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Series:	Sununu, John, Files
Subseries:	Issues Files

OA/ID Number:	29151
Folder ID Number:	29151-007

Folder Title:
Credit Crunch 1991 [4]

Stack:	Row:	Section:	Shelf:	Position:
G	15	25	1	3

[redacted]

THE WHITE HOUSE
WASHINGTON

[redacted]

DATE: 12-1-90

FROM THE PRESIDENT

TO: Nick Brady
John Sununu

I asked Lud to poll that prestigious organization.

The results are attached.

Interesting.

GB

GB

[redacted]

PHONE CALL FROM LUD ASHLEY

Friday
November 30, 1990
12:15 p.m.

In response to your questions earlier:

Is there a credit crunch or is the economy faced with a different problem?

--51% said that it was a credit crunch
--49% no

Causes of credit crunch?

-- regulators	37
-- regulations	5
-- both	15
-- something else	10

Clark?

-- reappoint	30
-- replace	28
-- no opinion	11

Footnote: There was widespread comment that should Clark be reappointed, it should be w/ the undertanding that regulators in the field would exercise more judgment and balance. It was also suggested that it be recommended to Clark (if reappointed) that there be some kind of ombudsman mechanism put into place to to deal with the incidences (of which there are many) promptly at a high level.

CV

State of South Carolina

Office of the Governor

CARROLL A. CAMPBELL, JR.
GOVERNOR

POST OFFICE BOX 11369
COLUMBIA 29211

November 21, 1990

The Honorable Nicholas F. Brady
Secretary of the Treasury
Washington, D.C. 20220

Dear Nick,

I am writing to call to your attention an absolute nightmare that has been brought about by the RTC. I am speaking of a project on the coast of South Carolina called DeBordieu, and I have enclosed for you a chronology of the events that have taken place.

Nick, I know this project personally, and I know that it was a healthy project, doing well until the RTC took over a Kansas City thrift and through changes of RTC directors finally got someone who has forced this project into bankruptcy. It is a prime example of government mismanagement and bureaucratic inefficiency that must be stopped if this country is to ever pull out of the problems we are now facing.

I also have enclosed for you a copy of a recent Washington Post article which describes how two real estate developments in Florida have not only been allowed to run successfully by the Atlanta RTC office but expanded with RTC dollars. It is unconscionable that a healthy, performing project in my state, which was handled by a different RTC office in Kansas City, has been allowed, indeed forced, into liquidation.

This action hurts my state which hurts my economy, not to mention the people that are involved. But more than that, it hurts me to see a government agency have such a person in control to handle an operation and force it out of business.

Nick, I would appreciate you personally looking into this matter. Although it may be too late to do anything, I hope that it will help stop this from happening in other areas.

Sincerely,

Carroll

Carroll A. Campbell, Jr.
Governor

CACjr:fah

cc The President
Senator Strom Thurmond
Senator Ernest F. Hollings
Senator Donald W. Riegle, Jr.
Rep. Dan Rostenkowski
Rep. Henry B. Gonzalez
Rep. Elizabeth Patterson
The Honorable John Sununu ✓
Mr. David C. Cooke, Executive Director, Resolution Trust Corporation

DeBORDIEU AND THE RESOLUTION TRUST CORPORATION

****

Background

In 1985, North Inlet Corporation ("NIC") was formed to acquire the undeveloped acreage at DeBordieu Colony ("DeBordieu") with Peoples Heritage Federal Savings & Loan Association ("Peoples"), a Kansas thrift, under a joint venture arrangement whereunder Peoples funded the acquisition and development costs in return for a 50% net profits interest. DeBordieu was and is an exclusive, private, ocean front, residential community consisting of 2,700 acres located between Georgetown and Pawley's Island, South Carolina, along the Atlantic Ocean. NIC has been one of the largest employers in Georgetown County (over 140 employees) and the development has had a significant positive economic impact in that area of South Carolina. For the tax year 1990, NIC was the fifth highest taxpayer in Georgetown County. Expenditures generated by DeBordieu in the purchase of local materials, supplies and services have been calculated at $40 million for 1989 and estimated to be in excess of $43 million for 1990.

Since the date of acquisition by NIC and Peoples, DeBordieu has been a highly successful development with over 600 properties/units transferred, totaling over $94 million. In turn, DeBordieu was a successful investment of Peoples, yielding to Peoples (until it was taken over by the Resolution Trust Corporation in August, 1989), a return of over 16%. Meanwhile, the stockholders in NIC deferred their profit as agreed until all funds were repaid to Peoples. When the RTC initially took over Peoples, it withheld normal funding until a full audit was accomplished on the project (by Price Waterhouse, which was satisfactory).

In late September, 1989, Hurricane Hugo hit the South Carolina coast, causing millions in losses and damages at DeBordieu. The Resolution Trust Corporation ("RTC") provided some emergency monies toward hurricane clean up and repair, which monies were available in the Peoples funding facility. This amount was based on estimates made shortly after the storm. At the time, moreover, it was understood and agreed that this amount would probably have to be revised upward, based upon the ultimate costs attributable to the storm.

With these additional funds, together with a modest amount collected through the DeBordieu POA, NIC went about the task of repairing (replacing) its dunes, roads, water, sewer, removal of hundreds of downed trees, funding operations, as well as making scheduled payments to the RTC. Because sales projections for the first six months following the storm were not achieved (these assumptions were factored into the estimated net cost of the Hurricane) and because the storm clean up itself came to an additional $750,000, an approximate $2,000,000 shortfall was experienced. The additional proceeds advanced by the RTC were insufficient to cover all of the Hugo related costs and NIC found itself in early 1990 with funding requests which RTC was not funding. By May, 1990, although DeBordieu had rebounded and sales were back to pre-Hugo levels, past due payables (due to unfunded draws being held up by the RTC) exceeded $1,000,000 and the project--due solely to the failure of the RTC to fund--began to experience financial difficulty. Two RTC officials spent two days in mid-May inspecting the project in order to make recommendations as to how to respond to this Hugo-created shortfall. Following the inspection and financial analysis, it was reported to NIC that a combination of readvancing under the existing joint venture arrangement and deferring interest payments (i.e. allowing NIC to use all cash proceeds generated from sales to catch up the past-due payables and operate the project) would be possible. In direct contrast to this commitment, however, and in June, a different RTC account officer was assigned to DeBordieu (the fourth since August, 1989) and NIC was told that it must disregard the agreement just made by the RTC. NIC was then notified in early July that the RTC would not only <u>not</u> advance additional proceeds as agreed, but that proceeds from lot closings would also <u>not</u> be available to operate the project. The effect of this position would have been to close DeBordieu down. This position was incomprehensible, in that the result would be a significant loss to the RTC and the taxpayer, not to mention the loss of 140 plus jobs in Georgetown County and the resulting damage to the area economy.

In late July, a meeting was held in Kansas City with RTC officials to discuss the situation and to determine whether and on what basis the RTC would agree to continue funding. An agreement was reached at the meeting which, in effect, allowed North Inlet six (6) months from August 1 to resolve the asset, during which time North Inlet would have the use of a limited amount of cash it generated from sales, etc. associated with the project (i.e. the RTC would not be funding any new monies). It was represented at the meeting that the agreement would take between two to four weeks to be confirmed in Washington and that approval was anticipated. A key trade off in this matter, as far as the RTC was concerned, was that North Inlet and its principals agree that the funding structure was not a joint venture (which it was) and that North Inlet waive and relinquish all claims it may have with respect to the RTC and its employees. Another important provision to the agreement was that NIC and its principals would continue to manage the project for no compensation or remuneration. NIC and its principals agreed to these conditions. It was also at this meeting that, for the first time, the RTC stated it would convey its interest in DeBordieu for the amount outstanding. When asked if it could take back financing in conjunction with resolving the asset, however, the RTC flatly declined. Prior to this, NIC had asked the RTC several times what amount it would accept for its joint venture interest, with no response. In other words, on the one hand, the RTC had basically stopped funding the project (in violation of its funding obligations); on the other, the RTC would not tell NIC how to replace them as joint venture partner.

During August, the RTC advised that the July agreement was being processed through Washington. In late August, however, NIC was advised by the RTC that Washington had declined to go along with the agreement reached in Kansas City. When NIC requested a meeting in Washington to review the decision, however, it was advised that Washington had not actually made the decision, but that the regional office had changed the agreement (to require the principals in NIC to guarantee all future funding). A request was made to meet with the regional office and this was denied.

This notification came on August 30, the day before real property taxes were due (and as to which the RTC had agreed to provide funding.) The impact of not paying the taxes by August 31 was that the local newspaper published a list of property to be sold at the September tax sale, which included DeBordieu, and, for the first time, the word "got out" that DeBordieu was experiencing financial difficulties. The result of this was that (i) it became more difficult to conduct business as usual with traditional vendors, etc. (ii) sales were definitely adversely impacted and (iii) the prospects of lawsuits from those with past-due accounts definitely increased. This was further exacerbated in late September, when NIC cut back its staff due to the failure of the RTC to fund. A story on the staff cut back was carried in The State (the largest daily newspaper in South Carolina) in late September, together with the "rumor" that the project had a failed savings and loan which was not funding. The word then spread that the RTC was involved with the project which further adversely impacted DeBordieu. Additionally, rumors started that Edens & Avant was experiencing financial difficulties (Edens & Avant has no relationship to NIC). The failure of the RTC to fund the project, combined with its indecisions and delay as to how to deal with same definitely had a material adverse impact on DeBordieu.

On September 28, RTC counsel called to advise that the agreement reached in late July would be reinstated with slight modifications and additions. The revised agreement was prepared and sent out again to the RTC. Under the agreement, NIC agreed to give up all interest in DeBordieu under an orderly transition whereunder DeBordieu would continue to operate normally, with vendors paid, DeBordieu employees retained and the project preserved. Meanwhile, the management at the project was informed that an agreement had been reached as to ongoing funding so that they could commit to the critical past-due vendors that some payments would be made shortly. Also in reliance on this agreement, NIC has proceeded to close sales, assuring the purchasers that all was fine and to send funds to the RTC.

Once again, however, the RTC refused to honor the September 28 agreement at a time that the project was close to shutting down. When it became obvious that the RTC was not interested in preserving this project, NIC brought its lawsuit to require the RTC to honor its obligations to DeBordieu.

As far as resolving the asset with the RTC is concerned, the following factors have made the matter particularly difficult:

1. Until late July, the RTC would not tell NIC what it would take for the asset. Previous to July, the RTC had indicated that the asset would command a premium above the outstanding funds--but it would never say what the premium was.

2. Until DeBordieu could be brought back from Hugo, there was no practical way anyone would or could consider replacing the RTC.

3. Just when DeBordieu made it back from Hugo, the RTC ceased funding and word of the RTC involvement and the resulting non-payment of taxes and staff cutbacks very definitely adversely impacted prospects for any third party agreeing to replace the RTC.

4. Although the value of DeBordieu substantially exceeds the amounts outstanding, outside financing has become increasingly difficult over the last several months. The fact that the RTC would not even consider assisting with financing is puzzling at best.

NIC has recognized and is sensitive to the fact that the RTC is not in the funding business and is primarily directed to liquidate assets, while, at the same time, maximizing recovery to the taxpayer. Before the RTC take over, this was the most successful asset in the Peoples portfolio. While Hugo impacted the asset and the timing of its resolution, NIC successfully overcame the effects of Hugo and brought sales back to pre-Hugo levels. The conduct by the RTC has only succeeded in bringing one of the most successful developments on the coast of South Carolina to the brink of collapse. These irresponsible actions are not fair, not right and also not legal. NIC, therefore, commenced its suit, both to preserve this project, as well as to hold those in the RTC accountable for the multiple wrongdoing against DeBordieu, its property owners and the Georgetown area.

/pc

*In 1985, North Inlet Corporation ("North Inlet") joined with Peoples Heritage Federal Savings & Loan Association to acquire the undeveloped acreage at DeBordieu, near Georgetown, South Carolina.

*Between 1985 and August, 1989, the following occurred:

> *Over 550 properties/units were transferred at DeBordieu, amounting to over $75 million in sales (including 100 permanent homes).
>
> *DeBordieu became the fifth largest taxpayer in Georgetown County.
>
> *The value of goods, services and purchases generated from DeBordieu exceeded $40 million for 1989.
>
> *DeBordieu became one of the larger employers in Georgetown County.
>
> *The investment by Peoples Heritage yielded in excess of 16% to Peoples.

*In August, 1989, the Resolution Trust Corporation ("RTC") took over Peoples.

*On September 22, Hugo hit the South Carolina coast, causing the following:

> *Significant losses at DeBordieu (over $5 million <u>not counting</u> any losses to private homes, etc.)
>
> *DeBordieu golf course closed until March, 1990.
>
> *Several million of property contracts lost.

*In response to Hugo, the RTC initially provided monies (otherwise earmarked for operations and development) to use for Hugo clean up and repair, agreeing to reallocate and readvance once ultimate costs were determined.

*Beginning in March, 1990, RTC stopped funding draws--just at the time DeBordieu had made it back from Hugo and was restarting sales/development.

*Between March and June, 1990, DeBordieu had record closings and projected sales for the balance of 1990 were equally as strong.

*From March to June, North Inlet continued to request the RTC to reallocate and readvance funds due to the Hugo-created shortfall (during this time over $1,000,000 in payables were unfunded by the RTC).

*In mid-May, the RTC agreed to reallocate and readvance.

*In early June, however, another RTC account officer was assigned (the 4th since August, 1989) and he did the following:

*Withdrew agreement reached in May to reallocate and readvance to cover the Hugo-created shortfall.

*Requested (and received) an enormous amount of financial and operational detail as to DeBordieu (most of which was already in the RTC file).

*Directed North Inlet as to what payables it could (and could not) pay.

*Refused to readvance the proceeds from lot sales which had been paid over to the RTC.

*Refused to tell North Inlet what the RTC would take for its interest in DeBordieu.

*On July 25, a meeting was held at the RTC office in Kansas City, Missouri, attended by RTC representatives and North Inlet representatives and agreement was reached simply to allow North Inlet to operate on cash it generated from lot sales (i.e. no new monies).

*On August 30, North Inlet was advised that the July 25 agreement was not operative and that the RTC wanted to come in immediately and take over the project. This occurred at the time that there were over 40 new housing starts at DeBordieu and when there were contracts and property reservations in hand, which would have covered all past-due payables and have operated the project at normal levels going forward.

*In early September, the Georgetown Times included the unsold DeBordieu property with properties to be sold due to non-payment of taxes (which the RTC failed to fund).

*In late September (the 28th), the July 25 agreement was resurrected with the additional provision of an orderly transition of ownership to the RTC and with vendors paid, operations continued uninterrupted and staff kept intact.

*In mid-October, the RTC once again reneged--this time on the September 28 agreement and threatened foreclosure.

*On November 5, North Inlet and its principals brought a lawsuit in federal court against the RTC and the RTC account officer, requesting, among other matters, the following:

*That the RTC comply with its joint venture obligations to fund the project.

*Specifically, that the July 25 agreement, as modified by the September 28 agreement, be complied with.

The Washington Post

SUNDAY, NOVEMBER 11, 1990

Unloading S&L Properties

Agency Has to Spend Money to Make Money

By Susan Schmidt
Washington Post Staff Writer

VERO BEACH, Fla.—From the gates, the towering palms and red-tile roofs of Grand Harbor's villas shimmer in the Florida heat like a mirage. Inside, sprinklers whir quietly. The well-kept courtyards, however, are empty and the villas sparsely occupied.

Tee off at 9 a.m.? No problem, there is always room at the community's two golf courses if any of the 42 year-round residents want to play. Dine on exotic game? Order antelope or buffalo steak at the Grand Harbor's beach club. Reservations are a snap.

More than 100 employees—carpenters, laborers, gardeners, waiters, architects—are tending and even expanding this massive, half-finished luxury community. They are paid by the federal government, which is pumping millions of dollars into Grand Harbor, a property it inherited from a failed savings and loan and is trying to sell.

"The residents are happy as blue blazes," said project manager John Fleming, especially since it finally looks like the long-promised marina and boat slips are going to get built.

Why is the government pouring millions of dollars into a project with

See RTC, A21, Col. 3

■ *New England banks fight to survive real estate slump.* Page H1

RTC Finds It Has to Spend Money to Make Money

RTC, From A1

losses expected to cost taxpayers $40 million to $50 million?

At the most basic level, the answer is simple: sometimes, the only way to make a dollar is to spend a dollar. The Resolution Trust Corp. (RTC), the federal agency in charge of cleaning up failed savings and loans, is discovering that real estate adage as it tries to unload 40,000 properties now under its control.

For taxpayers already shaking their heads over the cleanup's estimated $500 billion bill, the government's success or failure in the real estate business has a bottom-line significance. Every dollar going into government coffers from a property sale is a dollar that won't have to be provided by the Treasury Department.

When Congress created the RTC last year to manage the savings and loan cleanup, the idea was that it simply would sell the real estate for cash, "as is," as fast as it could.

But things have changed. The RTC not only is saddled with a huge and growing real estate inventory, it is operating in a market that "stinks to high heaven," in the words of Deputy Treasury Secretary John Robson.

On top of that, a credit crunch has made it hard for potential buyers to find banks willing or able to finance the purchase of RTC properties.

The RTC now is scrambling to keep from getting buried in unsalable property. The agency is finishing projects like Grand Harbor, systematically cutting prices and planning to auction 30,000 homes.

In addition, an aggressive program of government financing has been announced. And in cases where there is simply no market for some of its property—undeveloped land in Texas, for example—the RTC is holding on to property in hopes the market will improve.

The goal of these efforts is to help sell property when possible and maximize the government's proceeds when it does. But in the process, it will look to many like throwing good money after bad.

"It's a terrible dilemma: They are under pressure to conserve cash and not depress values, and to get rid of the stuff quickly," said Robert Litan, an economist with the Brookings Institution in Washington. Those goals, said Litan, are "mutually inconsistent."

There has been plenty of pressure on the RTC, from the real estate market to the halls of Congress, to find ways to move property. But a few voices have urged caution, especially when it comes to putting more money into projects or having the RTC provide financing.

The government's first efforts to to deal with the thrift crisis in 1988 underscored the problem. The deals worked out in those early years, before the creation of the RTC, have been widely condemned as a financial disaster, in part because they shackled taxpayers with years of government interest and subsidy payments to investors who agreed to take over troubled thrifts.

"The more liberal the terms, the easier to sell," said Steve Fritz, a top official of the Dallas office of the RTC. But the agency has reason to be careful, he said. The liberal terms S&Ls offered buyers also caused the very problem the RTC is now trying to cure.

"It was very easy for [these buyers] to walk away" from a project,

See RTC, A22, Col. 1

Agency Cuts Back Prices To Sell S&L Properties

RTC, From A21

Fritz said. "That's the reason we have a lot of these properties in our portfolio."

Many in the real estate industry, however, think the RTC has no choice but to make concessions to buyers. According to John G. Aldridge, an Atlanta lawyer who specializes in distressed properties, "Anyone who doesn't understand that doesn't understand the nature of the assets we're dealing with.

"Today's market is just brutal. The RTC real estate is not high quality, and we've got plenty of high-quality real estate in trouble. [For the RTC], it would be better to get 10 [percent] or 20 percent cash down and never get another dime," Aldridge said.

Would-be buyers have found that loans for commercial properties have dried up in many parts of the country.

"A restructured project is almost by definition a lower-quality project, and banks are very worried by less than [highest-quality] projects," said Lachlan Seward, a specialist in distressed properties. "There's a stigma that attaches to it."

RTC officials have been hearing that from around the country and last month they changed regulations to make it easier for buyers to get government financing and increased the amount available to $1.2 billion. Where agency employees were told a few months ago to offer financing sparingly, they now have been instructed to "lend up to the limits" of the money currently available.

Donald Crocker, president of the Alexandria real estate management firm J.E. Robert Co., said that financing extends and magnifies the government's risk if property values decline further or if interest rates decline or the buyer later turns around and sues the government, claiming to have been mislead.

Thrift industry analyst Bert Ely also is concerned. "This has put the RTC in a very difficult situation. How much risk do they take in the financing?"

The RTC, however, is going beyond financing in its efforts to sell real estate in the current poor climate. The efforts include:

■ Cutting prices. "We want to make aggressive adjustments on properties that have not been selling," said Al Esther of the RTC's Tampa office. The current list prices are often too high, he said, because they are based on appraisals that do not account for the recent market deterioration. RTC officials are systematically cutting prices for property that has languished six months or more, or getting appraisals updated.

■ Auctioning huge blocks of residential real estate to the highest bidder. RTC Chairman L. William Seidman recently said the agency will auction about 30,000 homes worth less than $100,000 each next year.

■ Offering large institutional investors—pension funds, insurance companies—packages of real estate, bonds and loans at deep discounts.

To sell Grand Harbor in a sluggish market, for example, RTC officials believe they must spend money to keep the community alive in the eyes of potential buyers.

The former developer's hard-won permits to build a marina on the ecologically fragile Intracoastal Waterway will expire at the end of 1991.

If the $4 million construction project doesn't get underway soon, project officials said, the market value of the property, estimated by some at $40 million to $50 million, could deteriorate by half.

In that case, said project manager Fleming, Grand Harbor could become "Lost Harbor," a gigantic white elephant carried on the backs of taxpayers.

The RTC inherited Grand Harbor nearly a year ago when it took over City Savings Bank of Somerset, N.J. City Savings had taken the project back from the developers in 1988, after sinking nearly $100 million into it.

The project originally was planned as a community of 2,800 condominiums, with two golf clubs, a beach club, an upscale shopping center and a marina envisioned as a small-scale version of Baltimore's Inner Harbor.

"It may have been a project that was too big for what they were capable of doing," said Fleming, who took over the project for City Savings.

The thrift's plan, he said, was to get the infrastructure and some amenities in place, then sell it piecemeal to builders for about $100 million.

In the end though, said Fleming, "It was too big a bite for the bank, too."

Late last year, the RTC arrived.

"Officials from Atlanta and Washington came down and worked the figures for a week," Fleming said. "They said [to] only spend to protect and preserve the value of the property. We agreed to reduce expenses as low as possible, and they agreed to keep the clubs open and the [construction] activity up."

Since then, said Peter Brignet of the Atlanta office of the RTC, "We have expended great effort and money . . . to keep it alive in the eyes of homeowners and the eyes of buyers."

The nearly 500 completed condominiums, about 200 of which have been sold, are carefully maintained, as are the two golf courses. Construction workers are busy completing 48 town-house villas, as well as dredging the harbor and preparing for the marina.

The RTC has put at least $12 million into the project, agency records show. Officials have an interested buyer, and they said they do not want to tip their hand should that deal fall through by revealing what they hope to get for the project or what they expect it to ultimately cost taxpayers.

The RTC has taken a similar approach to other large projects. One of them, Huntington, a 1,245-acre mixed-use project near Miami, was in the early stages of development when the RTC took it over.

The agency has spent about $10 million on land preparation and completion of two office buildings on the site to help bring in buyers.

A completed office building, especially one already occupied by tenants, is cheaper to carry and much easier to sell because the buyer has a stream of rental income coming in from tenants, real estate experts said.

But if the upfront costs to the RTC for tenant improvements and for brokerage fees are too high, the final sales price may not be enough to cover the extra expense.

"These are very difficult decisions," said Brignet.

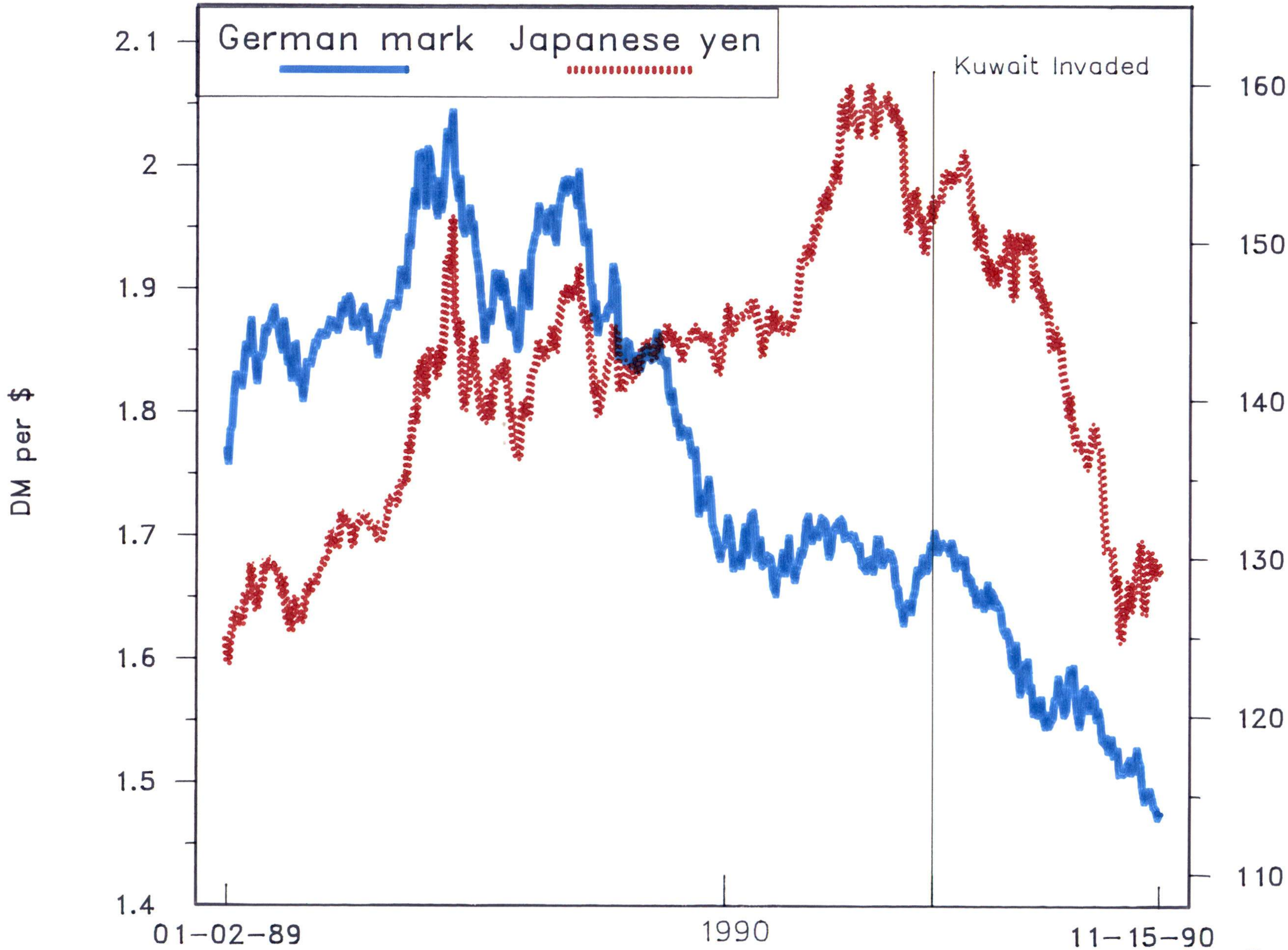
Across the state from Huntington, in Fort Myers, the RTC decided not to complete a Holiday Inn hotel. The exterior was already largely done, so it was protected from the elements. And the agency decided it did not intend to get in the business of running a hotel if it didn't sell when it was completed.

