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ALAN GREENSPAN
100 WALL STREET
NEW YORK, N. Y. 10038

February 13, 1985

Mr. Thomas F. Sharkey
Principal Supervisory Agent
Federal Home Loan Bank
600 California Street
San Francisco, California 94120

Re: Application of Lincoln Savings and
Loan Association for Permission to
Exceed Ten Percent Limitation on
"Direct Investments"

Dear Mr. Sharkey:

I am writing on behalf of Lincoln Savings and Loan Association and in support of its application for an exemption from the 10 percent limitation on direct investments that will be imposed by the new direct investment rule, 12 C.F.R. 563.9-8, announced by the Federal Home Loan Bank Board on January 31, 1985.

I have reviewed and commented on the direct investment rule in its earlier forms, and I have reviewed the rule in the form announced on January 31. I note that it contains a provision expressly allowing an association to apply for an exemption raising the limit on the percentage of its assets which it may place in direct investments (12 C.F.R. § 563.9-8). I note, too, that the Board states in its notice of the rule (at p. 4) that the prior proposed rule added a "presumption" in favor of approval of applications and that the January 31 rule preserves that presumption (at p. 43). The rule

Special Counsel
Exhibit D-16

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requires that a Principal Supervisory Agent "shall approve a application" unless he makes one of four specific findings.

The Board's notice states (at p. 8) that "direct investments can be prudent and desirable" when they are "supported by adequate capitalization, a sound business plan, managerial expertise and proper diversification." On the basis of my review of Lincoln's application and of its audited financial statements and the criteria established in the new rule, I believe that Lincoln Savings and Loan has demonstrated that it has the adequate capitalization, sound business plans, managerial expertise and proper diversification to which the Board refers.

I have reviewed the application Lincoln has submitted to your office, and it is my opinion that Lincoln clearly merits the exemption it seeks. Its application establishes the critical and dispositive facts:

1. Lincoln's new management, and that of its parent, American Continental Corporation, is seasoned and expert in selecting and making direct investments;
2. the new management has a long and continuous track record of outstanding success in making sound and profitable direct investments;
3. the new management succeeded in a relatively short period of time in reviving an association that had become badly burdened by a large portfolio of long-term.

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fixed-rate mortgages and unfavorably structured adjustable rate mortgages whose relatively low yields had been forcing large losses on the association and pushing it nearer the point of insolvency;

4. the new management effectively restored the association to a vibrant and healthy state, with a strong net worth position, largely through the expert selection of sound and profitable direct investments;

5. the new management is devoting a large proportion of its assets to the financing, servicing and construction of residential housing; and

6. the new management has developed a series of carefully planned, highly promising, and widely diversified projects -- a high percentage of which involve the development and construction of residential housing -- requiring sizeable amounts of direct investments.

Given these facts, Lincoln in my judgment meets the requirements that the new direct investment rule establishes for granting a waiver of the 10 percent limit.

Finally, I believe that denial of the permission Lincoln seeks would work a serious and unfair hardship on an association that has, through its skill and expertise, transformed itself into a financially strong institution that presents no foreseeable risk to the Federal Savings and Loan Insurance Corporation. Consequently, Lincoln should be

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allowed to pursue new and promising direct investments as a when they become available, in accordance with the plans and proposals outlined in its application.

It is my opinion that Lincoln's record and its application satisfy the requirements for an exemption that the new direct investment rule establishes. I strongly support Lincoln's application and urge that it be granted.

In closing, let me thank you for giving my letter your attention.

Very truly yours,



Alan Greenspan

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