths, symbols, and rituals—orders our lives and creates and sustains communities by providing the integration necessary to live humanly. Molnar quite correctly notes the presence of a sense of the sacred in classic periods of art, architecture, and music, and its absence in modern notions of these things. The randomness, disorder, and chaos of modern music, art, and architecture, Molnar observes, are the result. Because modernity has rejected objective, transcendent realities of goodness, truth, beauty, and order, it no longer feels the need for anything to mediate these transcendent realities into our profane lives.

Nowhere is this modern predicament more tragic, says Molnar, than in the structure of political power. In the most persistent theme of the book, Molnar insists that the role of politics is "to transfer the sacred into the profane sphere." In the ancient tradition political power had its vision set on a "divine cosmology" in

which the king was the *axis mundi*, his "rigid posture is the link between the transcendent and the sacred ground on which the community has its origins and lives out its destiny." But when the king loses the sense of the sacred legitimacy of his power, when he becomes detached from the transcendent, "the state is launched on the course of moral decay." "The universe of political discourse," says Molnar, "reaches only as far as the ruling cosmology permits," and when the world becomes disenchanted, this cosmology loses its sense of transcendence, the sacred foundation of power is abandoned, and the result is political chaos. This is the condition in which we find ourselves in the modern age.

Molnar sees the desacralization of "power" as necessarily linked with the chaotic and fragmented state of the modern political situation. Without a sense of sacred sanction for political power, there seems to be no hope of an ordered political community. Ironically, this desacralization has been caused by nothing less than the Incarnation of Jesus Christ. Molnar, described on the book's cover as a Catholic philosopher, blames Christianity for the desacralization of the world in general, and the Incarnation specifically for the desacralization of the political order. He correctly notes that Christianity robbed the natural sensible universe of its autonomous sacredness and says



"Render therefore unto Caesar the things which are Caesar's; and unto God the things that are God's."

(through the voice of an imaginary critic) that "the net effect of Christianity was to desacralize the world, to abolish its drama and myth, and to replace the semi-divine celestial bodies with inert stones." The implications of the Incarnation extend even further to the notion that Christ has replaced the king as the *axis mundi*, and that consequently no political ruler can claim divine sanction for his power.

THE Incarnation established order not as "divine," but as "moral." In Molnar's words, the Incarnation represents "a displacement of the sacred from the cosmos to the morally focused relationship between God and humanity." Thus, political rule

shifted from a notion of sacred power to one of the "ideal republic." A brief re-emergence of the notion of sacred power arose in the Constantinian era, but was eclipsed by a renewed emphasis on the human nature of Christ; and the sense of Christ as trans-national king was emphasized again. Molnar argues that Christianity's establishment of a political order based upon moral reason rather than divine power becomes the seedbed for the Enlightenment and thus helped engender the political regimes under which we live today.

THERE is much in Molnar's description of modern American culture that is correct. The criticism of modern art and music is trenchant and accurate. And Molnar is certainly justified in complaining about a political situation in which, for example, the vocabulary of "human rights" equates the "right to 'freedom of sexual expression'" with the right to be protected from torture and enslavement.

But Molnar's solution (never

The founding of the United States recognized that there is something that transcends all political structures. Not in a notion of the sacredness of the political do we put our trust.

explicitly stated)—a resacralization of political power—is a rather dubious endeavor. Molnar rightly criticizes the identification of a particular political regime with

the "otherness of the cosmos," yet his own solution seems to tend toward that very identification. That is, he warns against any political order which assumes that it embodies the perfect cosmic order. But his resacralization of politics would tend toward the same result from the other direction. Modern American liberal politics sees itself as ultimate from the secular point of view, but Molnar would make politics no less ultimate. The only difference is that his justification begins with the "sacred." American liberal politics wants to sacralize the political; Molnar seems to want to politicize the sacred. The result is the same: some notion of the ultimacy of politics and power.