Project completions, seller financing, price cuts, auctions, "it doesn't matter what you wrap it in, it's all a fancy way of dealing with price," Robson said. "Nobody's gonna buy this stuff for its souvenir value. They want to make a profit."

The cost to taxpayers is not lost on Grand Harbor residents like Archibald Nevitt, a retired businessman who praises the RTC's efforts at the project.

"Everywhere I go people have said I'm paying for your Grand Harbor," he said. "I'm very sorry that it's part of the savings and loan fiasco."

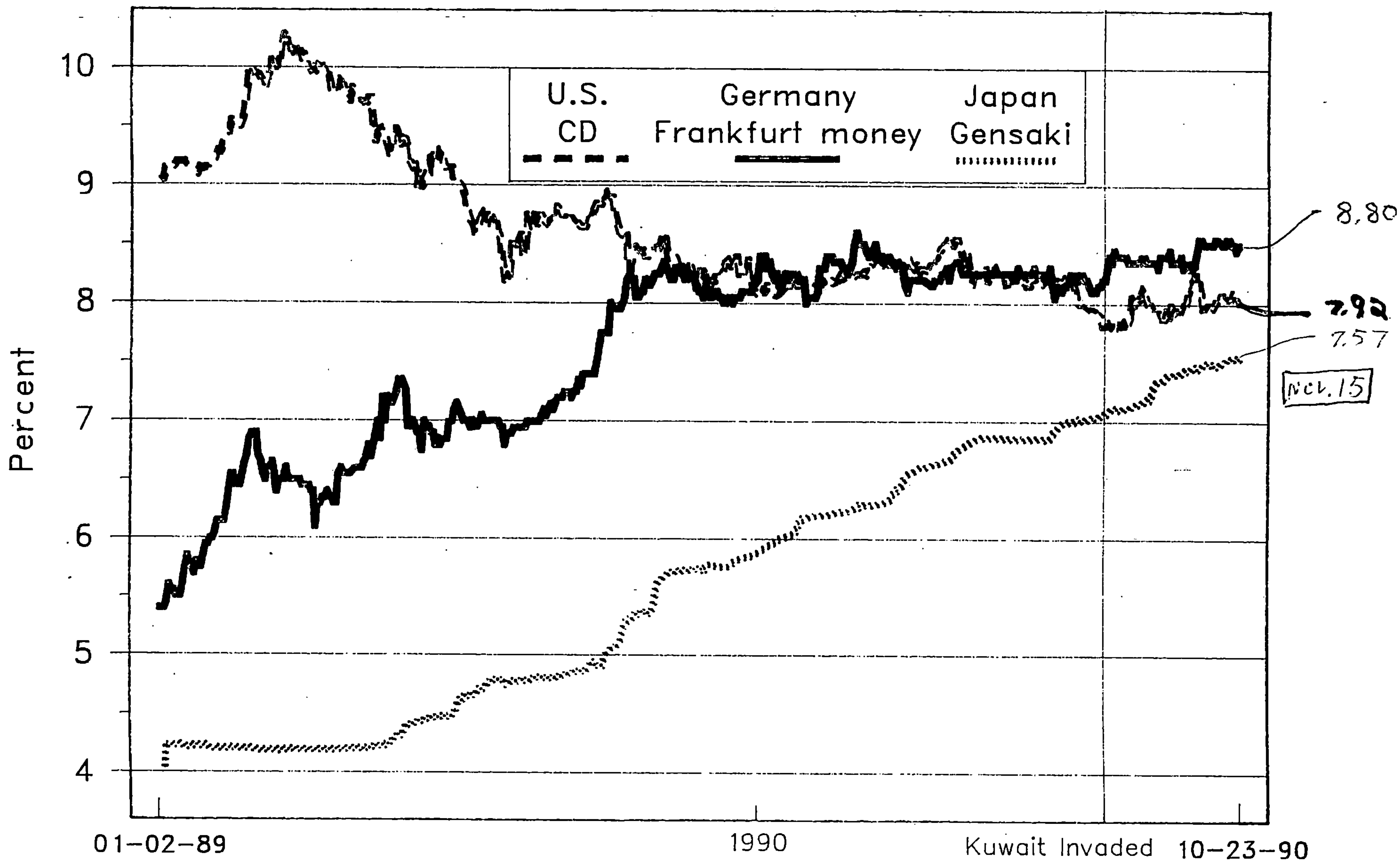
The Dollar Since 1989



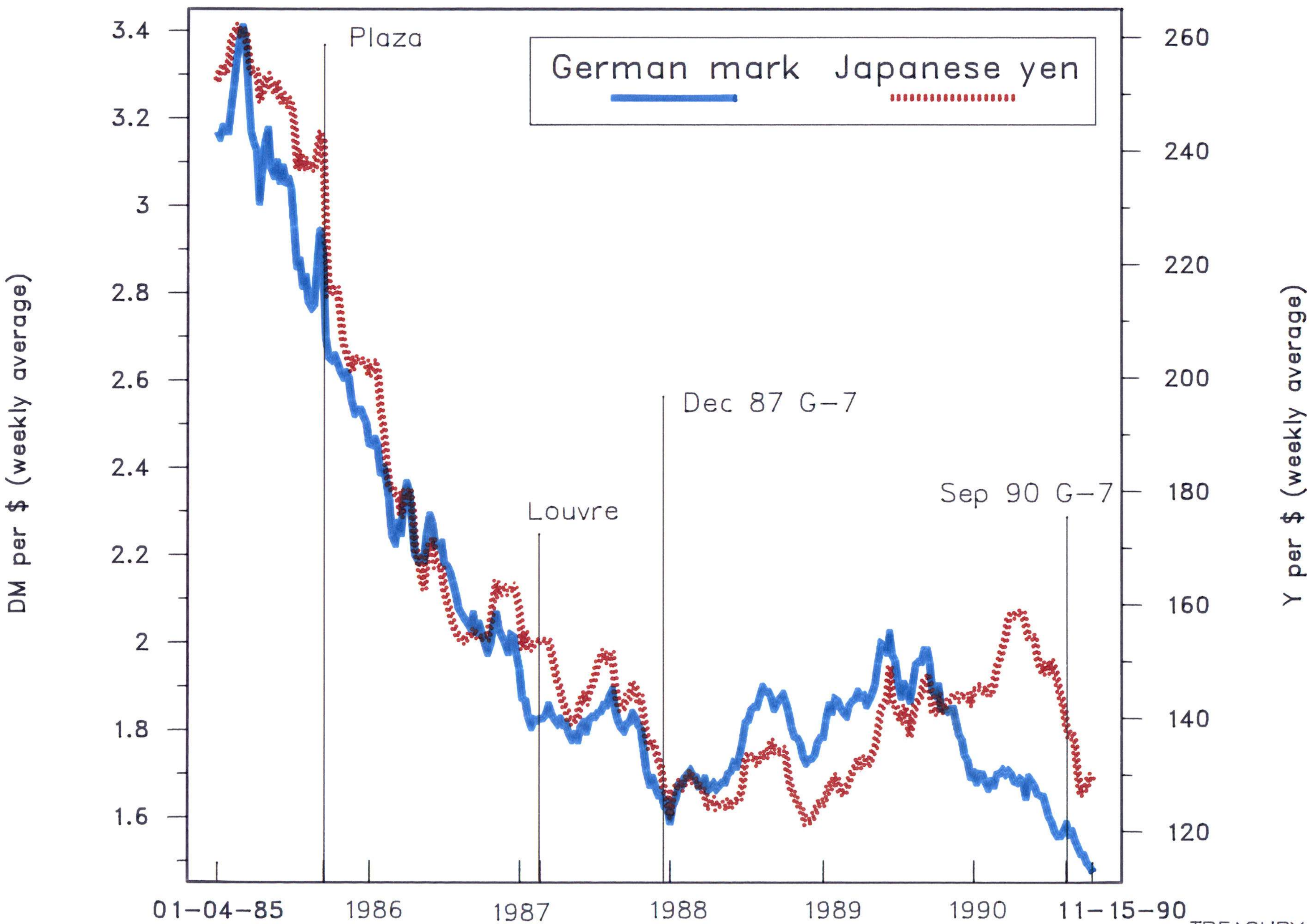
Treasury
11/15/90

Short-term (3-month) Interest Rates

Since 1989



The Dollar since 1985...



TREASURY
11/15/90

FOREIGN DEPOSITS FOR SELECTED MULTINATIONAL BHCS

BHC NAME	CITY	NON-INT BEARING	INT BEARING	TOTAL	DISTRICT
BANK OF BOSTON CORPORATION	BOSTON	337,179	6,801,884	7,139,063	1
BANK OF NEW YORK COMPANY, INC. THE	NEW YORK	160,469	13,665,285	13,825,754	2
BANKAMERICA CORPORATION	SAN FRANCISCO	1,316,000	17,124,000	18,440,000	12
BANKERS TRUST NEW YORK CORPORATION	NEW YORK	605,000	17,746,000	18,351,000	2
CHASE MANHATTAN CORPORATION	NEW YORK	1,819,621	30,809,331	32,628,952	2
CHEMICAL BANKING CORPORATION	NEW YORK	112,000	6,480,000	6,592,000	2
CITICORP	NEW YORK	6,124,000	76,762,000	82,886,000	2
CONTINENTAL BANK CORPORATION	CHICAGO	63,751	5,521,571	5,585,322	7
FIRST CHICAGO CORPORATION	CHICAGO	272,000	15,156,000	15,428,000	7
FIRST INTERSTATE BANCORP.	LOS ANGELES	139,453	744,240	883,693	12
J.P. MORGAN & CO. INCORPORATED	NEW YORK	961,071	31,820,110	32,781,181	2
MANUFACTURERS HANOVER CORPORATION	NEW YORK	211,000	18,171,000	18,382,000	2
MELLON BANK CORPORATION	ROBINSON TOWNSH	85,708	1,796,717	1,882,425	4
NCNB CORPORATION	CHARLOTTE	10,934	2,328,808	2,339,742	5
SECURITY PACIFIC CORPORATION	LOS ANGELES	312,000	6,699,000	7,011,000	12
WELLS FARGO & COMPANY	SAN FRANCISCO	0	239,732	239,732	12
		12,530,186	251,865,678	264,395,864	

Note: For the year 1989, the six largest New York bank holding companies reported foreign office total liabilities that were nearly 18% in excess of their foreign office deposits. Foreign non-deposit liabilities consist principally of foreign borrowings.

SOURCE : Y-9C DATA AS OF JUNE 30, 1990 ($ THOUS)

7

BRIEFING ON BANKING AND CREDIT ISSUES

Cred

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	-- Largest holding companies (Fed)	C
	-- Insurance fund (FDIC)	D
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4.	Is there a credit crunch? If yes, why? (Discussion)	
5.	Contingencies (Discussion)	

FEDERAL REGULATION OF COMMERCIAL BANKS

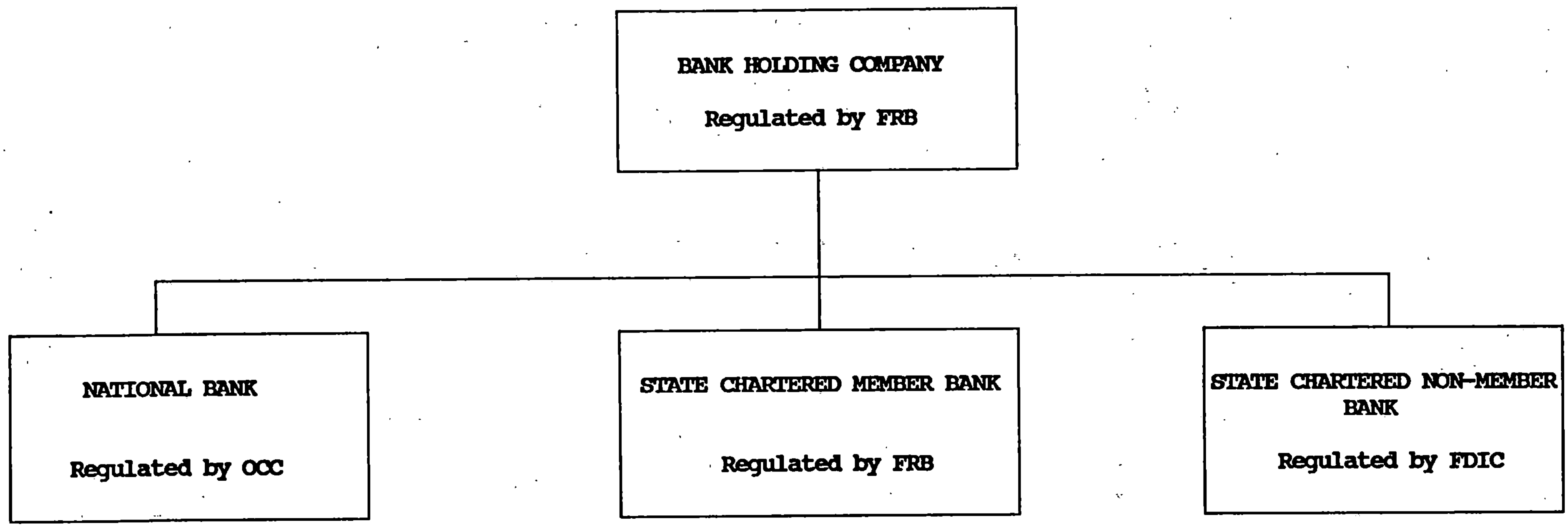


CHART 1

FEDERAL REGULATION OF COMMERCIAL BANKS

BANK HOLDING COMPANY

Regulated by FRB

Number: 5,878
Assets: $2,700B

- Citicorp
- Bank America Corp.
- Chase Manhattan Corp.
- Security Pacific Corp.
- J. P. Morgan & Co.

NATIONAL BANK

Regulated by OCC

Number: 4,066
Assets: $1,992B

- Citibank
- Bank of America
- Chase Manhattan Bank, NY
- Security Pacific
- Wells Fargo

STATE CHARTERED MEMBER BANK

Regulated by FRB

Number: 1,020
Assets: $567B

- Morgan Guaranty Trust
- Bankers Trust
- Manufacturers Hanover
- Chemical Bank
- Bank of New York

STATE CHARTERED NON-MEMBER BANK

Regulated by FDIC

Number: 7,414
Assets: $801B

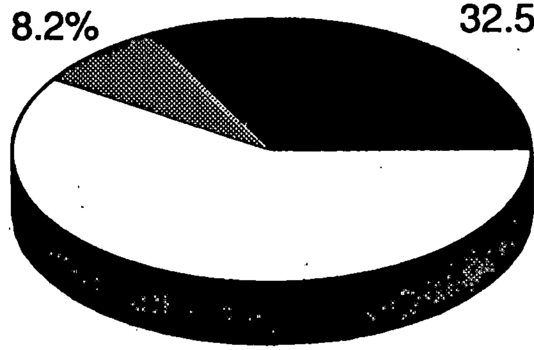
- Union Bank
- Boston Safe Deposit and Trust
- Chase Manhattan (USA), DE
- American Express Centurion
- Bank of Hawaii

Note: Number and assets of BHCs as of year-end 1989 (FRB); number and assets of banks as of June 30, 1990 (FDIC); data on savings banks not included.

CHART 2

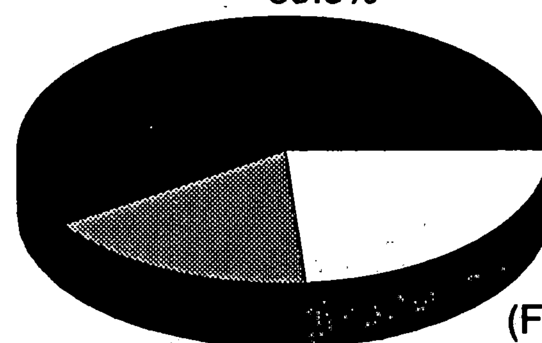
Insured Commercial Banks By Charter Type

Number of Banks



12,500 Banks

Assets



$3.4 Trillion

Chart 3

Source: FDIC, Data as of June, 1990.

Financial Assets Held by Commercial Banks
1974-1989

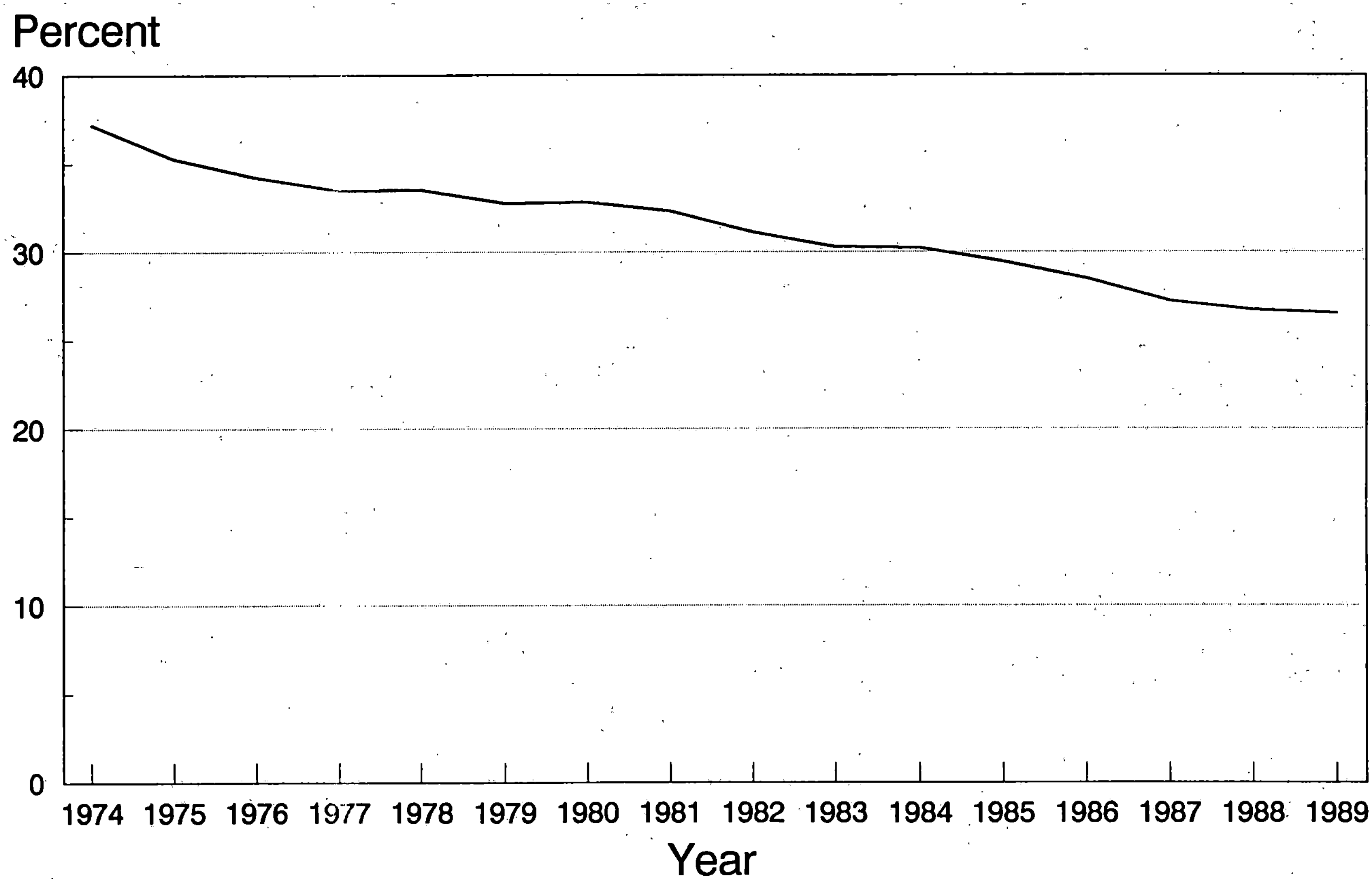
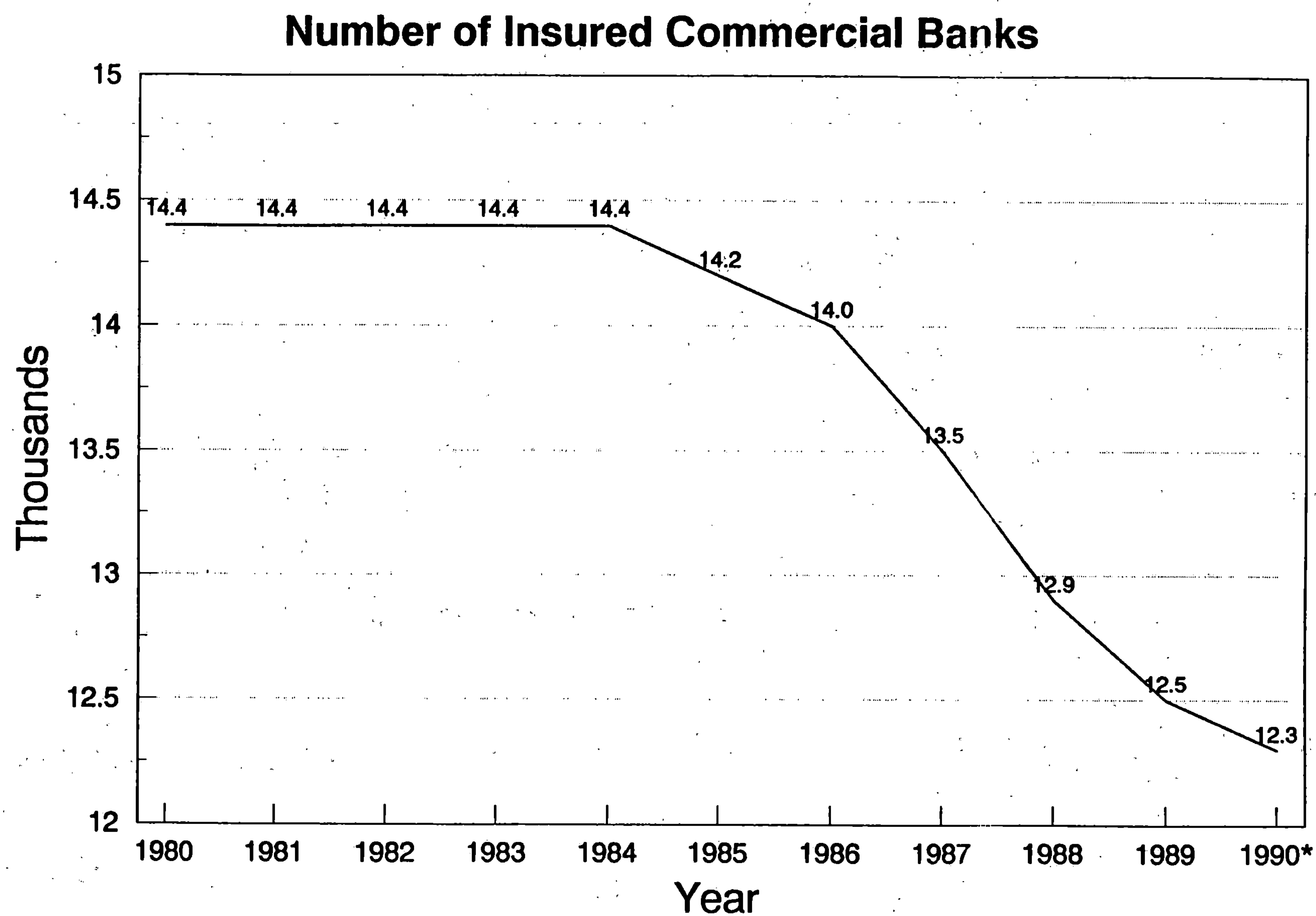


CHART 4



* Projected at year-end 1990.

CHART 5

NUMBER OF BANKS IN MAJOR INDUSTRIALIZED COUNTRIES

	Number of Banks
United States 1/	12,500
United Kingdom 2/	536
West Germany 3/	915
Japan 4/	154
Canada 5/	65

1/ Data as of June 1990. Source, FDIC.

2/ Data as of June 1990. Source U.S. Treasury.

3/ Data as of 1989. Source, U.S. Treasury.

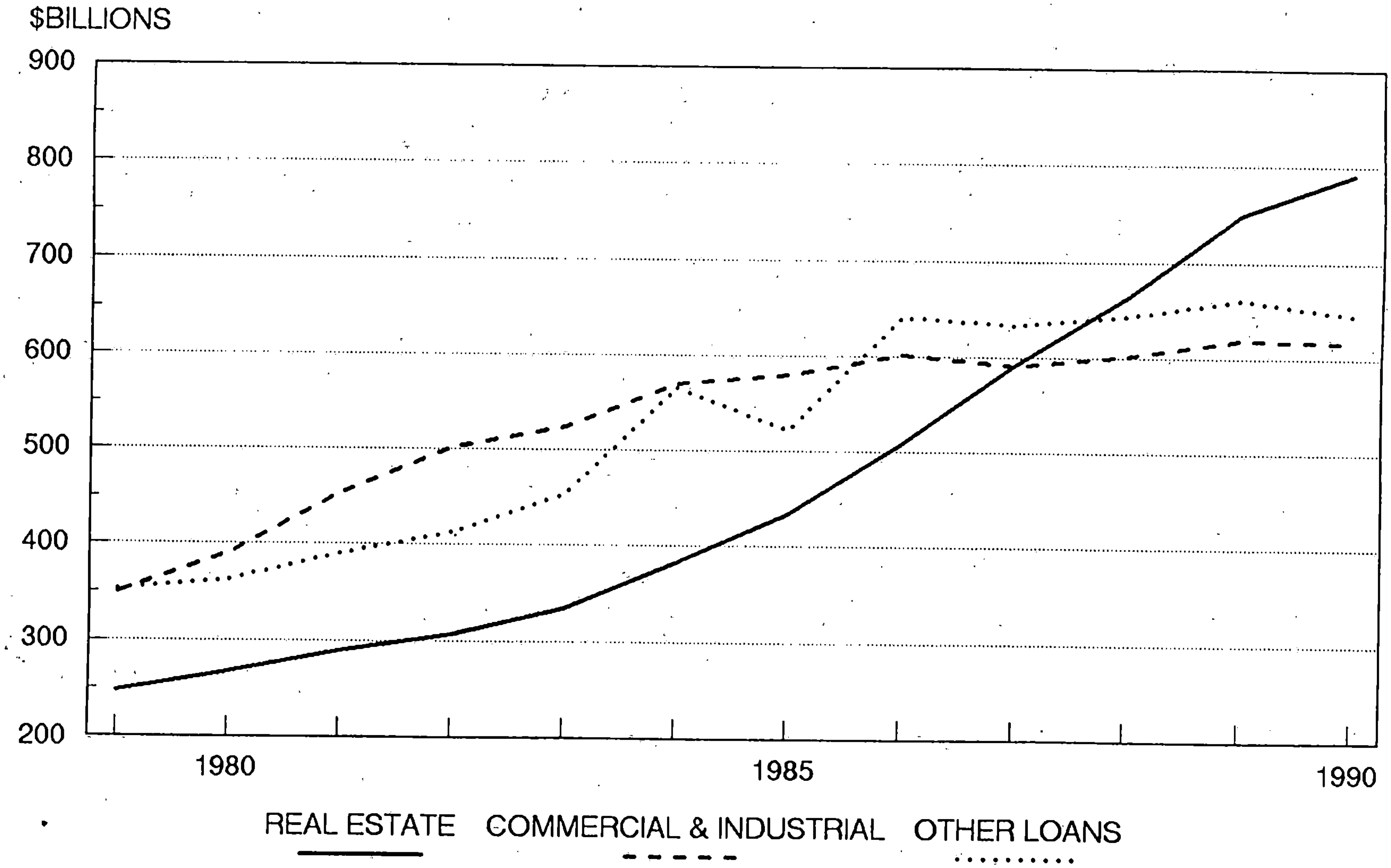
4/ Data as of April 1990. Source, U.S. Treasury.

5/ Data as of 1989. Source, U.S. Treasury.

CHART 6

Chart 1

LARGEST LOAN CONCENTRATION IN REAL ESTATE

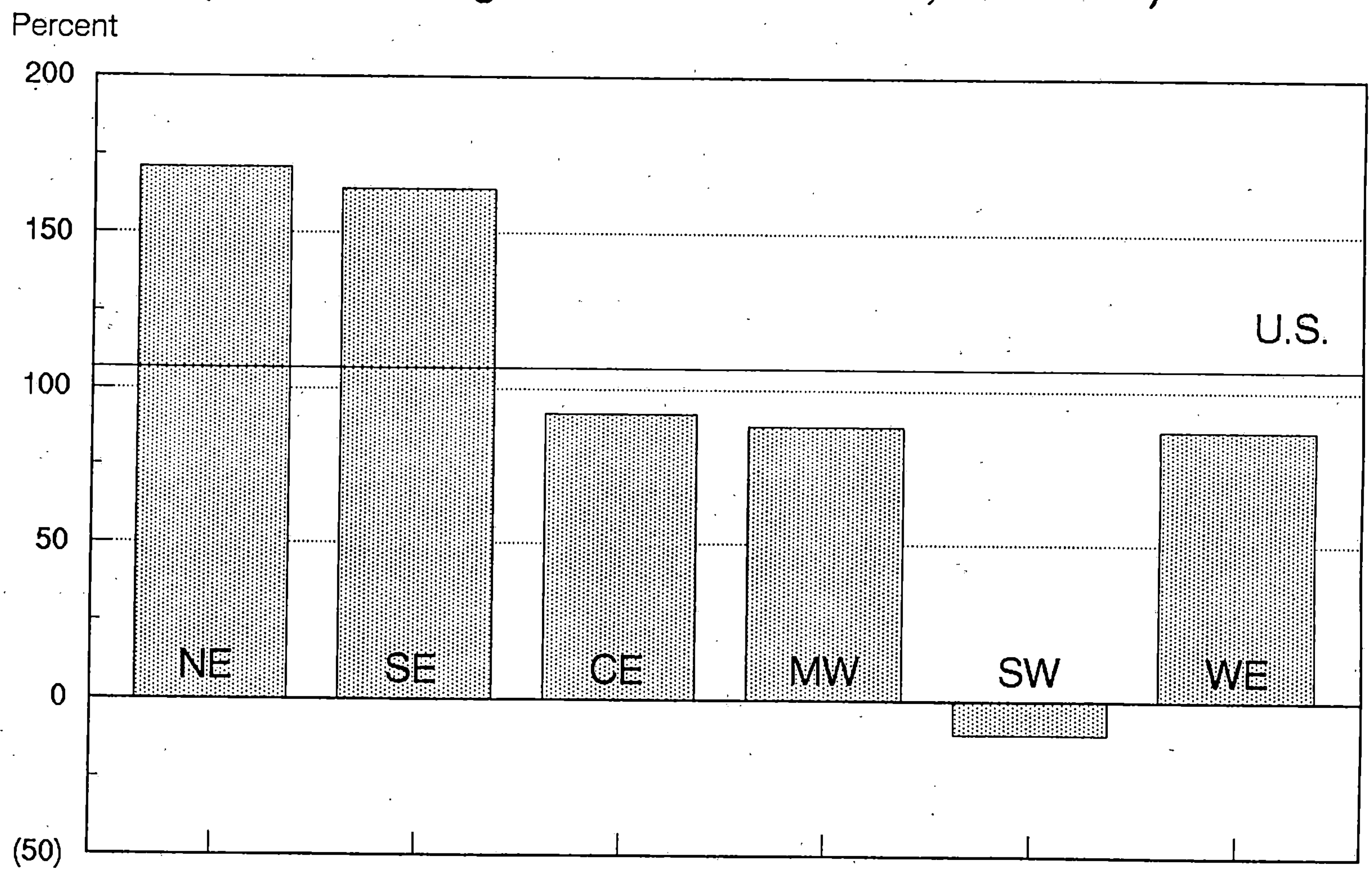


Source: Call Reports
Industry & Financial Analysis (11/6/90)

Chart 2

EAST DOMINATES REAL ESTATE LOAN GROWTH

(Percent Change in Real Estate Loans, 1984-1990)

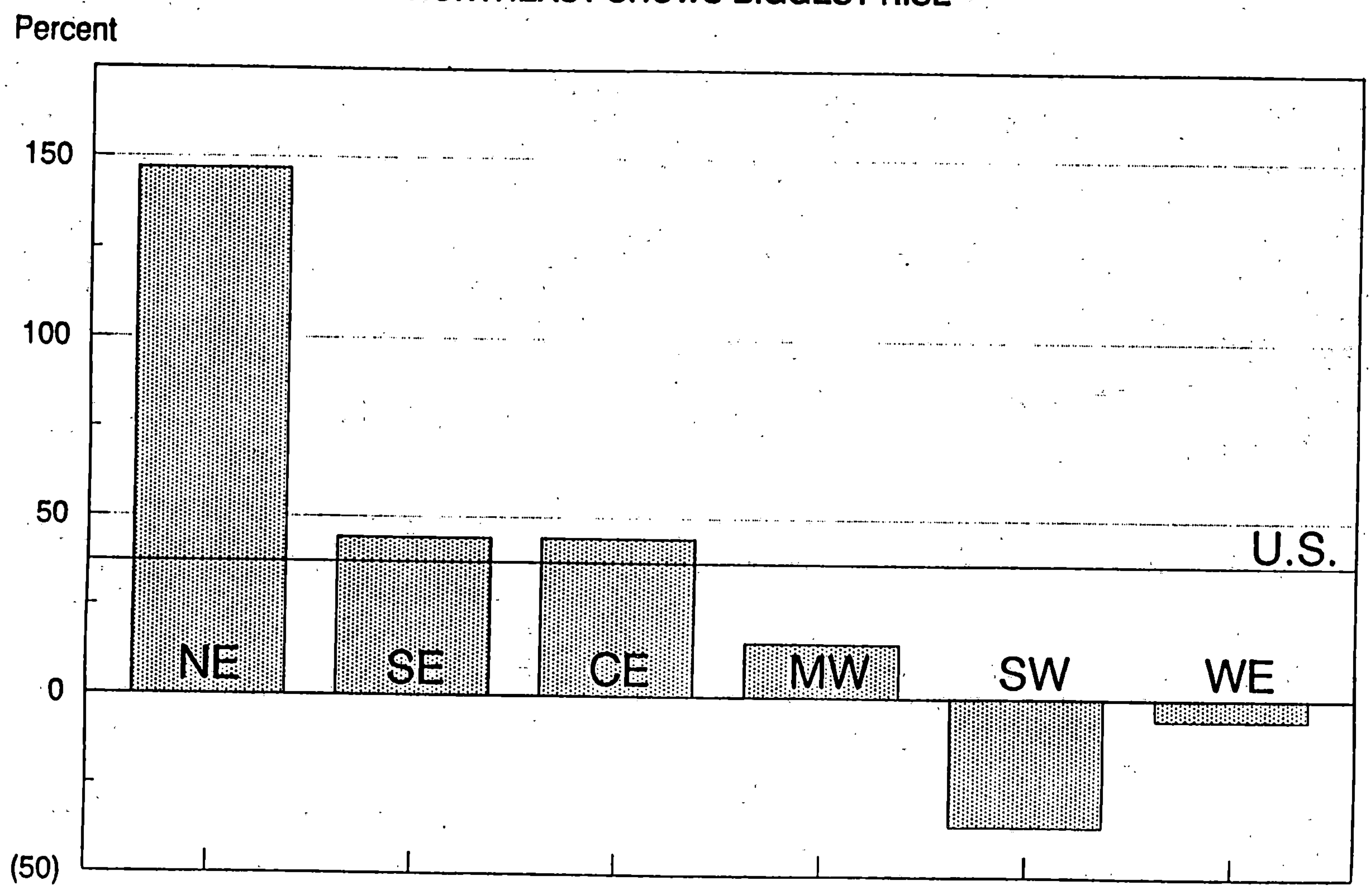


Source: Call Reports
Industry & Financial Analysis (11/6/90)

Chart 3

PROBLEM REAL ESTATE LOANS JUMP IN LAST 12 MONTHS

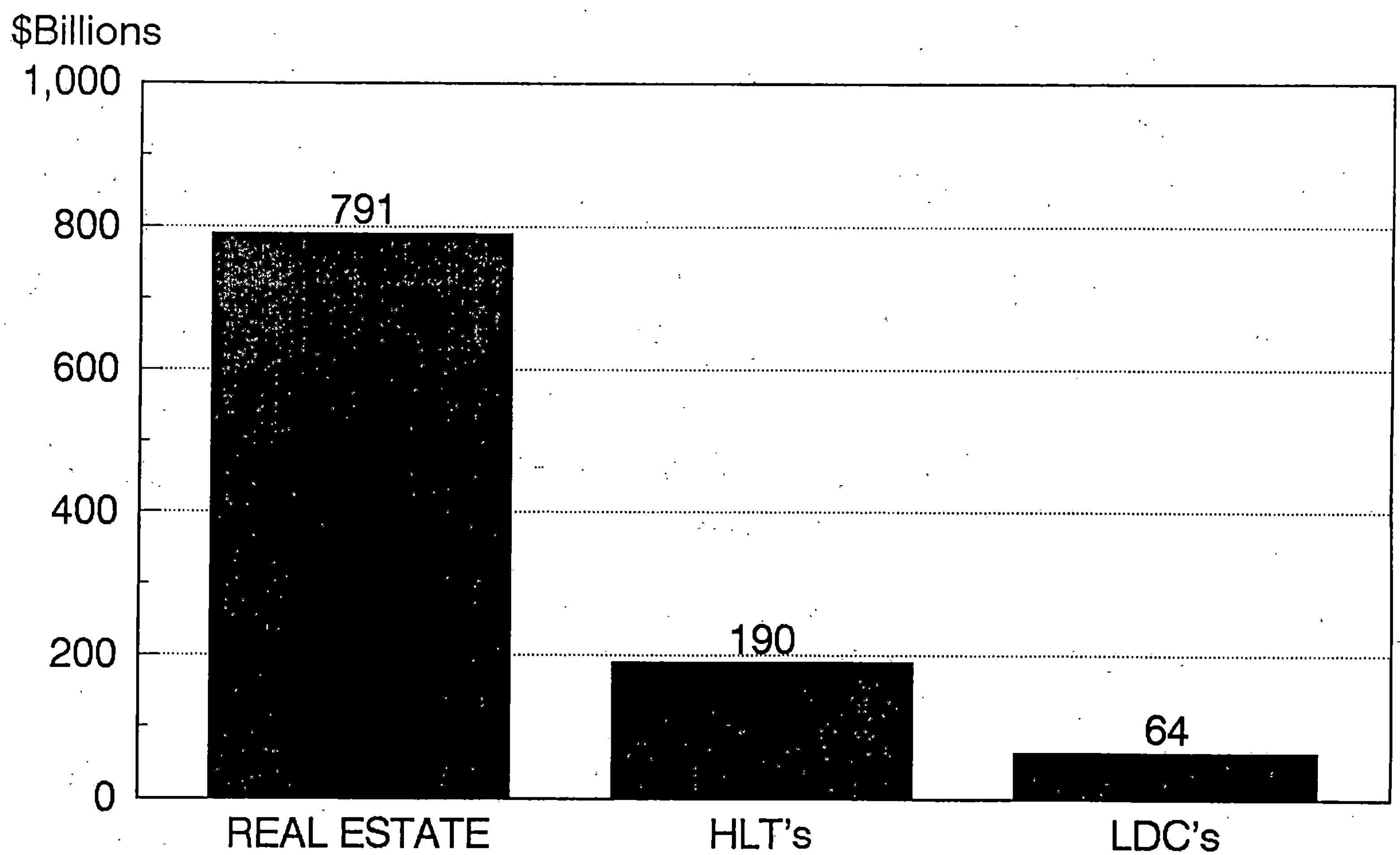
NORTHEAST SHOWS BIGGEST RISE



Source: Call Reports
Industry & Financial Analysis (11/6/90)

SIGNIFIGANT RISK EXPOSURE OF COMMERCIAL BANKS

(1990)



Source: Call Reports, Shared National Credit Data Base, & Country Exposure Lending Survey. Industry & Financial Analysis (11/13/90)

HLT EXPOSURE: A CONCENTRATED RISK

- **Sixty percent of the exposure is in less than one percent of all banking companies.**
- **At the biggest companies, interest payments have stopped on four percent of their HLT loans.**

LDC EXPOSURE: A CONCENTRATED RISK

- **Top 12 U.S. banks have 88 percent of U.S. exposure to the six key LDC's (Argentina, Brazil, Chile, Mexico, Venezuela, Phillipines).**

- **Reserves against future losses are large at most of those banks, but some may need to make additional loss provisions in the months ahead.**

CURRENT ASSESSMENT

- Failures will remain near current levels.
- Most bank failures in the next 12 months will be small banks already on our problem bank list.
- A few big banks (assets over $1 billion) are likely to fail.
- Some money center institutions will have inadequate capital and be compelled to take corrective actions.

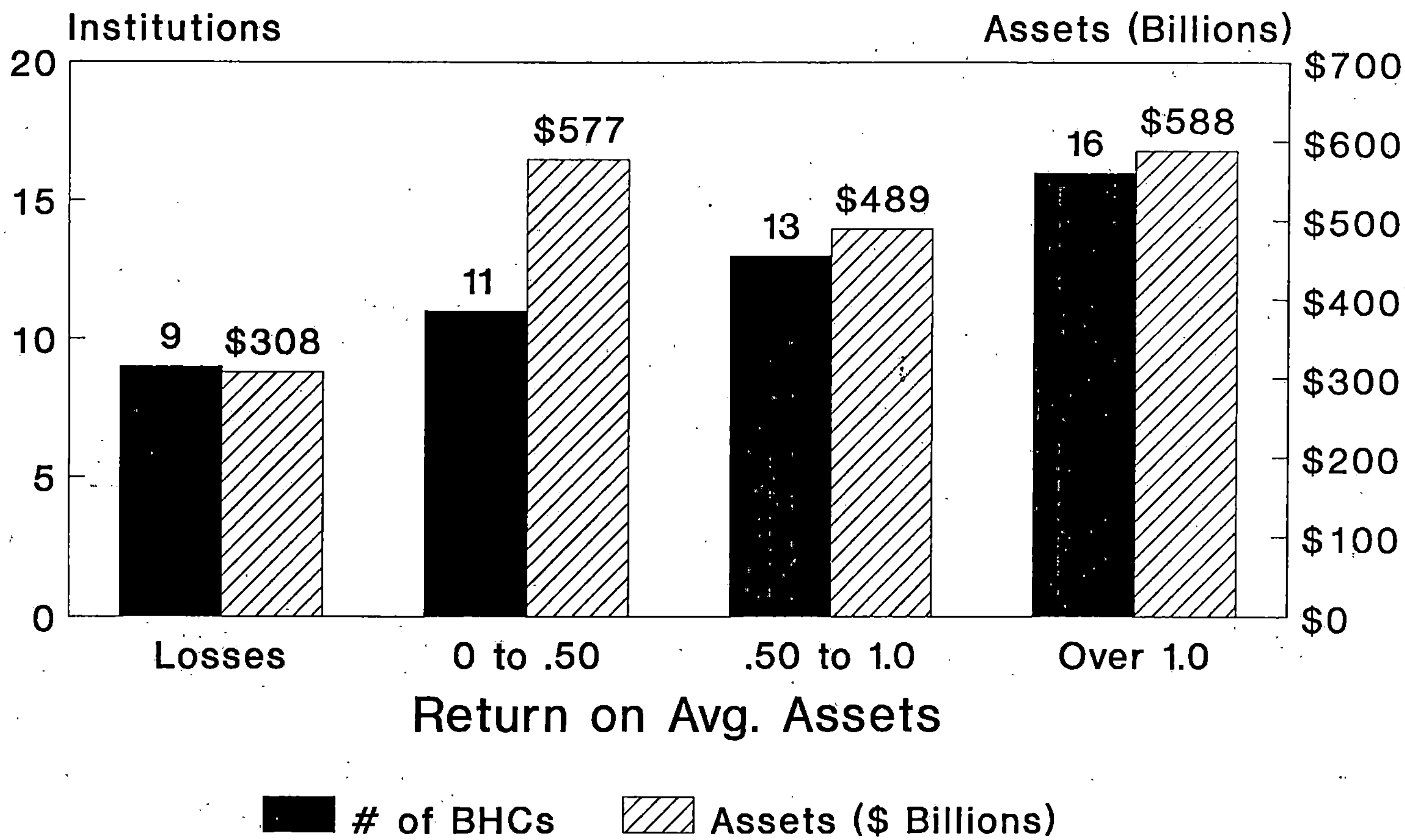
- The 50 Largest Banking Companies

- William Taylor
  Staff Director, Division of Banking
  Supervision and Regulation
  Federal Reserve Board
  November 14, 1990

CHART 1

Top 50 Bank Holding Companies

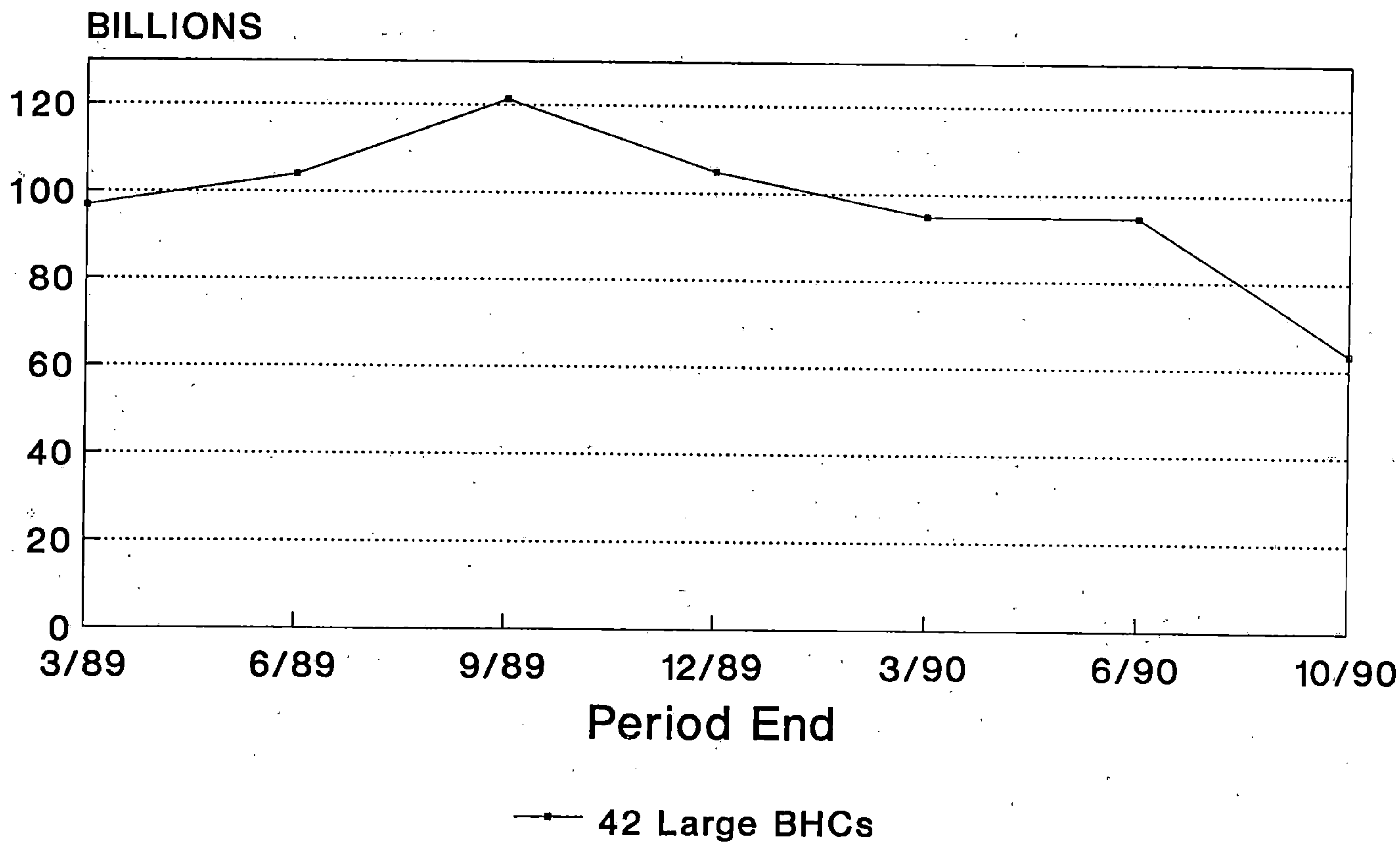
ROA Distribution as of 9/30/90



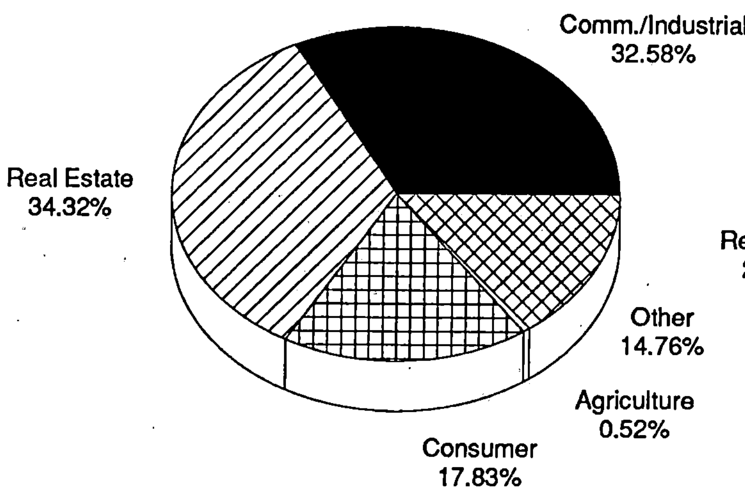
(48 BHCs Reporting at 9/90)