Another shortcoming of the book is Molnar's failure to distinguish—as the American Founders did—between the political and the social. There must indeed be some sense of sacred foundation for social life. If men are to order their lives, and order them together, a sense of the transcendent foundation of moral precepts is crucial. But a sacred foundation of society implies that politics is always penultimate, at best. The sense of the need for a sacred ordering of social arrangements is precisely the same sense that warns of the inherent folly in relying on power and politics as ultimate points of order and social cohesion. The sacred presence in society tells us that politics cannot save us. Rather, this sense of the sacred—of transcendence—informs us

that something always stands over against politics, judging the political and *checking* its power, not merely legitimating it. Politics is a necessary component of hu-

man life, but a proper notion of the sacred in human life informs us of the final inability of politics to answer our most basic needs and desires.

IT IS NOT surprising, then, that Molnar finds the American political system to be deficient. Because America does not ground its political power in the sacred, Molnar sees little good in it. But the Founders knew that politics cannot "save" us. They recognized the necessity of the sacred in the lives of citizens, to be sure, but also knew that it could not be mediated through *politics*. Molnar's criticism of American liberal democracy (the ultimate logic of which he asserts leads to a Hobbesian war of all against all) is better leveled at the perverse interpretation (or the complete abandonment) of the principles of the Founding that has prevailed in recent decades.

Rather than excluding the sacred from public life, *pace* Molnar, the American system reserves a special role for the sacred in public life, however much this role has been diminished recently. The founding of the United States, as acknowledged in its key documents, recognized that there is something that transcends, that stands over against all political structures. Not in a notion of the sacredness of the *political do we* put our trust. Rather, knowing the inherent limits of the political, it is in *God we* trust.

Kenneth R. Craycraft, Jr., is a Bradley doctoral fellow at Boston College.

False Promises

Nicaraguan Opposition Routs Sandinistas," screams the front page of the New York Times of 27 February 1990. While Daniel Ortega insists that the revolution is not yet over, the people of Nicaragua have overwhelmingly said that his is not the revolution they want. Nicaragua, it seems, is still looking eastward for examples of how it might govern itself, but now the East looks a bit different. After more than ten years under the dual political and economic repression of Marxism-Leninism, Nicaraguans have opted for a change.

What they have voted for is yet to be seen, but what they have rejected is perfectly clear. By saying "yes" to Violeta Barrios de Chamorro's platform of de-nationalization, open markets, and encouragement of private enterprise, the citizens of Nicaragua have pronounced a resounding "no" to socialism and its false promises.

The timing could not be better, then, for a major assessment of liberation theology since, as Arthur F. McGovern, S.J., points out in his new book *Liberation Theology and Its Critics*, Nicaragua "has represented the kind of hope for liberation of the poor that we associate with liberation theology." After two decades as a conscious movement, liberation theology should be evaluated by those who have been either active as liberation theologians, or sympathetic with their

cause. Such an evaluation must, of course, seriously and carefully consider the opinions of the critics of liberation theology, as well as the results in countries where the ideas of liberation theology have been most closely applied. It seems obvious that such a book would consider at least the possibility that socialism in any guise holds no promise for raising the poor or alleviating poverty and suffering.

One hopes that such a book will soon be written by one of liberation theology's own. This is not that book. Rather, McGovern, in a rambling, often contradictory, always-in-dire-need-of-an-editor book attempts to show how, in his estimation, liberation theologians have been misunderstood, their opinions misrepresented or falsified, and their reputations tarnished by those who have not been careful in reading their works. In his occasional attempts to portray himself as sympathetic to the critics of liberation theology, he comes off as patronizing. When he is forced to concede the validity of some of the arguments of liberation theology's critics, he proceeds to argue as if the concession had never been made.

Liberation theology itself is never "assessed," but rather summarized and defended. The only thing resembling an evaluation in the book is of how misguided, in McGovern's estimation, are the charges made by critics

of liberation theology. In short, this book is an assessment neither of liberation theology nor of its critics. It is, rather, a last ditch apology for liberation theology with only a shallow glance towards the serious—indeed devastating—empirical and theoretical criticisms that have been written in recent years.

THE MOST serious problem with the book—indeed with liberation theology—is not that it persists in the tired delusions about "true" socialism as a just economic order, about "Marxist analysis without Marxist presuppositions," about the alleged contradictions of capitalism, and so on—though indeed these notions persist throughout. Rather, the book's gravest problem is the way that McGovern and his allies approach theology. McGovern is unapologetic in his assertion that theology follows "social science," that the task of theologians is to react to the needs that social science shows are out there in the world, that theology is at the service of the social scientist.