CHART 2

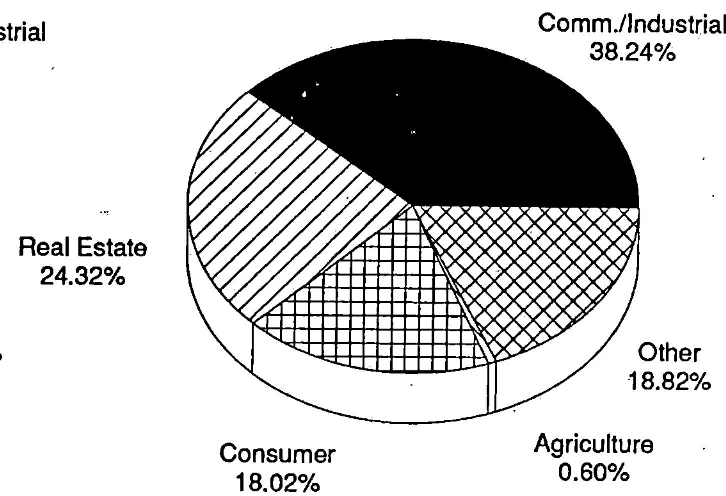
MARKET VALUES OF LARGE BANK HOLDING COMPANIES



Top 50 Bank Holding Companies
Portfolio Mix



Loan Mix - 6/90



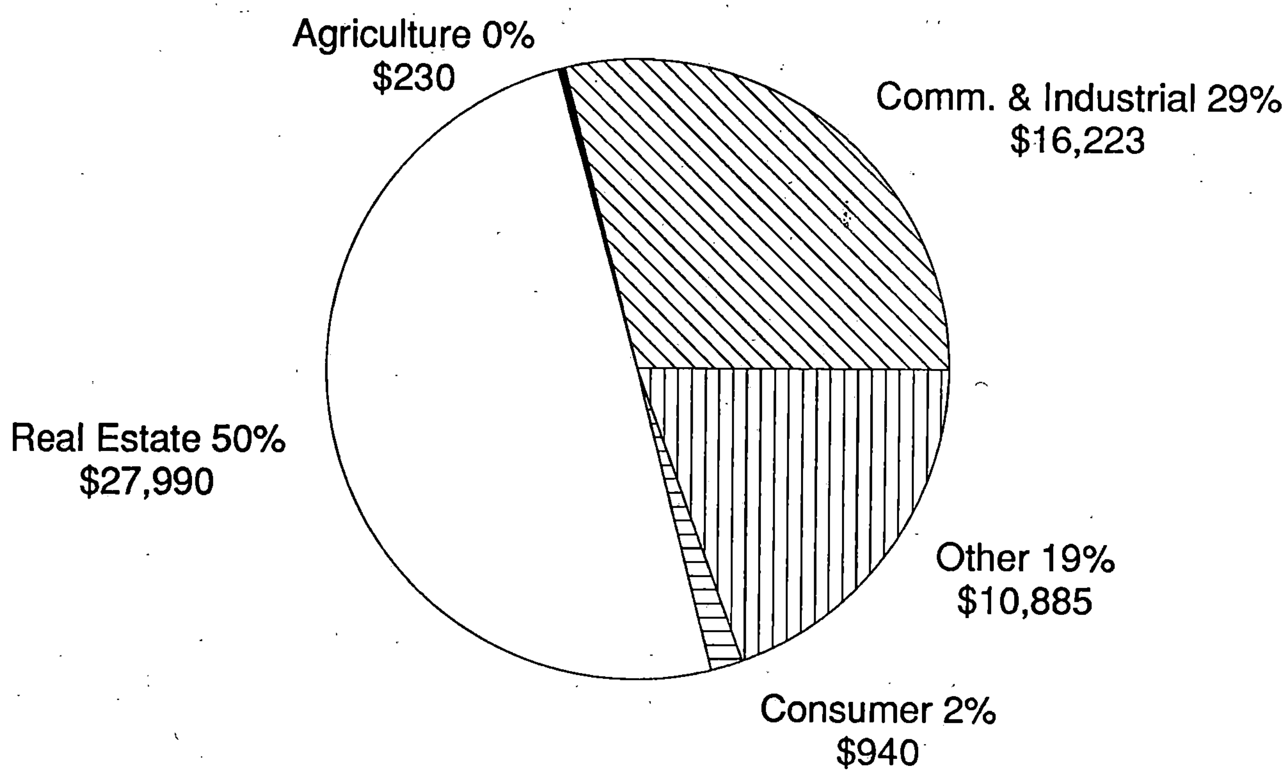
Loan Mix - 6/86

CHART 4

Top 50 Bank Holding Companies

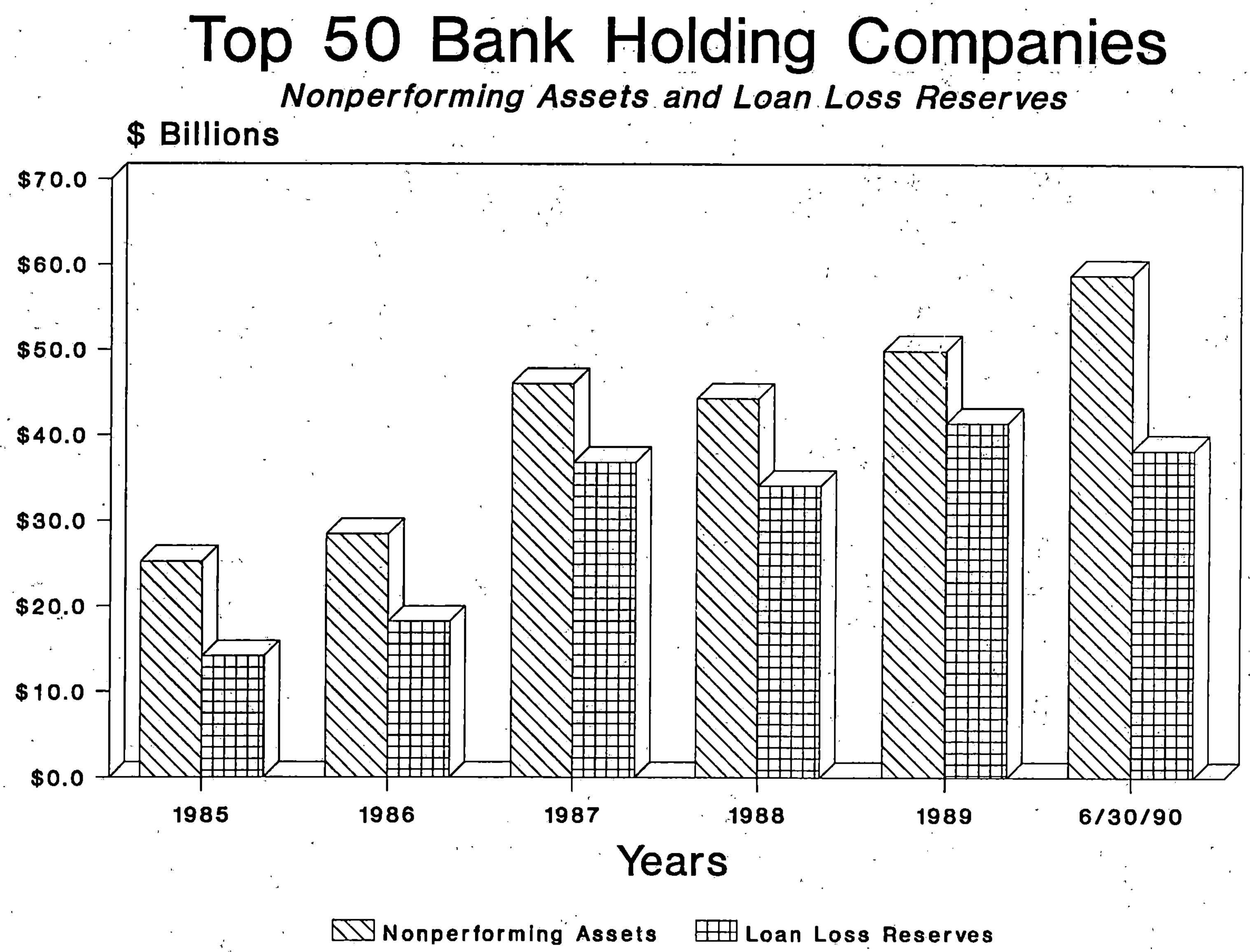
Composition of Nonperforming Assets

($ Millions)



As of 6/30/90

CHART 5

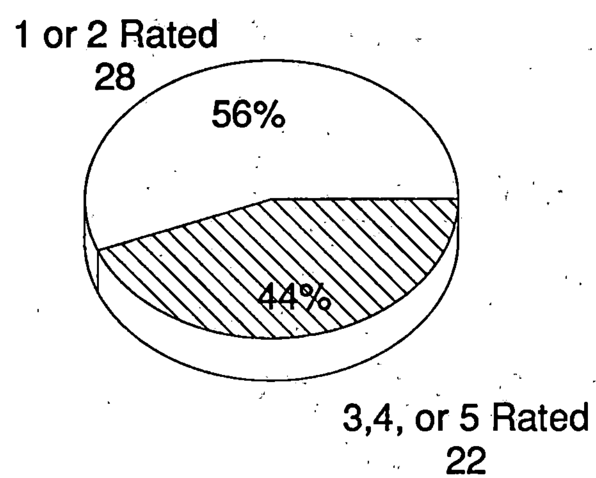


Top 50 Bank Holding Companies
Nonperforming Assets and Loan Loss Reserves
$ Billions
$70.0
$60.0
$50.0
$40.0
$30.0
$20.0
$10.0
$0.0
1985
1986
1987
1988
1989
6/30/90
Years
Nonperforming Assets
Loan Loss Reserves

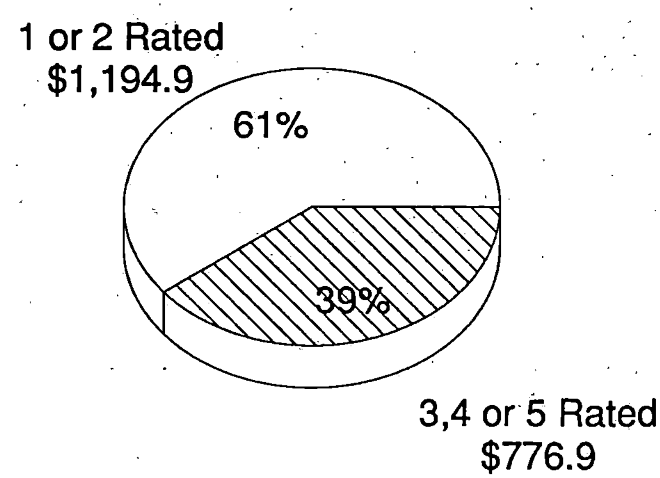
CHART 6

Top 50 Bank Holding Companies

Ratings as of 9/30/90

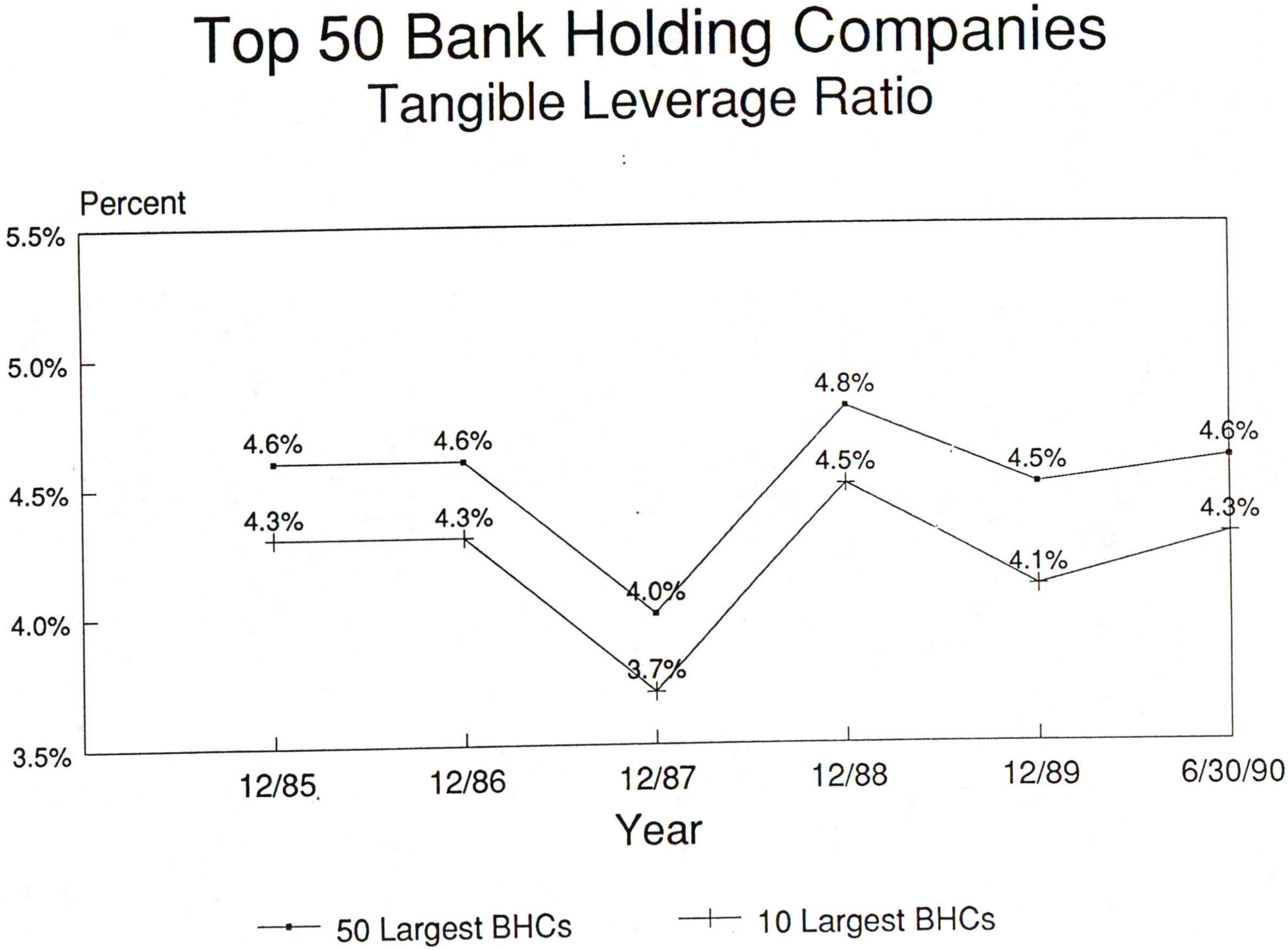


Number of BHCs



Total Assets ($ Billion)

CHART 7



NOTE: The tangible leverage ratio is tangible Tier 1 capital to total assets.

FDIC OVERVIEW

of the

BANK INSURANCE FUND

November 14, 1990

CONCLUSIONS

1. Under the most likely scenarios the Bank Insurance Fund remains solvent, but impaired.

2. Any significant deterioration in the economy or the failure of a large money-center bank could require emergency action to prevent insolvency.

3. The FDIC will have to borrow from Treasury for liquidity purposes under existing borrowing authority. Under a scenario assuming moderate deterioration in the economy, the FDIC will need to be provided by Congress with additional borrowing authority by 1992.

4. Recapitalization of the Fund should be seriously considered.

BRIEF OVERVIEW

1. During the past 3½ years, 734 banks with $102 billion in total assets have been closed.

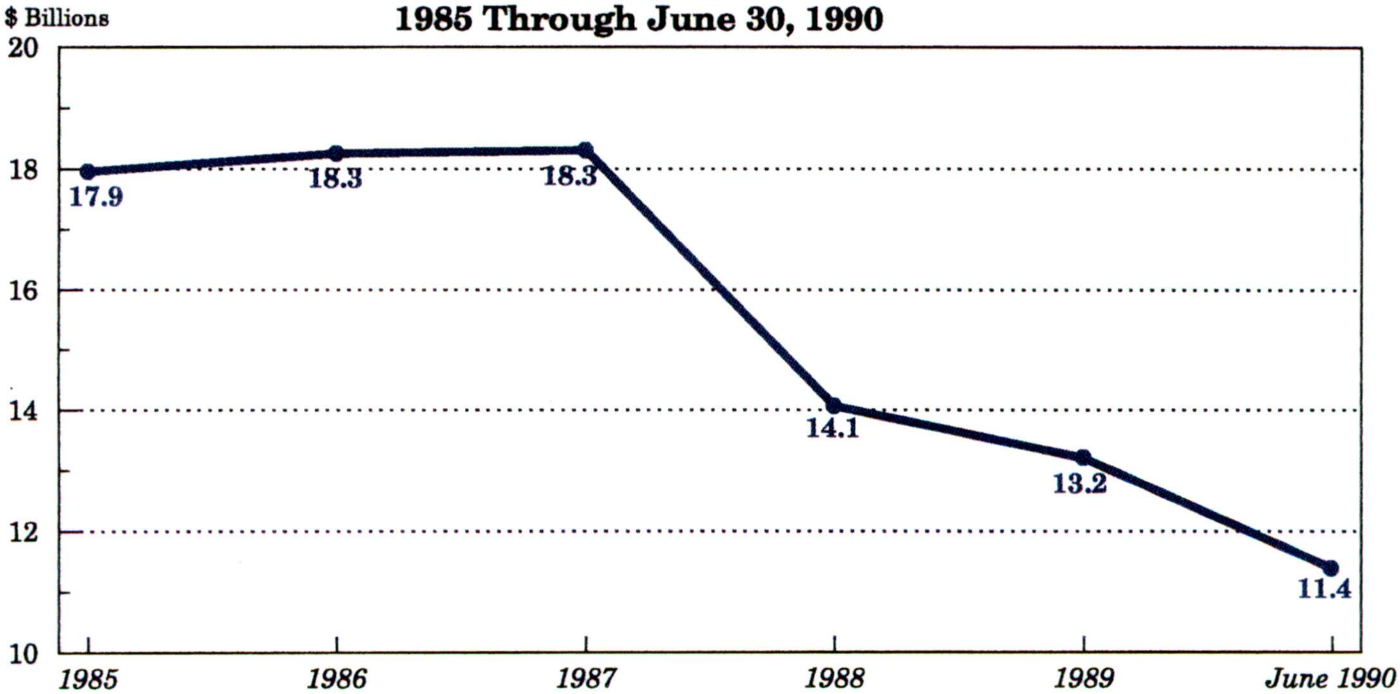
2. These failures have cost the FDIC $18.3 billion.

3. Over the same period the Fund has generated $12.1 billion in revenue, while administrative and operating expenses have exceeded $700 million.

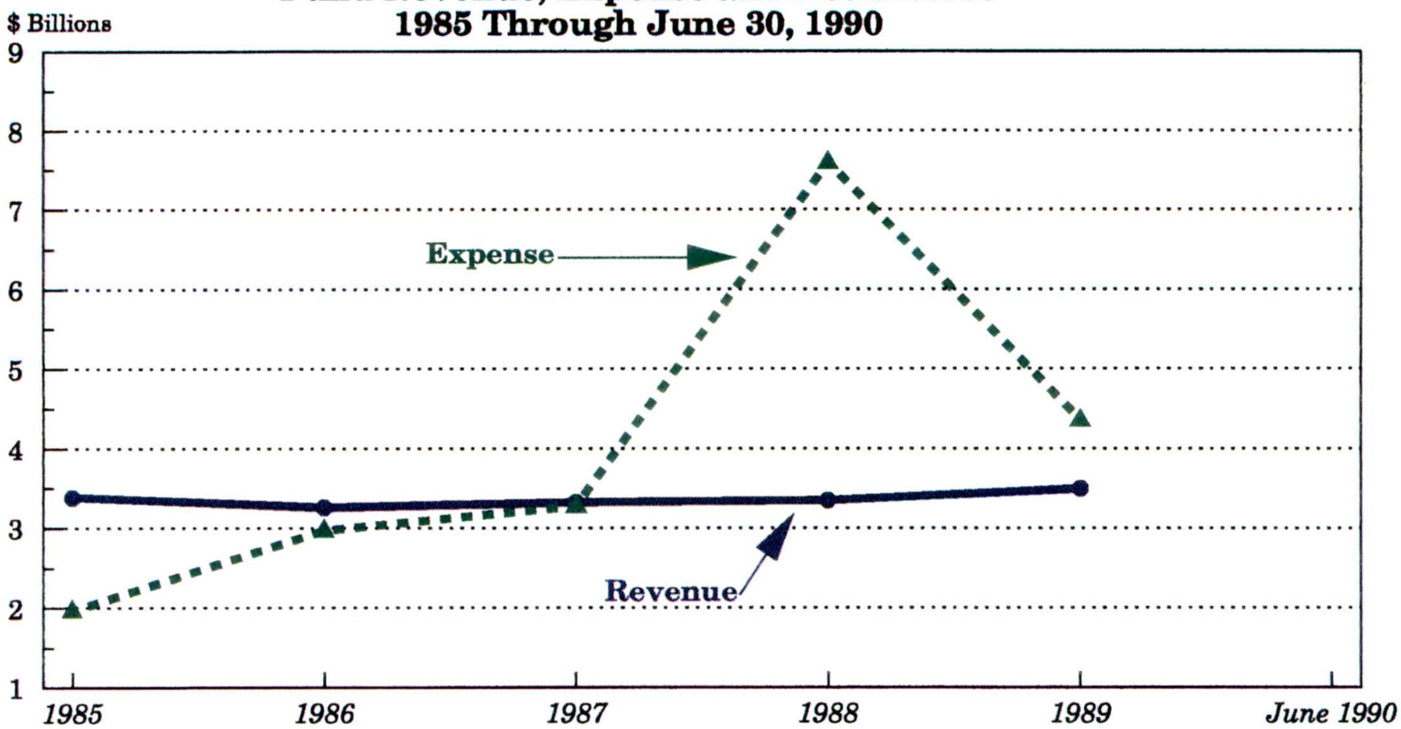
4. As a result, the Fund declined from $18.3 billion at year-end 1986 to $11.4 billion as of midyear 1990. About $10 billion was in cash or other liquid assets.

FDIC Bank Insurance Fund Historical Trends

Fund Balance
1985 Through June 30, 1990



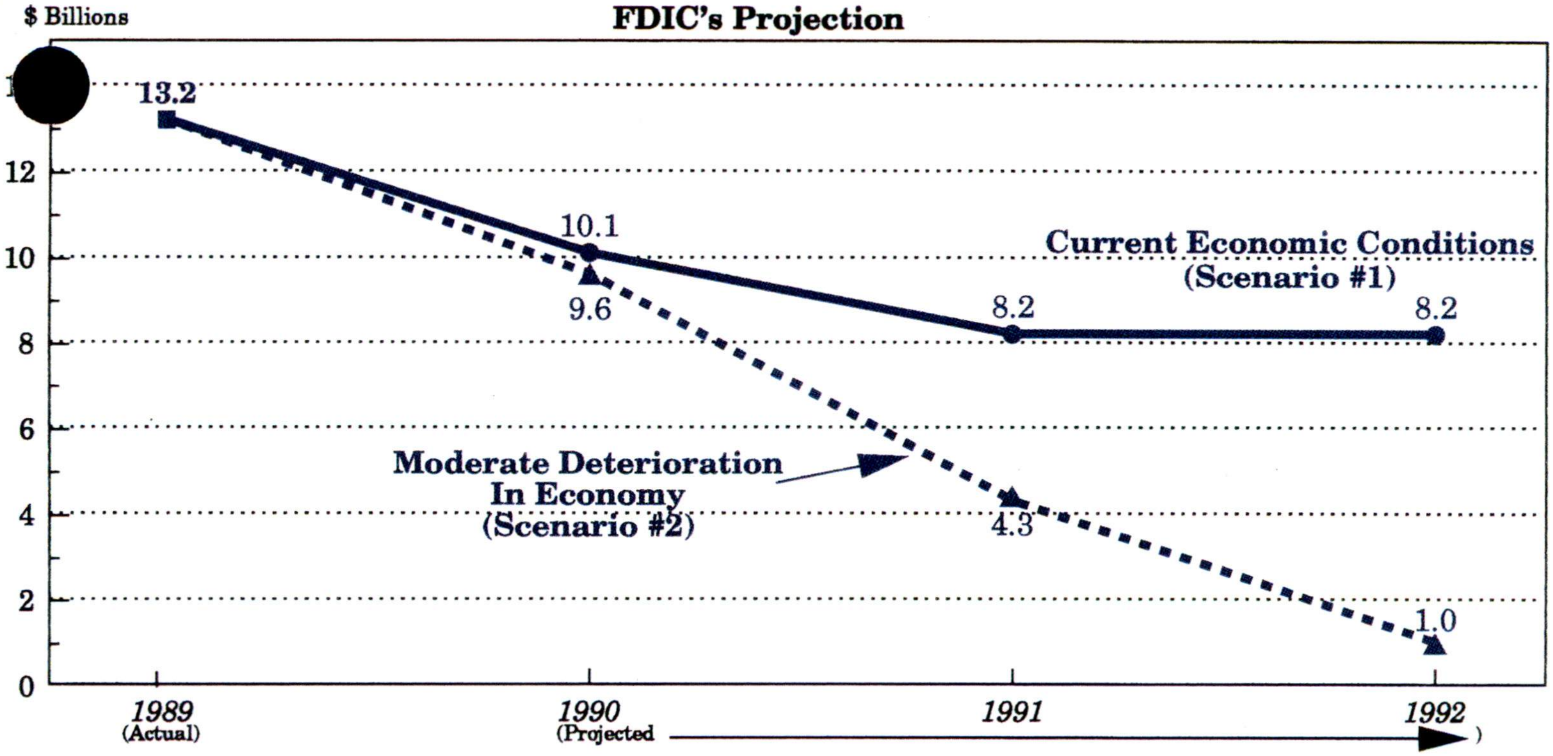
Fund Revenue, Expense and Net Income
1985 Through June 30, 1990



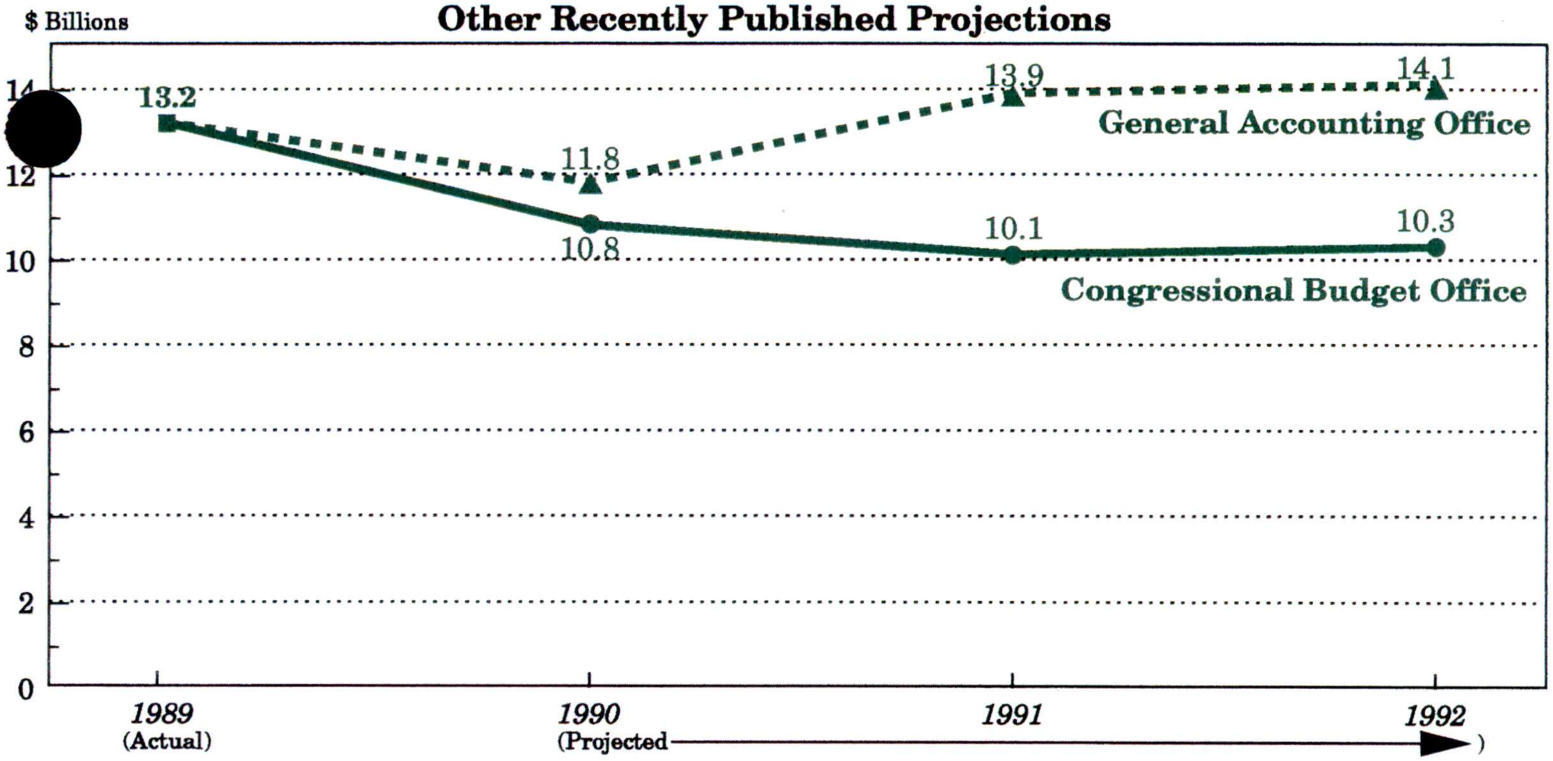
	1985	1986	1987	1988	1989	June 1990
Total Revenue	$3.385	$3.260	$3.319	$3.347	$3.495	$1.978
Total Expenses	-1.957	-2.964	-3.271	-7.588	-4.346	-3.813
Net Income	$1.428	$0.296	$0.048	$(4.241)	$(0.851)	$(1.835)

FDIC Bank Insurance Fund Projections*

FDIC's Projection



Other Recently Published Projections



*All projections have been adjusted to reflect the following assessment rates:
1989 = 0.0833 percent, 1990 = 0.12 percent, First half 1991 = 0.195 percent, Second half 1991 and 1992 = 0.23 percent

ASSUMPTIONS: SCENARIO 2
(Moderate Deterioration in the Economy)

1. Slightly negative GNP growth for 2-4 quarters.

2. No significant additional deterioration in real estate markets.
   - Northeast remains weak
   - Southeast and West deteriorate slightly
   - Southwest and Midwest show gradual improvement

3. Banks with less than $100 million in assets continue to fail at the same rate (about 150 a year).

4. About 100 banks (each with over $100 million in total assets) fail in the next two years. These banks have $180 billion in total assets.

5. No major money-center banks fail.

6. Bank premiums are increased from 19.5¢ to 23¢ per $100 in assessable deposits at midyear 1991.

PRELIMINARY REVIEW OF OPTIONS FOR INCREASING REVENUE AND REDUCING COSTS

1. Premiums could be increased to 27¢ per $100 rather than 23¢ in midyear 1991. This change would raise an additional $1.5 billion by year-end 1992. Beyond a certain point, increases in premium rates have an adverse effect as more weak banks become insolvent.

2. A one-time recapitalization of the Fund relying on banking industry funds.

3. Alternative failure-resolution methods could reduce costs.

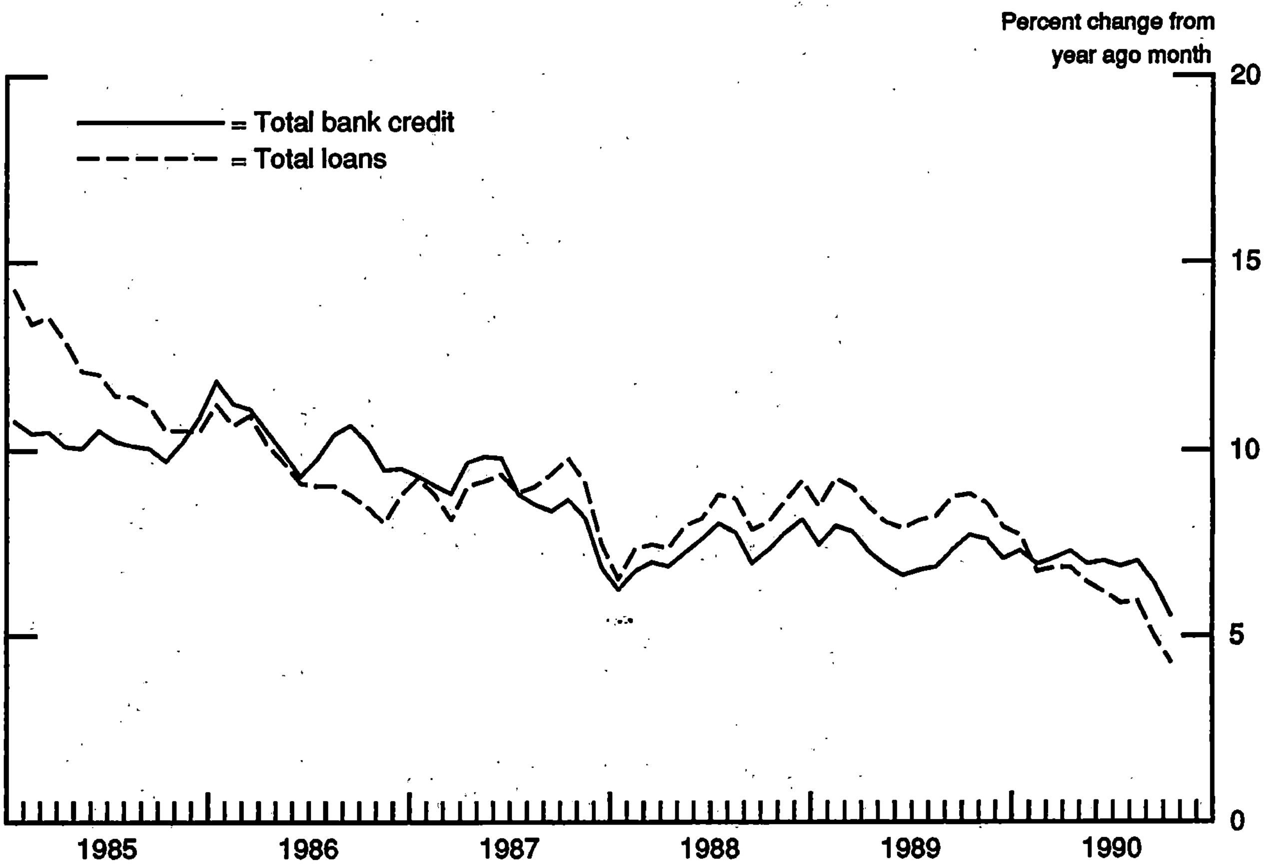
4. A policy of sharing losses with uninsured depositors in all types of failure-resolution transactions could lower costs in individual transactions. However, the overall effect of such a policy change is not clear.

Trends in Business Borrowing

Donald L. Kohn
Director, Division of Monetary Affairs
Federal Reserve Board

November 14, 1990

Chart 1
Growth of Bank Credit



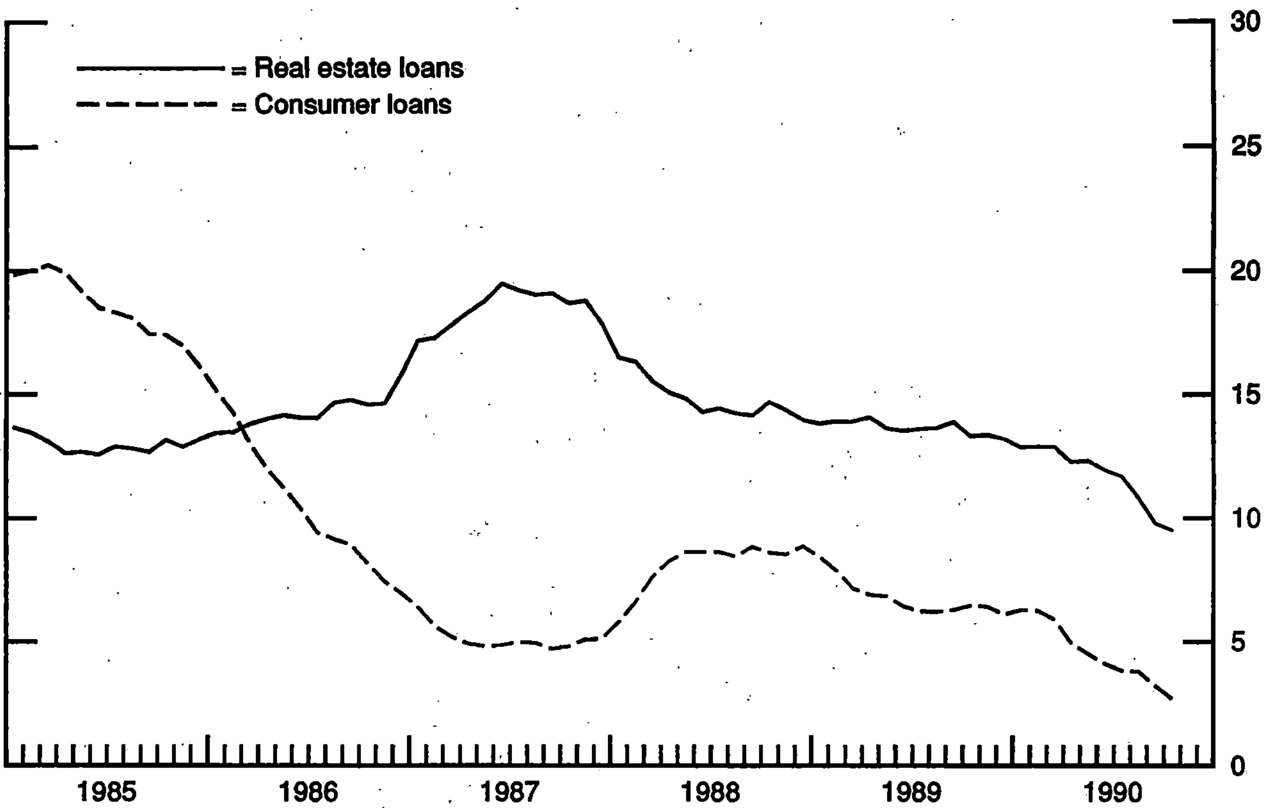
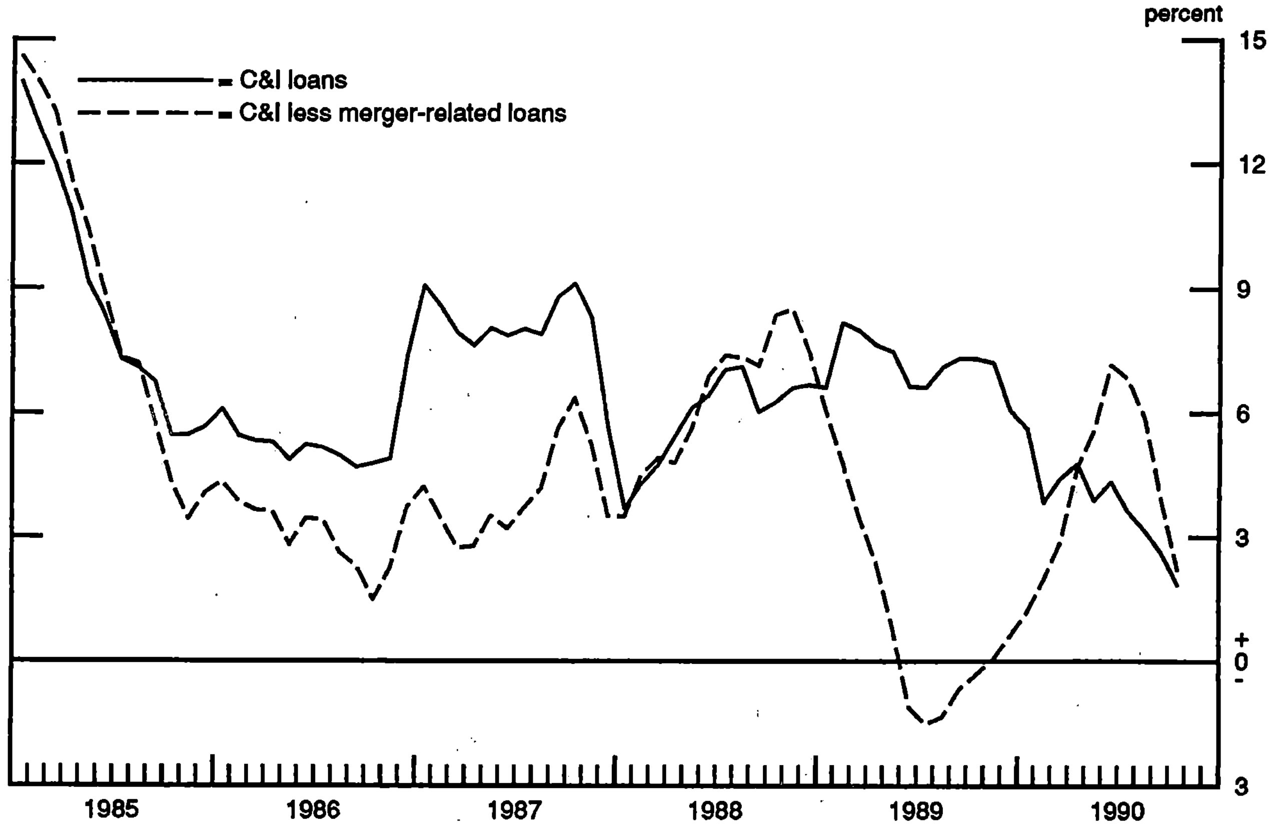


Chart 2

Short-term Business Credit

Growth Rate from Year Earlier Month



Outstanding Levels

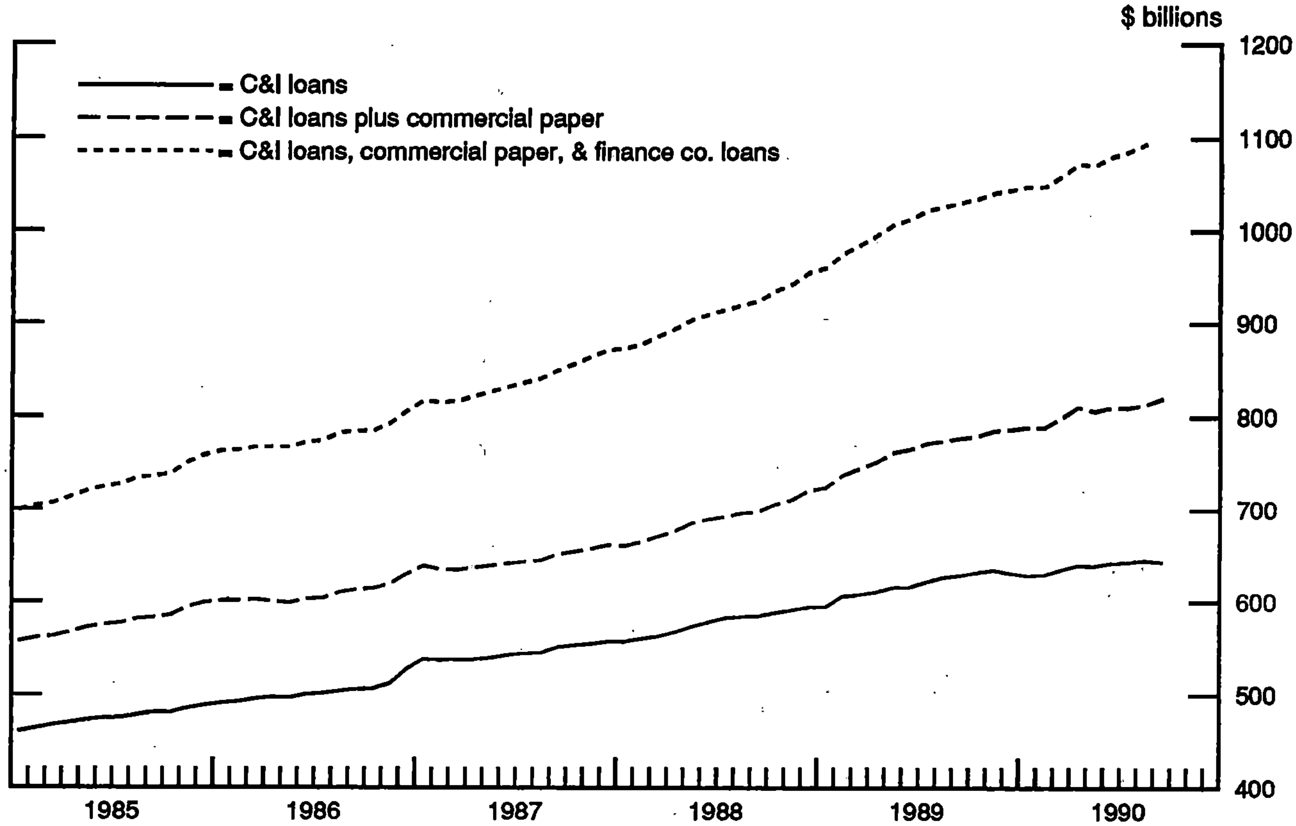
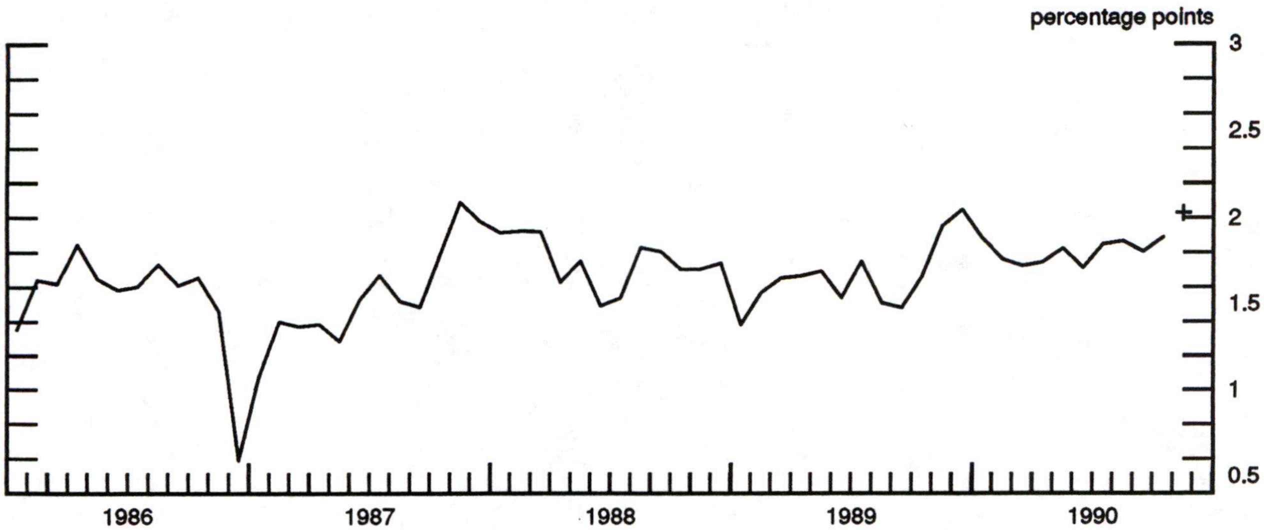


Chart 3

Factors Affecting Bank Loan Growth

Prime less Federal Funds Rate



Senior Loan Officer Opinion Survey

Percent of Banks Reporting Tighter Standards for Approving Business Loan Applications
(Three Months Ending with Survey Date)

	May	August	October
1. Domestic bank lending to			
a. large firms	n.a.	36	50
b. middle market	58	43	48
c. small businesses	54	34	41
2. U.S. branches and agencies of foreign banks	n.a.	61[1]	72

------
n.a.-- not available
1. Refers to tightening in the six month period February to August.

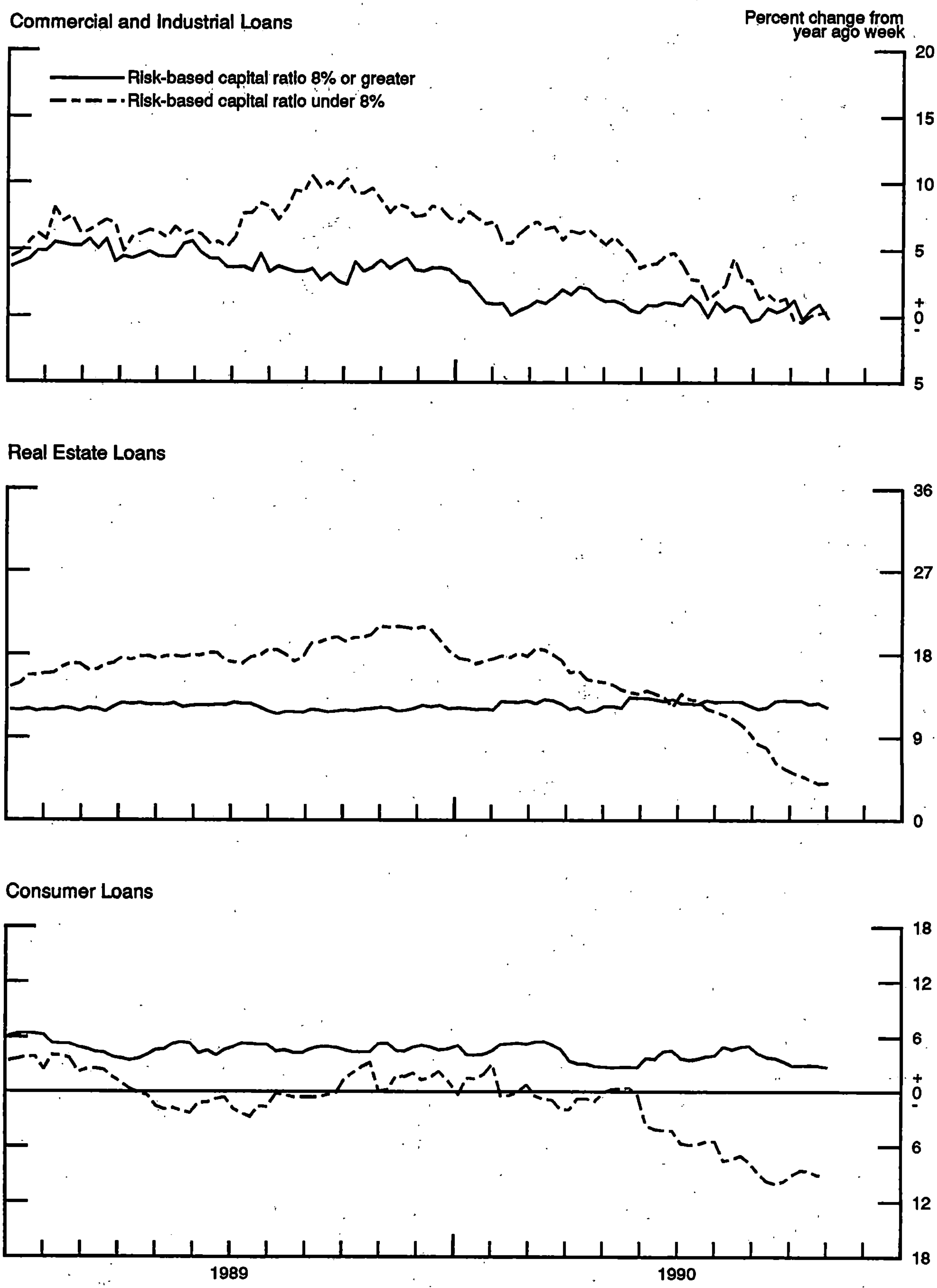
OTHER HIGHLIGHTS OF THE OCTOBER SURVEY

- For C&I loans, banks continued to increase loan rates, the cost of credit lines, and collateral requirements.
- Most banks continued to tighten commercial real estate lending, and some did so for home mortgages.
- Many banks reported reduced demand for residential mortgages.
- The primary reason for tighter lending standards was a perception of a weakening economy.
- Also important were concerns about capital adequacy.