Rather than understanding, as St. Thomas Aquinas teaches us, that theology encompasses all but is encompassed by nothing, McGovern persists in doing "political theology." Theological reflection, asserts McGovern, follows political action; *theoria* follows *praxis*. Implicitly accepted throughout the book is Marx's famous Thesis XI on Feuerbach: "The philosophers have only interpreted the world, in various ways; the point is to change it." McGovern approvingly cites prominent liberation theologians who say, in effect, that this change is a political one, informed by the tools of modern social

Liberation Theology and Its Critics Toward an Assessment

By Arthur F. McGovern, S.J.
Orbis Books, 281 pp., \$14.95

Reviewed by Kenneth R. Craycraft, Jr.

science. The task of theology is to legitimate the political change that social science has revealed to be the final solution to our problems.

McGovern's attempt to save some small role for real theological reflection also serves as an example of the numerous contradictory passages that occur in the book. The praxis of which he approves "will involve a faith that is 'above all else political,' but a faith that cannot be *reduced* to politics because faith always includes moments of contemplation and thanksgiving that transcend political realities." While even this notion of faith seems to be a flawed one, he says in the next sentence, without seeming to intend any irony, that this faith, or "practical meditation," will have several factors, including "defining strategies and tactics; . . . linking with other historical forces in society; and drawing up programs for action." What is this but faith "reduced to politics"? McGovern, rather than critically assessing, cites with approval theologians who reduce theology to politics and politics to social science.

Nor does he escape this flaw when he discusses what he sees as the most seriously neglected part of liberation theology, its spirituality. McGovern says that "controversy over issues about Marxism, social analysis, and political readings of scripture has created a distorted image of liberation theology." He complains that this controversy has caused "writings about liberation *spirituality* to be ignored"; writings which "far outweigh works in all the areas that arouse debate." To be sure there is much discussion about spirituality, but like the "faith" cited above, it follows, and is consistent with, a theological method that is wholly political.

For instance, McGovern lauds Segundo Galilea, who does indeed talk about contemplation and spiritual reflection, but the end of Galilea's reflection is that Christianity "be free or prophetic and able to liberate others." The preaching of Jesus, says Galilea, gives a society "values" by which the Church may criticize all forms of "so-

cial and structural sin." Liberation theology does indeed talk a great deal about spirituality, but it is spirituality for a *political* purpose, developed for political ends.

Again, in his approving consideration of their Christologies, McGovern shows that for liberation theologians all theology is political, and thus at the service of a political agenda; "theological" goals are political goals. With this criticism in mind, and thus as sympathetically and subtly as possible, McGovern summarizes the Christologies of Leonardo Boff, Jon Sobrino, and Juan Luis Segundo. In every case the purpose of Jesus' life and teaching is political: Jesus came to proclaim a liberation that is to be achieved through the means of political action. The Kingdom of God is limited to a notion of the liberation of the oppressed and poor. The Kingdom of God is seen as a political challenge to the power structures that worked to create this poverty and oppression. For liberation theologians, Jesus' kingdom most certainly is of this world.

LIBERATIONISTS criticize certain political structures only for the purpose of replacing them with those they think are more "Christian." Despite McGovern's assertions to the contrary, the stated themes of liberation theology are consistently at one with the themes of Marxist political economists. McGovern insists that since some of the major figures he discusses rarely refer directly to Marx, he has shown that they are not Marxist in their orientation and analysis. But the very methodology he attributes to these thinkers leaves no room for any other judgement save that, for them, Christianity insists upon political expression, and only of a certain stripe.

To be sure, to opt for Christianity is to perform a political act. What one says about God has necessary implications for what one says about the *polis*.

But the way that being a Christian has political implications could not be further from what McGovern and his liberationist colleagues advocate. Rather than Christianity presenting a political agenda (either that of the liberation theologians or the Moral Majority), Christianity stands over against all political options, telling us that none is "Christian," that no politics can save us, and that salvation is never political. The liberation theologians are certainly correct in saying that the message of Jesus radically threatens political structures, but this is not because they are oppressive, it is because they are *political*. Christianity proclaims a radical "no" to politics as the ultimate means of ordering life. To be a Christian is to make a judgement that politics is (at best) penultimate, that politics, whether of the right or the left, can never be associated with Christian faith, nor claim to proceed from it. Christianity judges all politics, and endorses none. (Of course some political systems must be criticized more harshly for the relative degree to which they create misery and dehumanize people, such as despotisms of various kinds.)