Chart 4

Commercial Bank Capital and Lending

Large Banks Grouped by Qualifying Capital to Risk-weighted Assets[1]

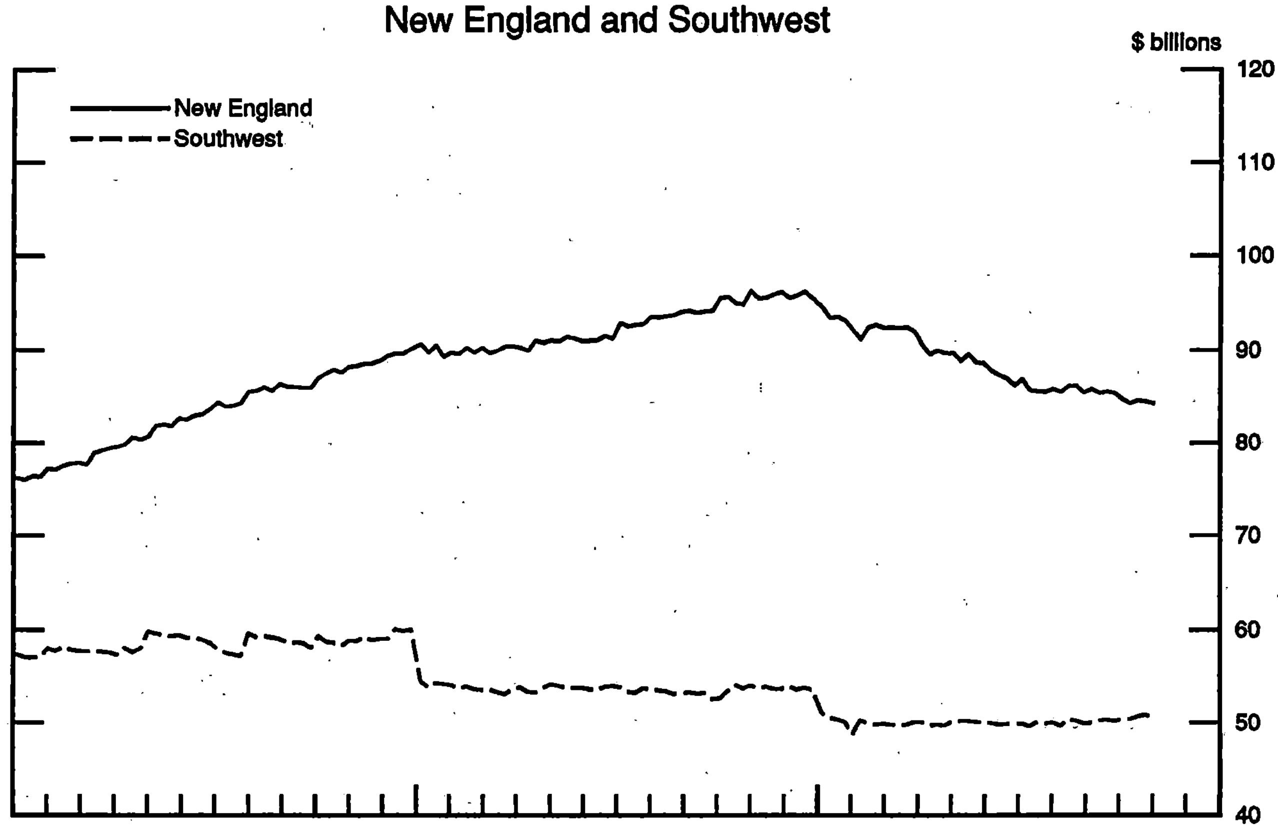


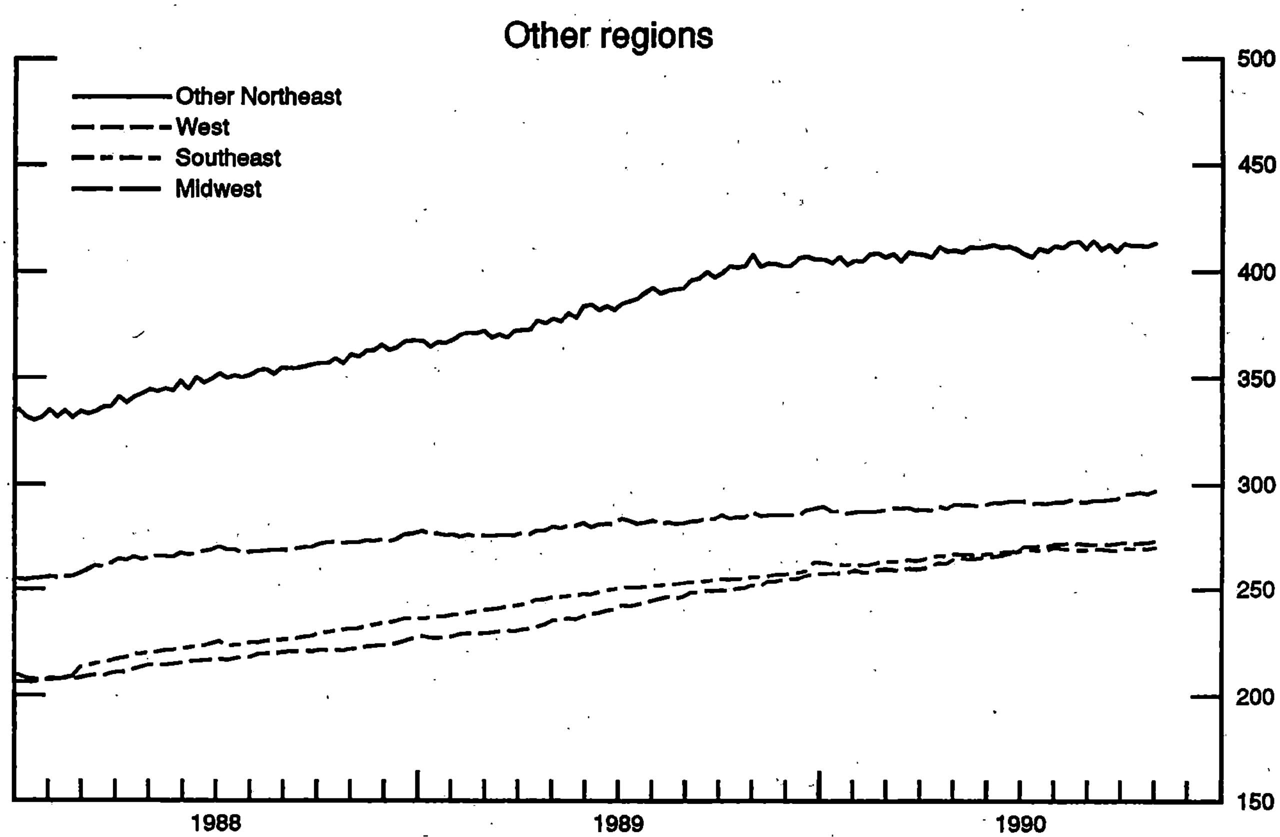
1. Capital ratios are as of June 30, 1990

Chart 5

Total Loans by Region

(1200 banks reporting weekly)





8

COMMERCIAL BANKERS

Purpose: to discuss the credit crunch with the President

William J. Brogan - The Talbot Bank of Easton, MD
Bennett A. Brown - Citizens & Southern Corporation, Atlanta, GA
✓ John G. Medlin, Jr. - Wachovia Bank and Trust Company, N.A., Winston-Salem, NC
Thomas H. O'Brien - Pittsburgh National Bank, Pittsburgh, PA
✓ John Reed - Citibank, N.A., New York, NY
Richard M. Rosenberg - Bank of America National Trust & Savings Association, San Francisco, CA
Thomas D. Sayles, Jr. - Summit Bancorporation, Summit, NJ
Ronald G. Steinhart - Team Bank, N.A. - Fort Worth, TX
P.J. Vallandingham - First State Bank, Barboursville, WV
Dennis Weatherstone - Morgan Guaranty Trust Company of New York, New York, NY

BANK REGULATORS

Purpose: to discuss credit crunch with the President

Alan Greenspan - Federal Reserve System
E. Gerald Corrigan - Federal Reserve Bank of New York
Robert L. Clarke - Comptroller of the Currency
L. William Seidman - Federal Deposit Insurance Corporation
Timothy Ryan - Office of Thrift Supervision

INDUSTRIAL

~~JACK WELCH~~ ~~KNIGHT~~ ~~BOB ALLEN~~ ✓ RED POLLING · AKERS - AUTO · COMP · HA

FORMAL MTG. IN CABINET 10 -12 or LESS -
DINNER FEWER.

2 MTGS - @ 10. —

Withdrawal/Redaction Sheet
(George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
01. Report	Brief reports from CEOs on the state of their companies (4 pp.)	11/8/90	~~P-5~~	

Collection:

Record Group: Bush Presidential Records
Office: Chief of Staff, White House Office of
Series: Sununu, John, Files
Subseries: Issues Files
WHORM Cat.:
File Location: Credit Crunch 1991 [4]

Open on Expiration of PRA
(Document Follows)
By JF (NLGB) on 10/28/05

Date Closed: 1/4/2005	**OA/ID Number:** 29151-007
FOIA/SYS Case #: 1998-0004-F[2]	**Appeal Case #:**
Re-review Case #: 2005-0426-S	**Appeal Disposition:**
P-2/P-5 Review Case #:	**Disposition Date:**
AR Case #:	**MR Case #:**
AR Disposition:	**MR Disposition:**
AR Disposition Date:	**MR Disposition Date:**

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P-1 National Security Classified Information [(a)(1) of the PRA]
P-2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P-3 Release would violate a Federal statute [(a)(3) of the PRA]
P-4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P-5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
P-6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

PRM. Removed as a personal record misfile.

Freedom of Information Act - [5 U.S.C. 552(b)]

(b)(1) National security classified information [(b)(1) of the FOIA]
(b)(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
(b)(3) Release would violate a Federal statute [(b)(3) of the FOIA]
(b)(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
(b)(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
(b)(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
(b)(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
(b)(9) Release would disclose geological or geophysical information

8

November 8, 1990

Crunch

Chuck Knight, Emerson Electric

Stepped out of annual planning meeting to take call. Emerson's business is broadly based and is 45% consumer, 55% capital equipment. Consumer business is in the tank for the last two quarters; capital equipment business headed down in the September quarter.

Emerson is on a September 30th fiscal year and domestic sales will be down 2% after a 2% price increase, making real sales minus 4%. They are laying people off. Knight expects 4th quarter, 1990 and first quarter, 1991, to be down. Does not expect to see his business turn around until June of 1991.

Their earnings per share will be up this year due to acquisitions and international business. The price of the dollar has helped international but they are even beginning to notice a slowing in Europe. Emerson is planning a SG&A cut of 5% in fiscal 1991.

Prescription: "Who knows! But, getting interest rates down would be a big help."

****

Andy Sigler, Champion International

Champion has two basic businesses:

(A) Wood (lumber and plywood)
(B) Paper

Wood is the worse he can remember it. Worst than 1973 or 1982. It is awful. Champion has 20 saw mills, none made money in September.

The paper business is "not so bad." Copy paper is okay; newsprint is okay; and publications paper is okay. From Champion's corporate point of view, Sigler says he is scared to death. The company has a lot of big construction projects on line that they had planned to spend $750 million to $850 million per year over the next two years. Revised cash flow is now projected to be $400 million down from $1 billion when projects were authorized. Sigler says it is very hard for him to pull back.

Prescription: Lower interest rates would help the credit crunch.

****

Jack Welch, General Electric

Business is weak, bad. Appliances are down 5 - 6% in the 4th quarter; sales to the automotive industries dried up in the last week; lighting business very slow; with the sale of light bulbs minus 8% since

August. The light bulb or "use up the bulbs in the closet" phenomenon is the same as it was in 1973 or 1978, all oil scares. The light bulb closet phenomenon is probably short-lived but it is there.

Sales based on capital spending have slowed down but still positive. Medical equipment is way up; aircraft engines are strong; power generation equipment is strong due to industry bounce-back from the 1980's.

NBC advertising revenues have fallen off the cliff. "You may have noticed a lot of promotion of our own shows. This is because after cutting advertising rates 40%, we have stopped cutting. World Series went for $60,000 a minute versus $250,000 last year.

"Early-decision advertising decisions for prime time shows are usually sold at 40% off final price because of the early commitment by advertisers. The scatter market, which typically fills in the unsold time spots closer to the airing of the program, normally sells at a higher price, are now 25% below early-decision prices."

All three major networks are at breakeven. A table of GE businesses would look like the following:

Consumer/terrible	Industrial projects/ok	Heavy equipment/good
NBC	controllers, guages	turbines
lighting	industrial systems	long cycle industrial equipment
plastics to automotive		jet engines

Prescription: Lower interest rates and increased confidence in banking system.

****

Bob Allen, AT&T

AT&T saw signs of a slow down in mid-April. The slow down has continued since then but not at an alarming pace. October results were reasonable. Services side of their business remaining strong; the hardware, i.e. Western Electric, not too hot.

AT&T corporate view is that they are not in a recession; and previous view of a 50/50 chance of recession next year is now more pessimistic and they are predicting a shallow, not too long recession. AT&T's feeling is that the oil price increase is the factor that tipped the balance into recession. With regard to the long distance telephone business which has always been been an excellent forecast of economic activity, their international business remains strong; no comparison is possible with regard to domestic long distance because this is the first downturn during which they have had a full range of competitors.

As mentioned, Western Electric is soft in the U.S. but stronger abroad and small business systems, PBX business, is weak.

AT&T's 3rd quarter results were up 2% with the consumer telephone business strong, which is to be expected because of the decrease in unit cost of telephone calls, which Allen now describes as a bargain.

Prescription: The Fed should move interest rates down.

****

<u>Bruce Atwater, General Mills</u>

Having repositioned itself to be 100% in the food business (75% in consumer food, 25% restaurants), General Mills is having a very good year and Atwater does not currently feel the country is in a recession, although it is softening a bit. The food items which would indicate to him real trouble, such as flour and Hamburger Helper, are not showing out of the ordinary gains. Their restaurant business--Red Lobster & The Olive Garden--are showing 5-6% growth although their managers feel that if economic times were more robust that growth would be 7-8%. His feeling is that although the economy is softening in tone, we are not in the tank but we might be heading toward a soft landing.

Atwater is on the General Electric board and feels that Jack Welch is too pessimistic.

Prescription: We can't get rid of cycles. We have had the longest expansion in the history of the country. There are some things like debt load which have to be shrunk down and politically having a slow down now could be good timing. We would not want, he feels, to have it any later.

He feels we should get a move out of the Fed. That inflation in the food business, in terms of food ingredient prices, is low and therefore inflation should not be a Fed worry.

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<u>Dick Gelb, Bristol-Myers</u>

We are in a industry which has been called recession proof and drug industry sales and profits in the 3rd quarter were embarrassingly good. Bristol-Myers product sales which would ordinarily have been deferable and therefore subject to an economic downtown such as artificial hips and knees and sales to the medical profession have shown no down turn. Bristol-Myers sales to K-Mart and Wal-Mart are good even though those companies say they are having trouble. Bristol-Myers pharmaceutical business is okay.

Having said all that, from his seat on the New York Federal Reserve Board, meetings are pretty depressing. Upstate New York regional banks are really hurting.

As a member of the Business Roundtable, that organization's view is that although the US is not technically in a recession, things are headed south.

Prescription: His feeling is we should shore up confidence in the banking system and a Fed decrease could be in order.

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Phil Hawley, Carter Hawley Hale Stores

The large retailers today are suffering a real downturn. Business is terrible. The comparative store numbers which have just been released today (sales numbers without new stores) are particularly revealing. J. C. Penney is down 4.9% overall but on a comparative store basis is down 6%.

What gains are being shown are coming from off-price promotions and give-ups. Carter Hawley's business, which is upscale, the consumer shutdown occurred slightly after Labor Day but most retailers noticed this in mid-August. Carter Hawley most recent quarter was up 2% overall but flat on a comparative store basis while retailing inflation is running at 3 1/2%.

Hawley had just returned from a Saturday and Sunday retreat of the Bank of America, having been a Director for over 20 years. Bank of America's review of the banking industry was the most pessimistic that he has heard in his time as a director. He cited as reasons toughness on the part of bank examiners; Citicorp has to come up with capital which is holding a pall over the industry; Japanese banks are vacating and restricting lending.

Prescription: Fed should get rates down.

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Frank Shrontz, The Boeing Co.

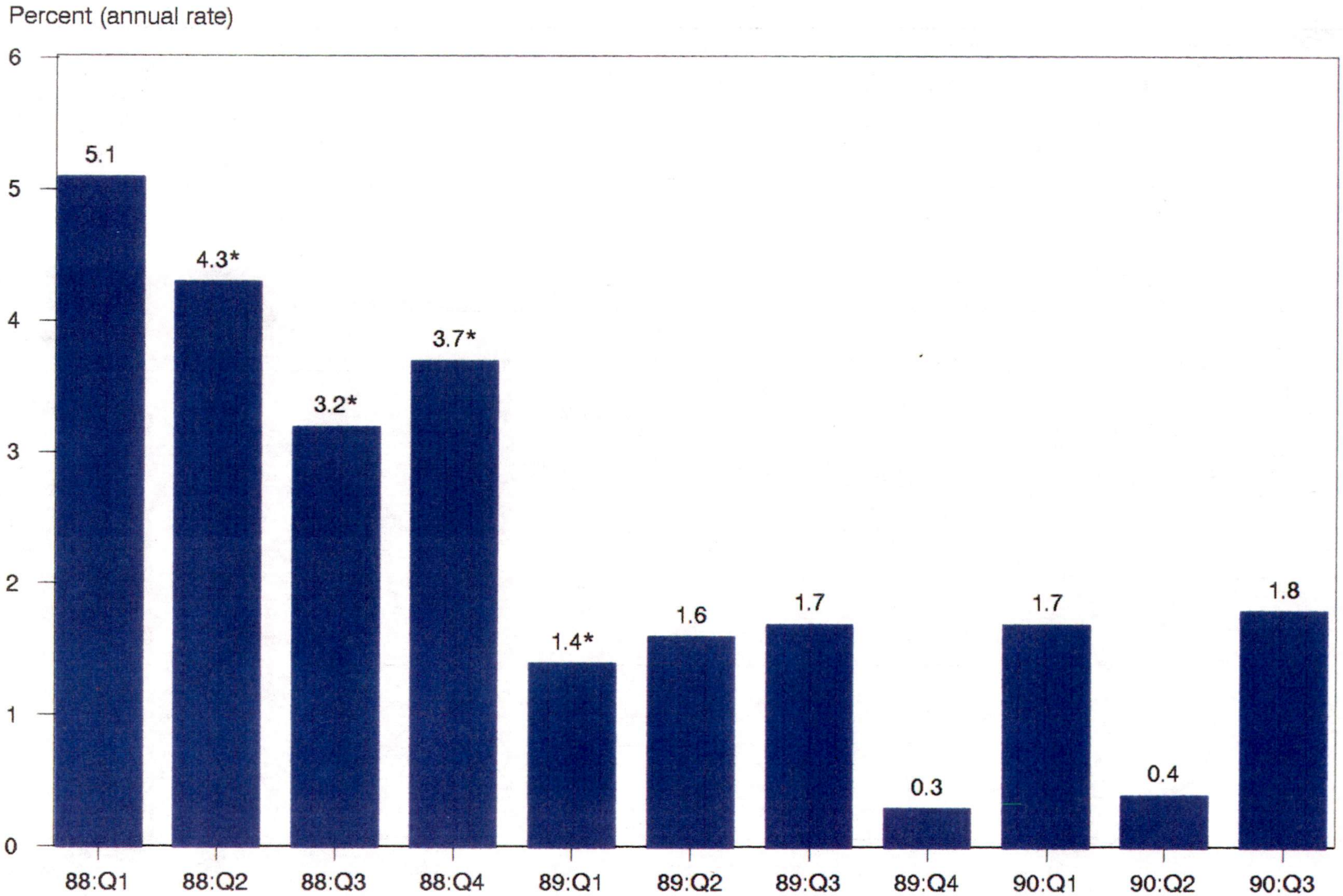
From a marketing (not sales) point of view, Boeing is experiencing some softening but it is particular to certain airlines who have debt leverage problems or have made bad labor contracts. However, they are not experiencing a softening in orders and international business is particularly good. Even with all of the pessimistic news one reads about the airline industry, the only airline that had asked for later deliveries is U. S. Air. Some airline purchase options have been allowed to slip but it is not a general trend. Boeing is going to spend $1.2 billion on expansion in 1990 and is still planning to spend $2 billion in 1991. Obviously, if all the bearish talk continues it will affect passenger usage and airlines will cut back on airline purchases.

With regard to the Northwest, Shrontz has not seen the real estate problems that have been experienced in other parts of the country. In fact in the last month house prices in the Seattle area are up and default ratios have not exaggerated.

Prescription: Let's not talk ourselves into a recession by talking about it.

Crunch

Real GNP.

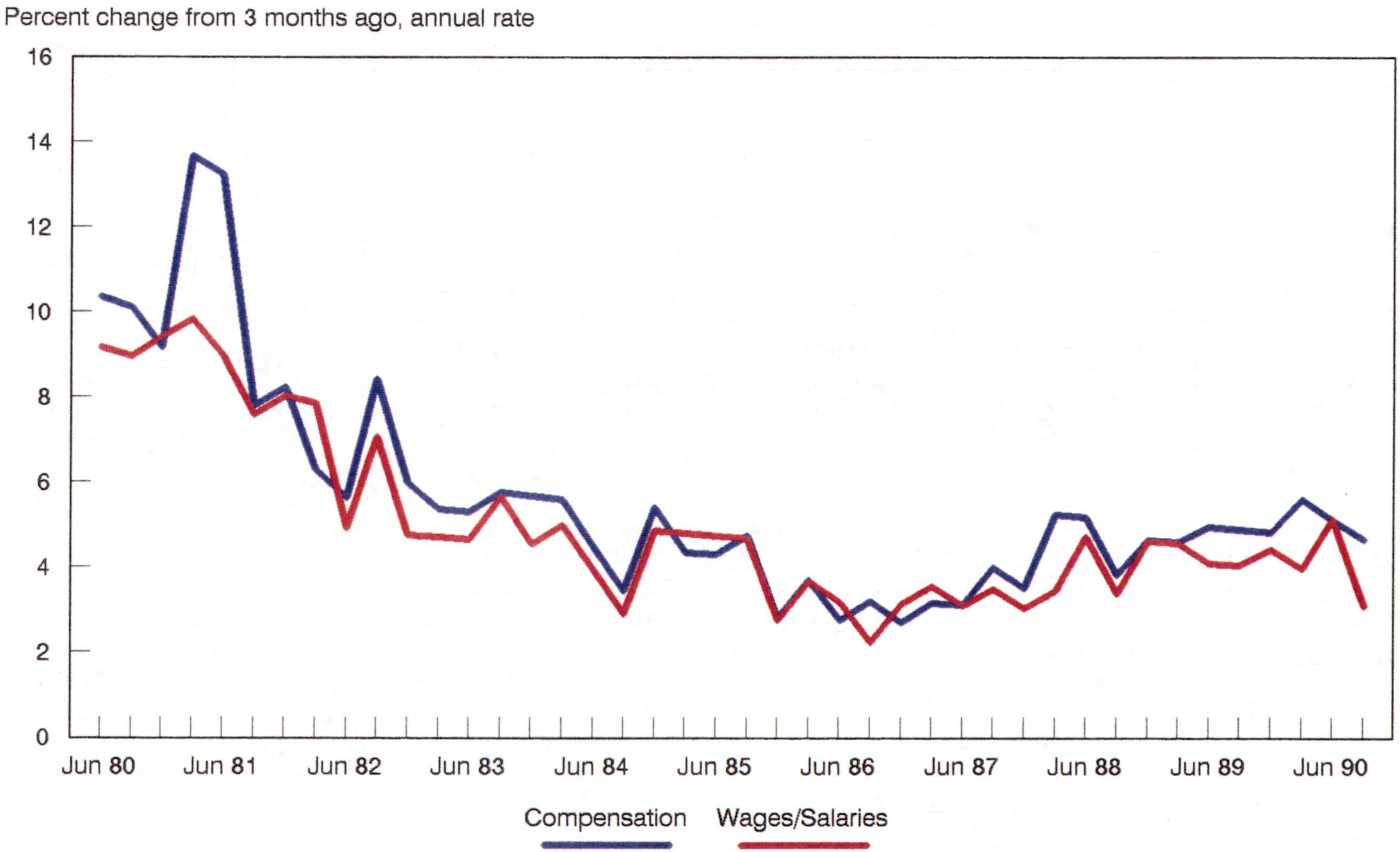


*Data are drought-adjusted

Percent change from preceding quarter

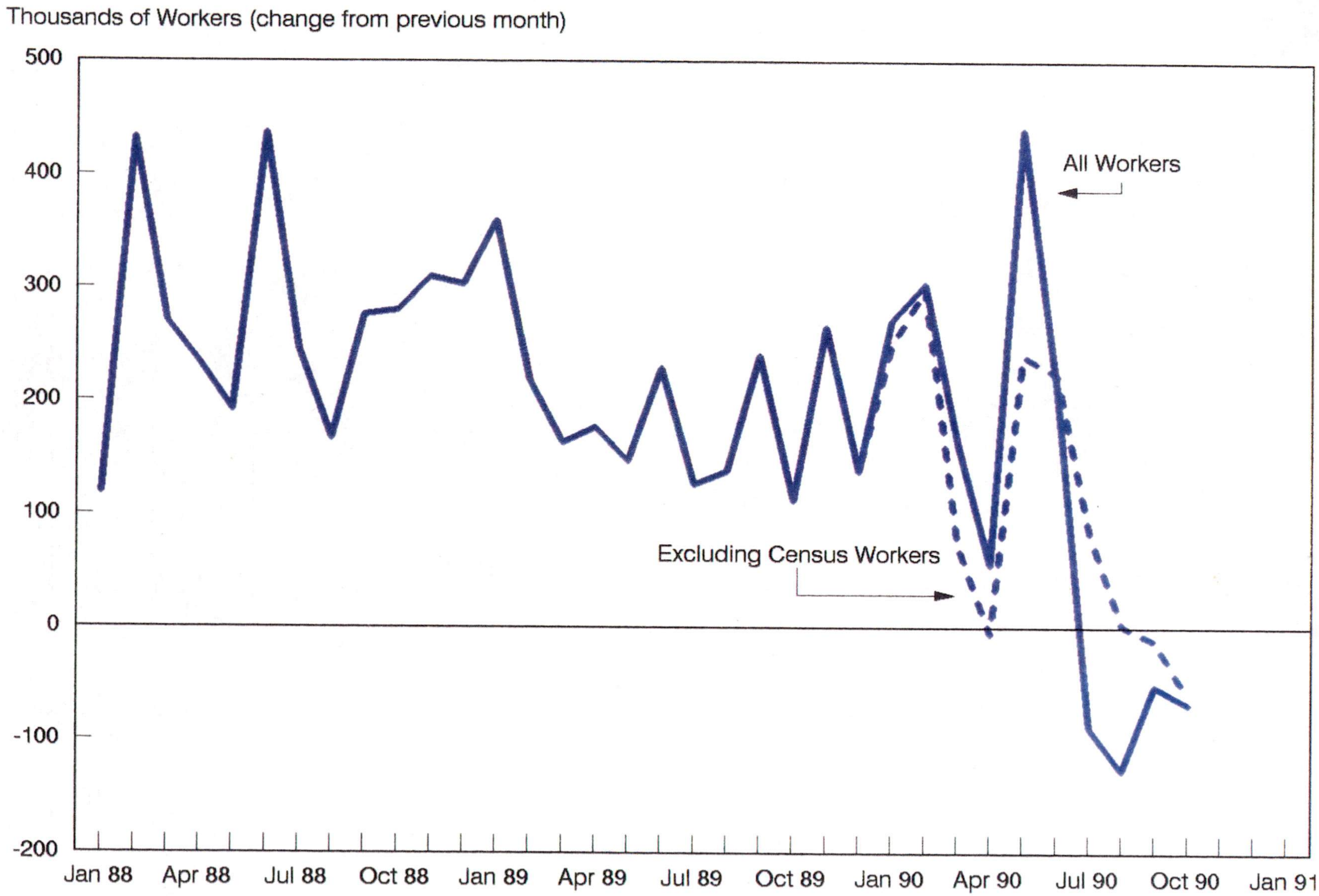
The Unemployment Rate.