This is not to endorse political quietism on the part of Christians. The gospel does indeed have a social dimension, and believing the gospel has direct implications for the politics that one opts for. As Fr. Ernest Fortin has said, "Despite its apolitical nature, the

McGovern, rather than critically assessing, cites with approval theologians who reduce theology to politics and politics to social science.

New Testament presupposes the existence of civil society, and recognizes its necessity. . . . The New Testament is perhaps best described as trans-political rather than apolitical." New Testament faith is not and cannot be identified with any political structure or

system, but it does present the believer with a context for understanding both the proper role of the political life, and the goals of human fulfillment around which political institutions may be built. These political institutions can-

It is time for liberation theologians to realize what the people of Eastern Europe and Nicaragua realize: socialism does not, indeed cannot, produce anything but further suffering.

not, though, be identified with Christian faith, as they are always derivative, always lower, and always less than perfect. Christian faith recognizes the role of politics, but it puts "first things" first; it defines the lower in terms of the higher, in direct contradiction to liberation theology.

Liberation Theology and its Critics is a seriously flawed book. Even where it shows signs of some promise, it inevitably falls short. At one point, for instance, McGovern shows quite conclusively that it is an error to call the economies of most Latin America countries "capitalist." As thinkers such as P.T. Bauer and Peter Berger have been saying for many years, these

countries do not meet the criteria of capitalism as it is practiced in North America and Western Europe. But in the same discussion in which he shows that calling Latin American economies "capitalist" is clearly wrong, he says that "none of these observations diminishes the substantive critiques of Latin American systems . . . so that even many opponents of liberation theology judge capitalism a 'dismal failure.'"

The reader is left wondering how one can show that Latin American economies are not capitalist and then conclude that showing their failure is to show capitalism as a failure. It is sort of like proving what a rotter Smith is, and concluding therefrom that one ought to stay away from Jones. (Similarly, McGovern grudgingly acknowledges how misguided dependency theory is, but then discusses the "fact" of dependency.)

Socialism is not simply a flawed economic system; it is inherently dehumanizing. It retards the human spirit and starves the soul. While liberation theology cannot be blamed for the failures of socialism, it certainly must be indicted for endorsing and so closely allying itself with political and economic systems which produce such

rotten fruits. McGovern is correct in saying that "one could hardly view Nicaragua as a 'product' of liberation theology," but one can view Nicaragua as a product of economic policies heartily endorsed by liberation theologians, some of whom took prominent high-level positions in the Sandinista government. Nor can liberation theologians be faulted for their intentions, which are no doubt noble and good—the result of seeing first-hand the miseries of true economic and political oppression.

STILL, it is time for these thinkers to realize what the people of Eastern Europe and Nicaragua are realizing: socialism does not, indeed cannot, produce anything but further suffering. The people who have lived under political and economic systems endorsed by liberation theology do not need to talk about movement "toward" an assessment. Their assessment is in: they have rejected the false promises of liberation theology and its preferred economic order.

Kenneth R. Craycraft, Jr., is Bradley doctoral fellow for the study of religion and politics at Boston College.

Get Real, Mr. Nozick

IN THIS BOOK, the philosopher Robert Nozick undertakes to "think about living and what is important in life, to clarify my thinking—and also my life." The result is a bold and inti-

mate reflection on the author's experiences, hopes, fears, and feelings. But *The Examined Life* is more than the true confessions of a philosopher. For the life examined here raises the

comprehensive and timeless question, "What is a good life for a human being?"

Rightly dissatisfied with the arid abstractions so typical of contemporary social and political philosophy, Mr. Nozick implicitly promises a richer, deeper reflection on life as it is actually lived. His comprehensive ambition is reflected in the variety and weightiness of the topics he takes up. The book consists of 27 relatively short "meditations" (as Mr. Nozick calls his chapters) devoted to subjects like "Dying"; "Parents and Children"; "The Nature of God, the Nature of Faith"; "Sexuality"; "Happiness";

The Examined Life Philosophical Meditations

By Robert Nozick
Simon and Schuster, 308 pp., \$21.95

Reviewed by David Foster