The Employment Cost Index.



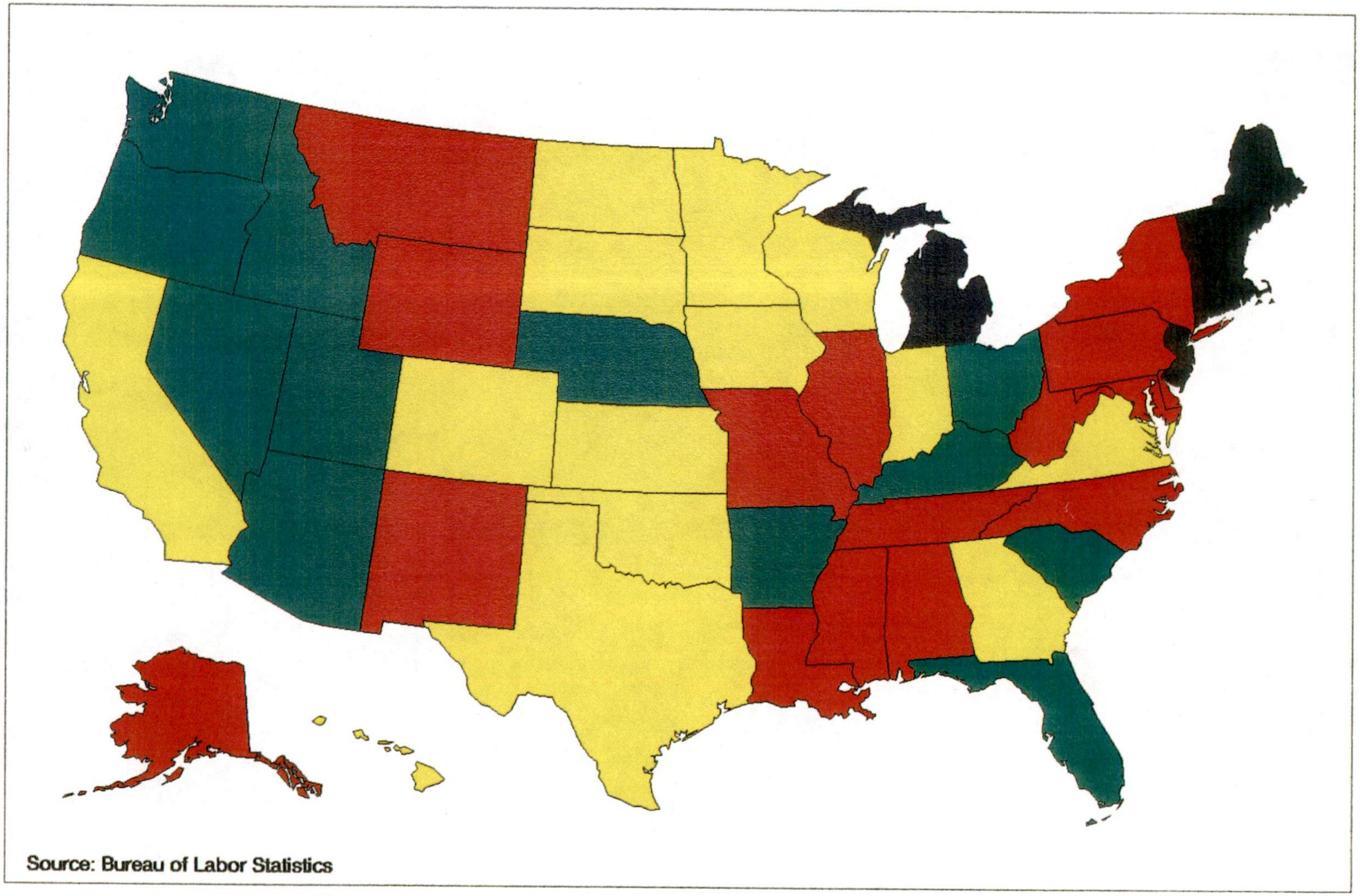
Seasonally Adjusted Data
All Private Industry

Nonfarm Job Growth.



Payroll Employment

Employment Growth.*



*September 1989 - September 1990

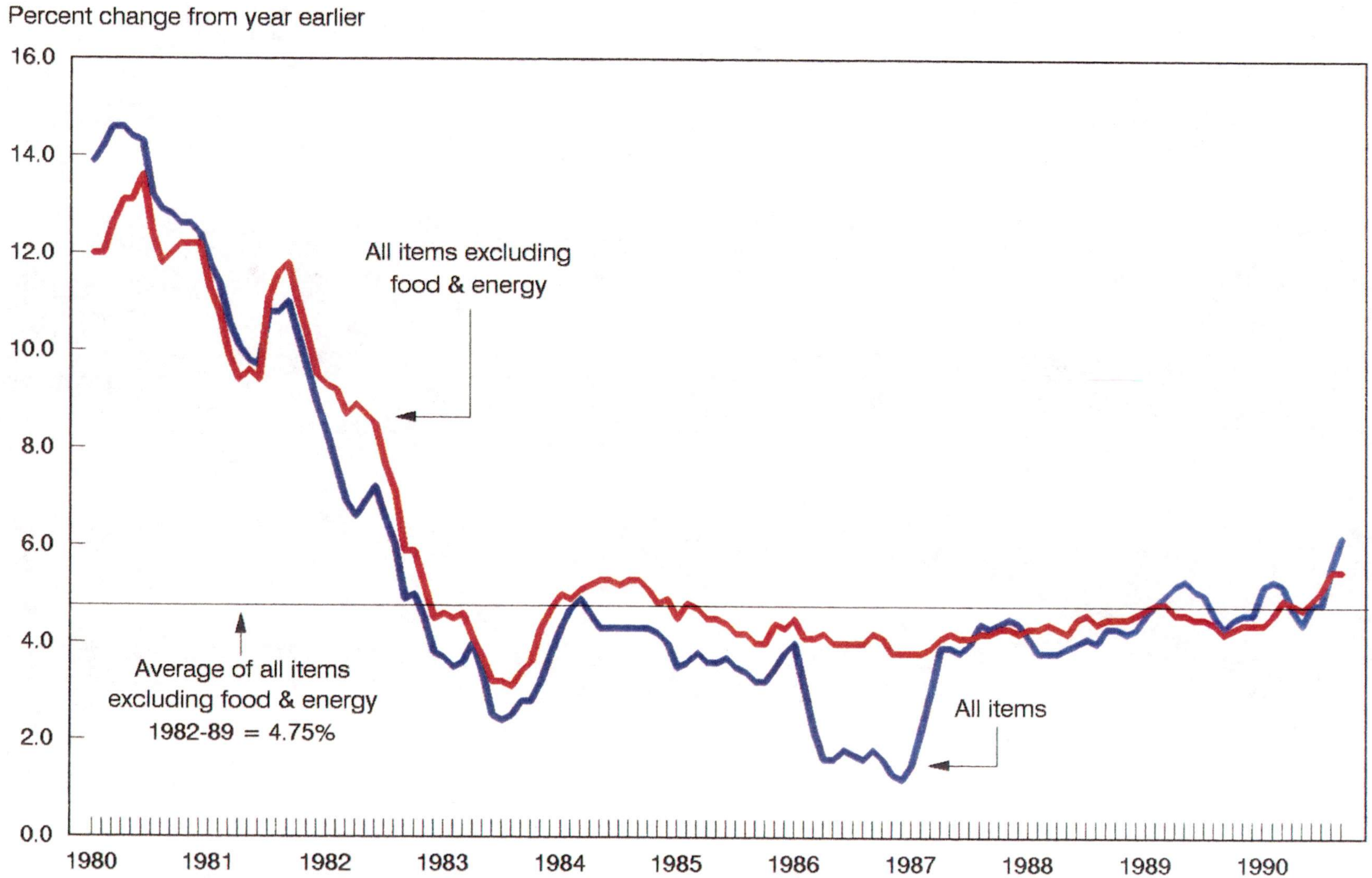
- > 2.0% growth
- 1.0% to 2.0% growth
- 0.0% to 1.0% growth
- Negative growth

The Civilian Unemployment Rate in 11 Large States
percent of civilian labor force

	November 1982	June 1990	October 1990
Overall United States	10.8	5.2	5.7
California	11.2	4.9	6.0
Florida	9.3	6.5	6.2
Illinois	13.2	6.0	5.9
Massachusetts	7.3	5.8	6.3
Michigan	16.8	7.3	7.4
New Jersey	9.8	4.8	5.5
New York	9.9	5.1	5.6
North Carolina	*	3.7	4.6
Ohio	13.9	5.2	5.9
Pennsylvania	12.1	4.6	6.1
Texas	7.8	5.6	5.7

* Series begins in January 1985.

The Consumer Price Index.



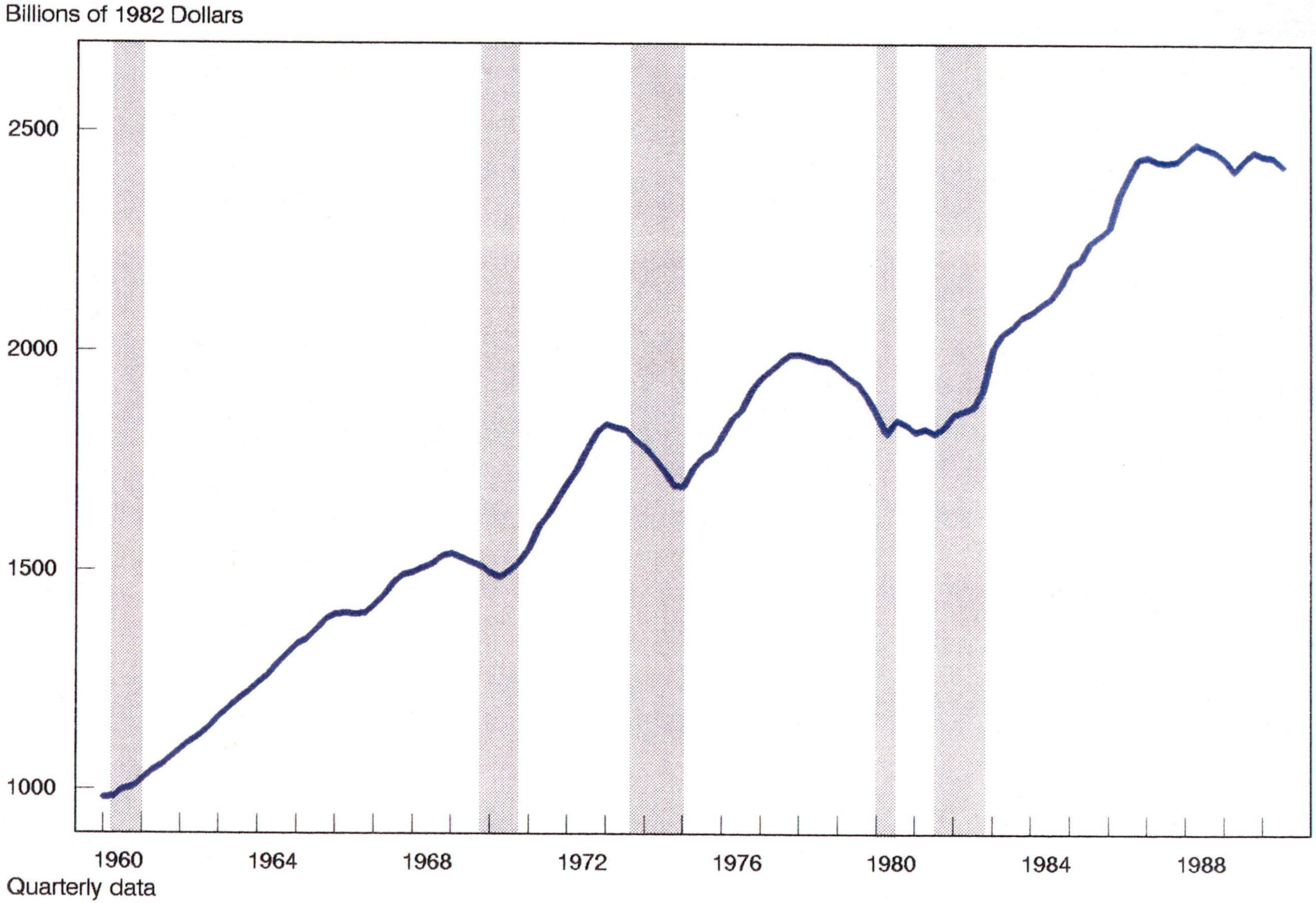
ADMINISTRATION'S ECONOMIC ASSUMPTIONS
(calendar years)

	1990	1991
Real GNP, percent change, 4th/4th	0.7	1.3
GNP deflator, percent change, 4th/4th	5.2	4.6
Unemployment rate........................	5.6	6.1
Interest rates:		
91-day Treasury bills...................	7.7	7.2
10-year Treasury notes..................	8.7	8.3

BLUE CHIP AVERAGE FORECAST
(October 10, 1990)
(calendar years)

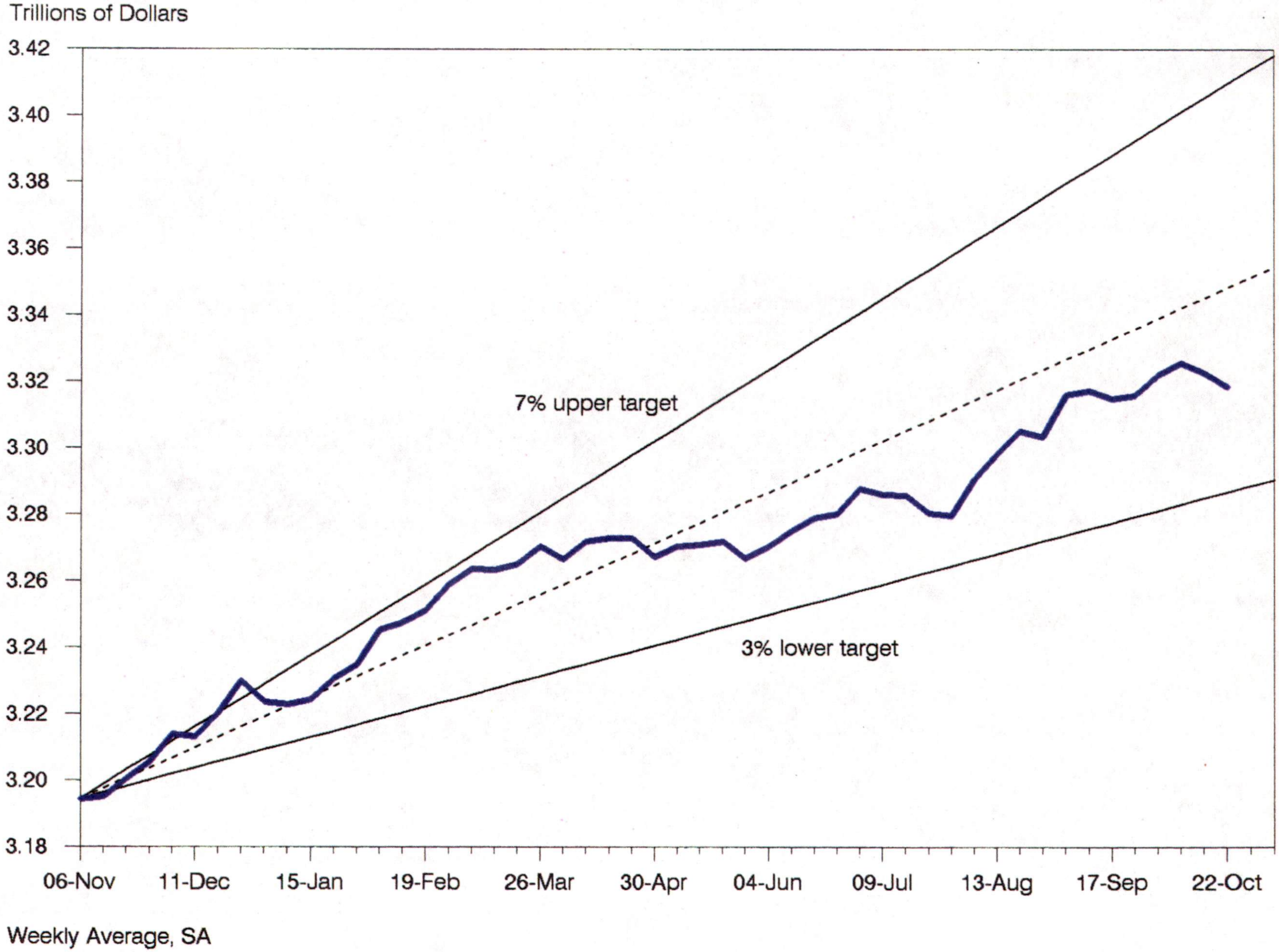
	1990	1991
Real GNP, percent change, 4th/4th	0.6	1.5
GNP deflator, percent change, 4th/4th	4.9	4.2
Unemployment rate........................	5.5	6.1
Interest rates:		
91-day Treasury bills...................	7.6	7.0
Corp. Aaa bonds.........................	9.3	9.1

Real M2.*

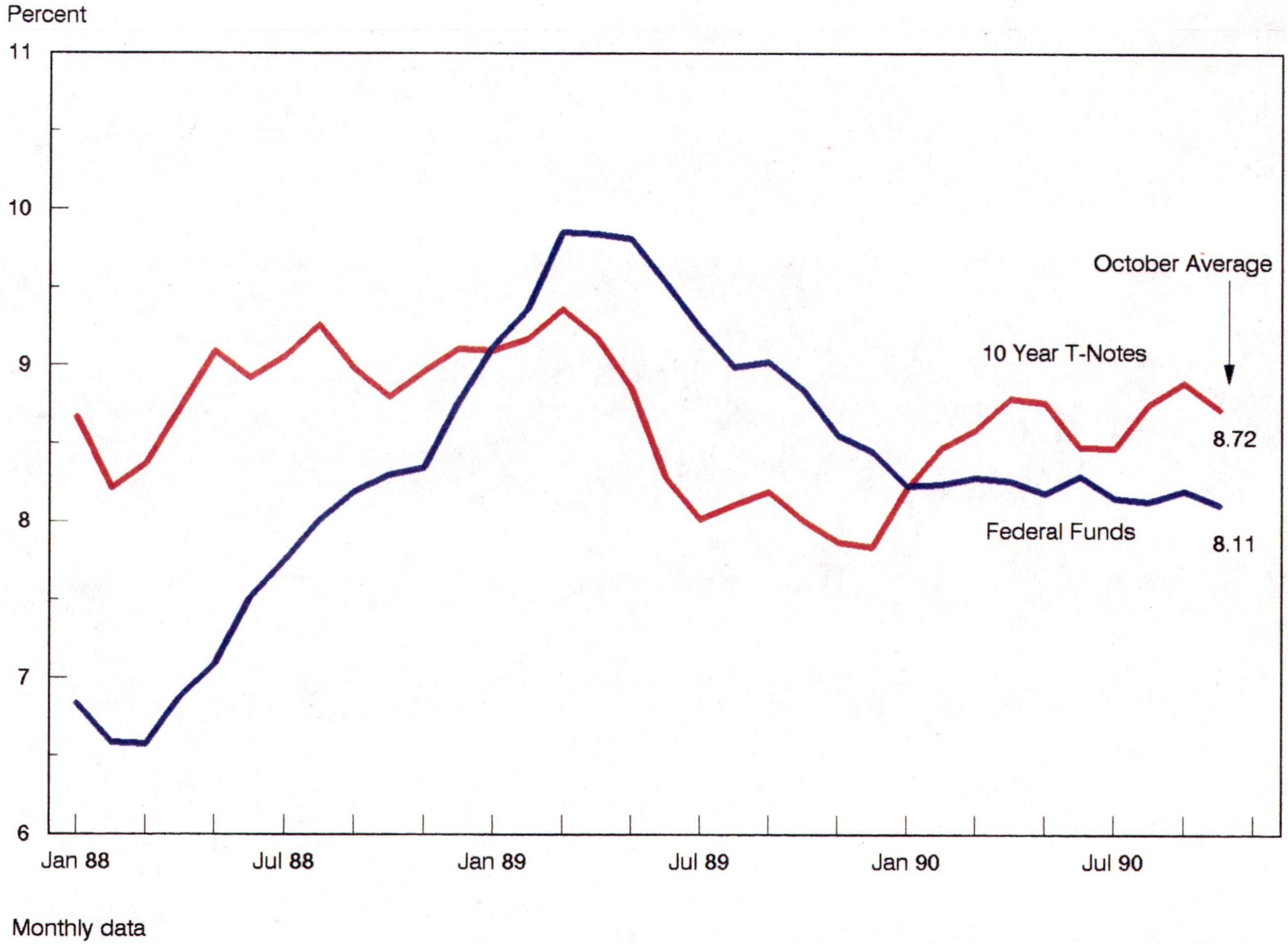


*Real M2 = Nominal M2 / CPI (1982 base)

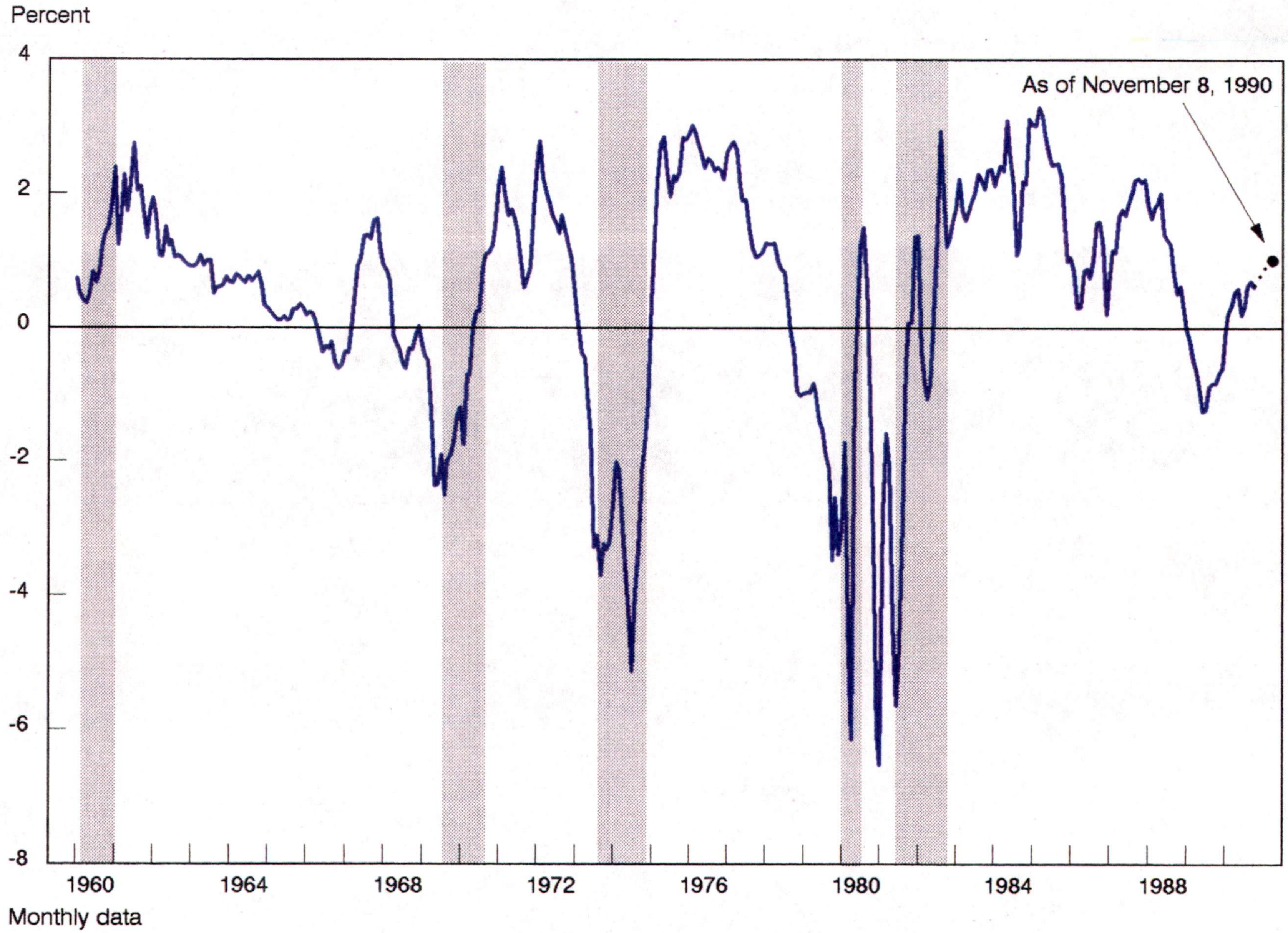
Money Stock - M2.



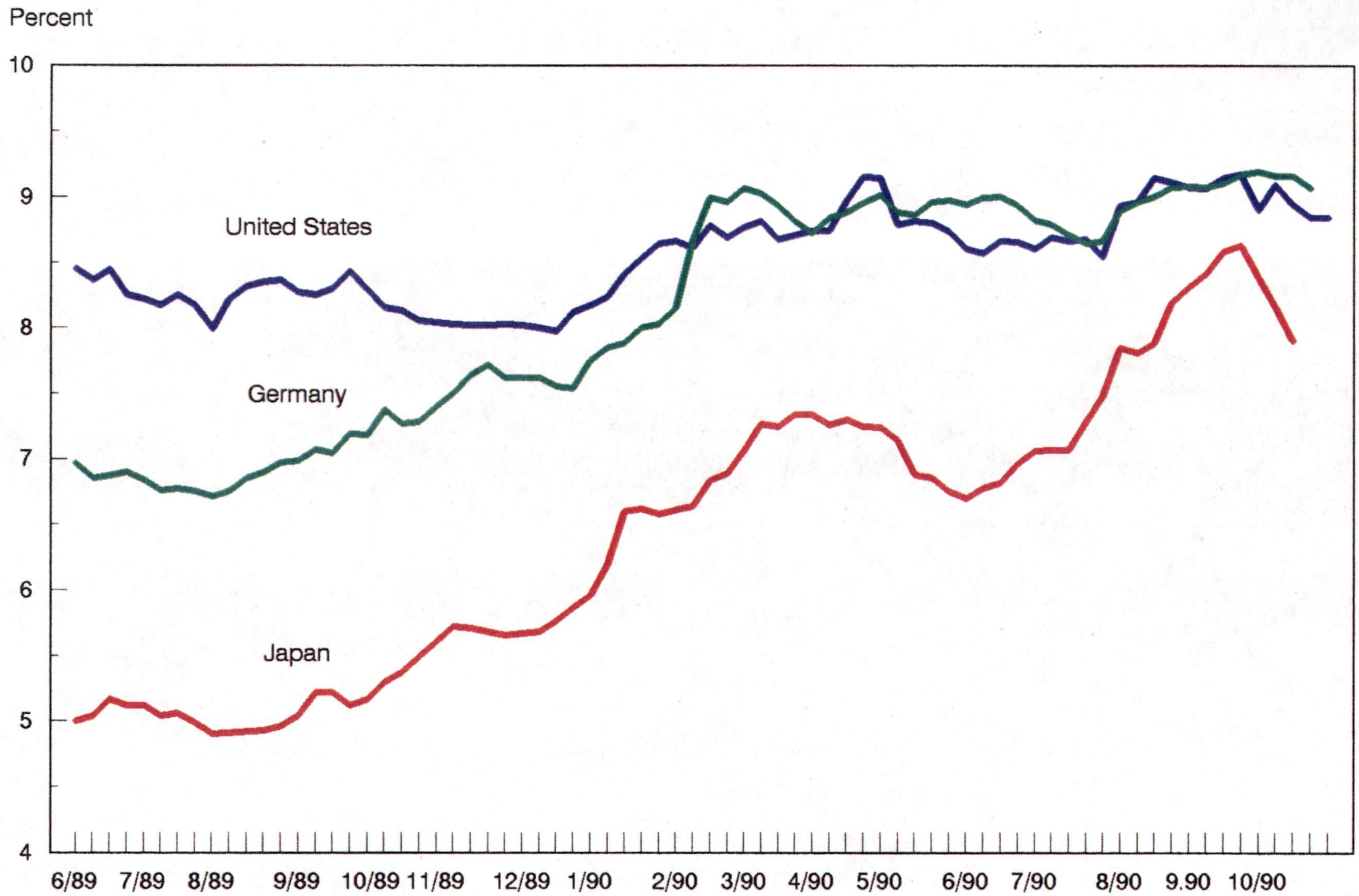
Interest Rates.



10 Year T-Note Rate minus Federal Funds Rate.



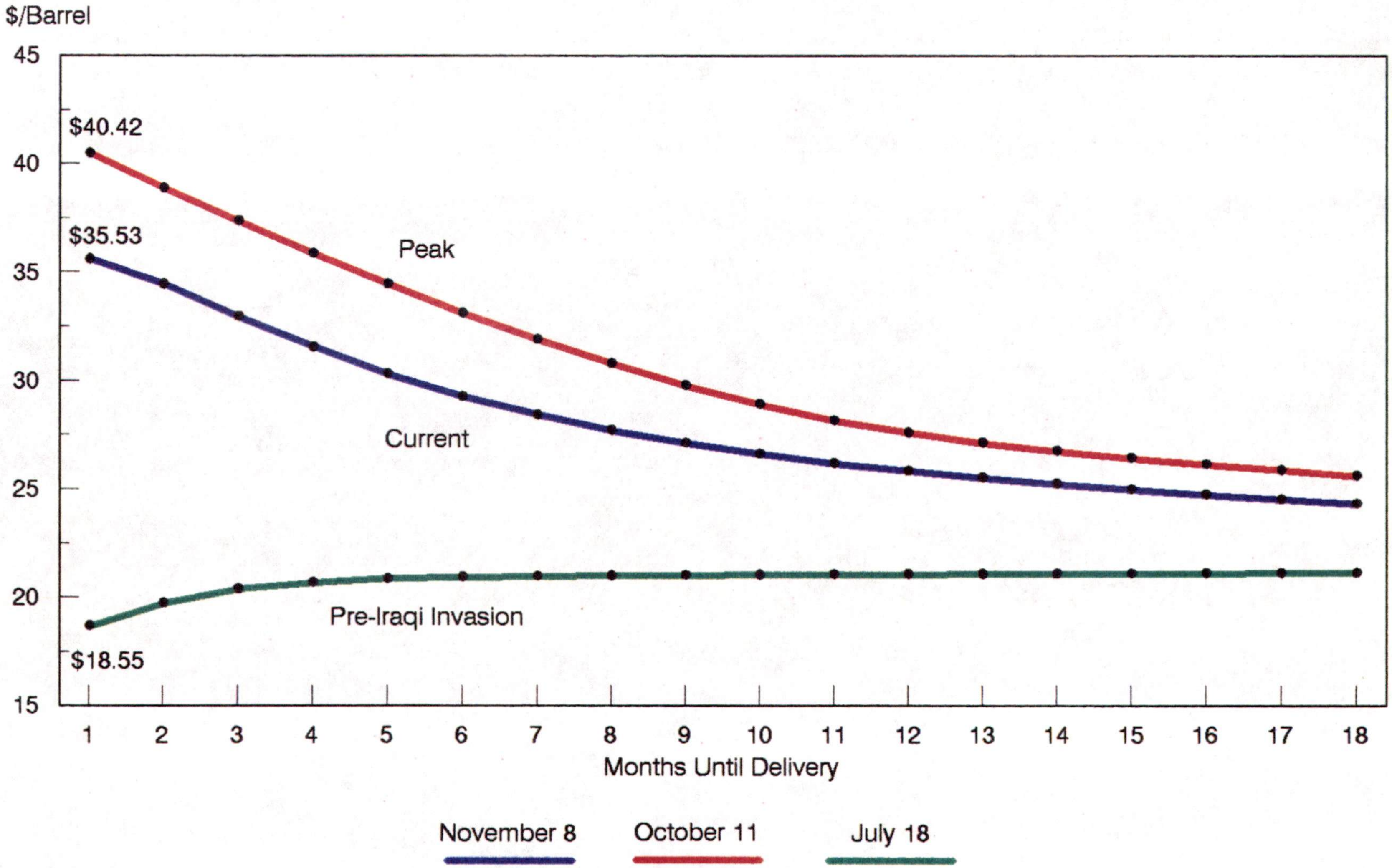
International Long-Term Bond Rates.



Composite measures, weekly average

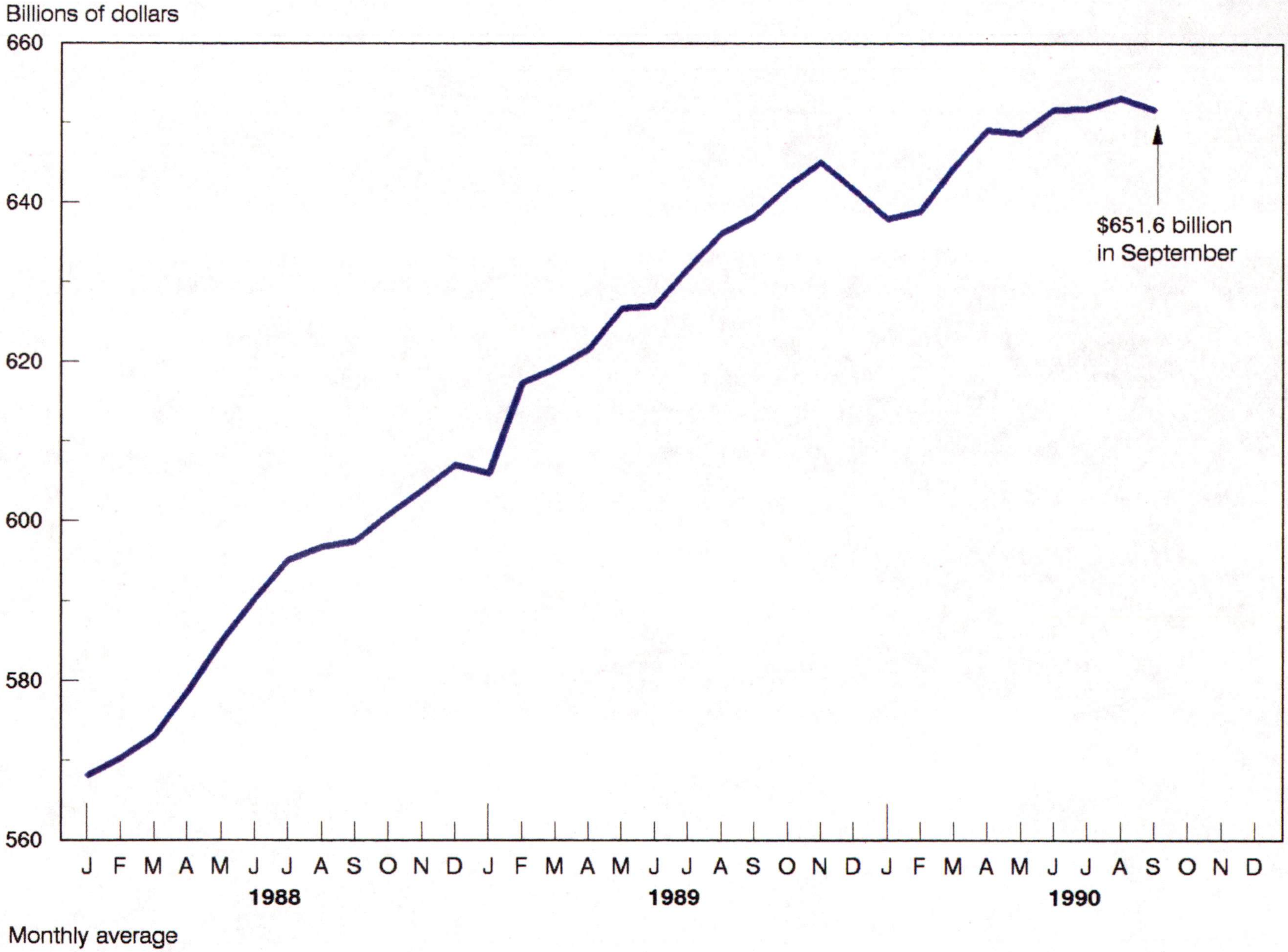
Futures Prices: West Texas Intermediate Crude.

(as of close, Thursday, November 8, 1990)

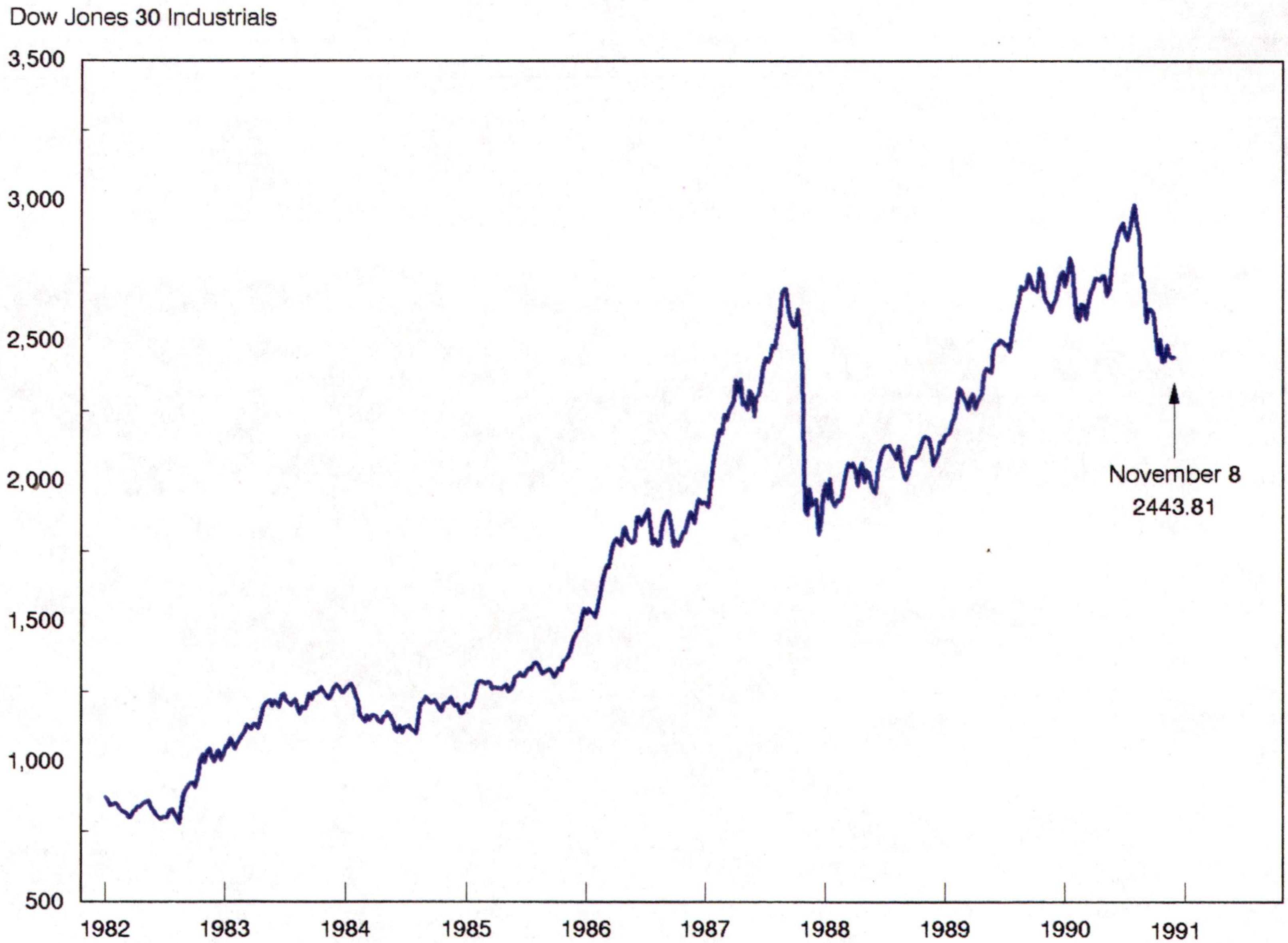


New York Mercantile Exchange

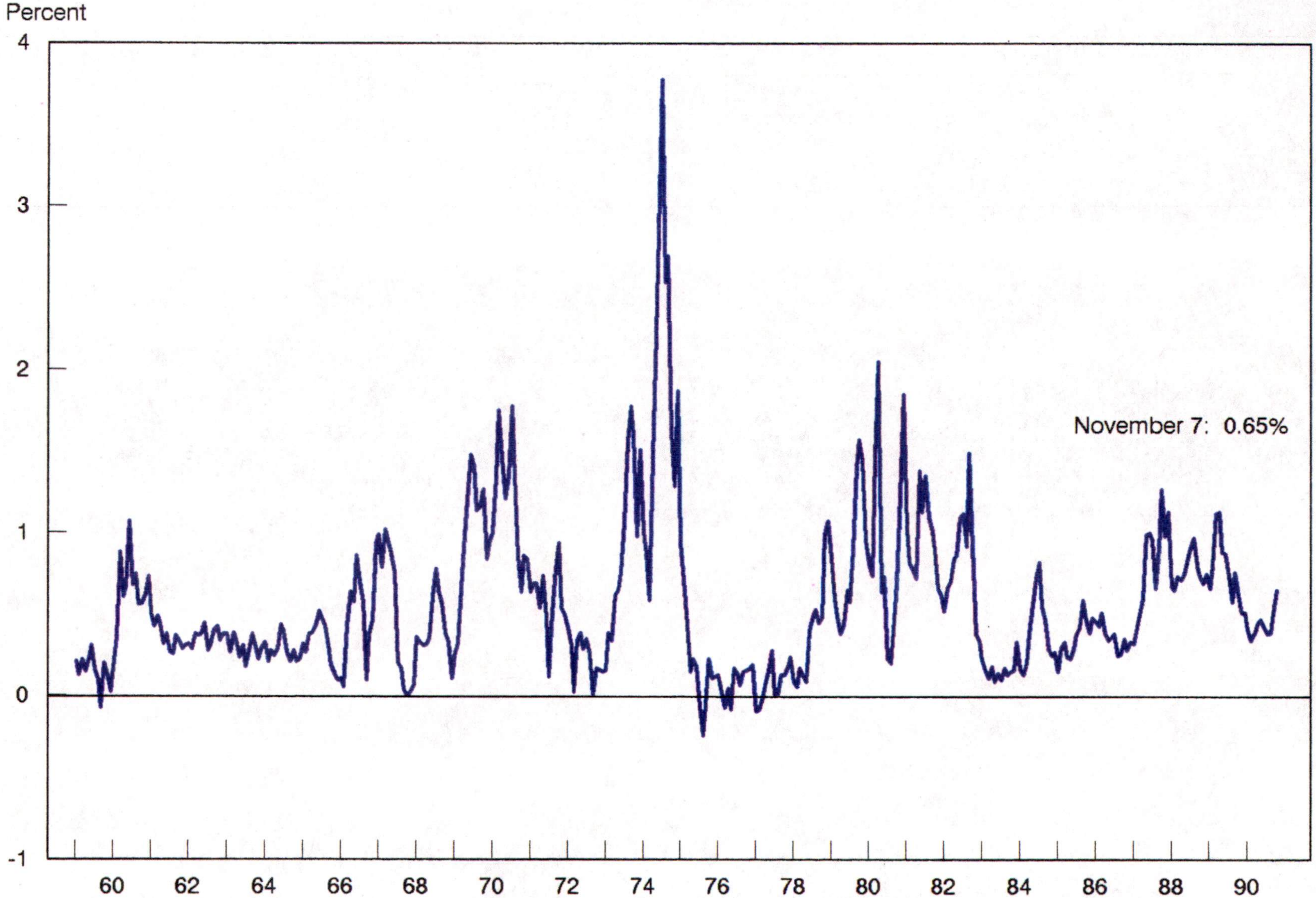
Commercial and Industrial Bank Loans.



Stock Market.



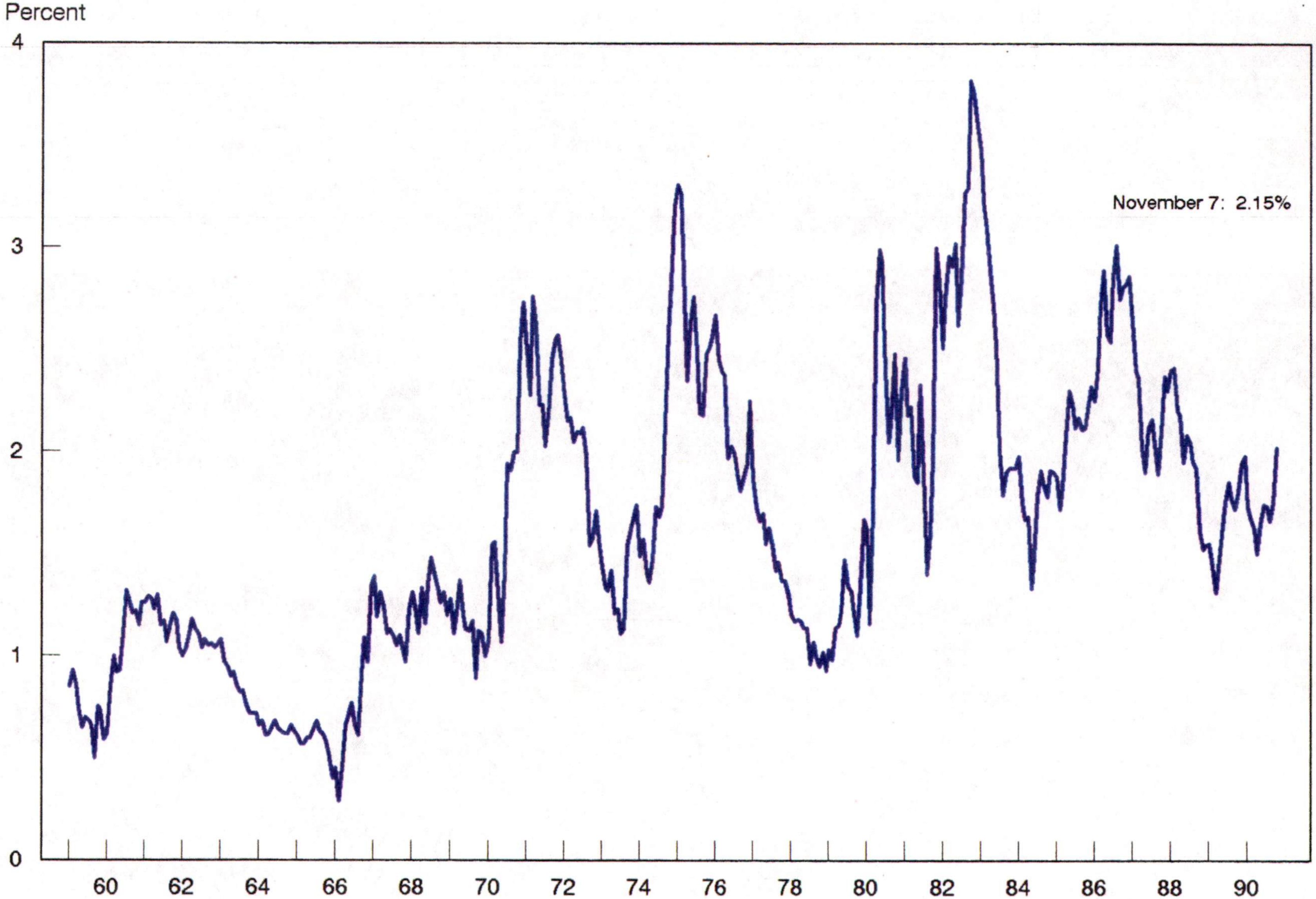
Commercial Paper Risk Premium.*



Commercial paper risk premium is the yield on 6-month commercial paper less the yield on 6-month T-bills.

Monthly average

Corporate Bond Risk Premium.*



Corporate bond risk premium is the yield on Moody's corporate BAA bonds less the yield on 10-year constant maturity securities.

Monthly average

Consumer Confidence.