

BANKING, COMMERCE AND INSURANCE COMMITTEE
OF THE
NEBRASKA LEGISLATURE

Report on the Investigation
of
State Security Savings Company, Lincoln, Nebraska

STATEMENT OF FACTS

COMMITTEE APPROVAL

The following Statement of Facts was approved and adopted by the Banking, Commerce and Insurance Committee of the Nebraska Legislature on January 6, 1987:

Voting Yes - Senators John DeCamp, Rex Haberman, Emil Beyer,
Bill Harris, Jim Pappas, and Loran Schmit

Voting No - None

Absent - Senators Marge Higgins and Bernice Labeledz

INDEX

I.	ACKNOWLEDGEMENTS	1
II.	INTRODUCTION	2
III.	HISTORY OF THE INVESTIGATION	4
IV.	HISTORICAL BACKGROUND OF STATE SECURITY SAVINGS COMPANY - 1927 TO 1984	8
V.	CHRONOLOGICAL REVIEW OF THE OPERATION OF STATE SECURITY SAVINGS COMPANY - 1927 TO 1984	
	A. 1977	15
	B. 1978	18
	C. 1979	23
	D. 1980	25
	E. 1981	28
	F. 1982	29
	G. 1983	35
	H. 1984	50
VI.	ISSUES OF SPECIAL CONCERN	
	A. SHOPPERS FAIR	57
	B. DISBURSEMENTS FOR ACQUISITION OF STATE SECURITY SAVINGS CO.	67
	C. STATE SECURITY LOANS TO GOVERNOR ROBERT KERREY	67
	D. ALVEY OFFER TO PURCHASE STATE SECURITY SAVINGS COMPANY	68
	EXHIBITS	

BANKING, COMMERCE AND INSURANCE COMMITTEE
OF THE
NEBRASKA LEGISLATURE

Report on the Investigation
of
State Security Savings Company, Lincoln, Nebraska

STATEMENT OF FACTS

I. ACKNOWLEDGEMENTS

The members of the Banking, Commerce and Insurance Committee wish to express their appreciation for the efforts of those individuals outside the Committee who assisted in the preparation of this report. Specifically, these individuals are Mr. Thomas J. O'Neill, Legal Counsel to the Legislature's Public Works Committee, Messrs. Dennis C. Stara and Bernard D. Urich, of the accounting firm of Baird, Kurtz and Dobson, and Mr. Val Kleppinger, a retired CPA who volunteered his experience and skills during the early stages of the Committee's inquiry. In addition, the Committee wishes to thank the many individuals who were interviewed by Committee staff, or who testified before the Committee, for their knowledge and insight.

II. INTRODUCTION

This report is intended to provide a comprehensive yet concise review of the conditions, events and decisions which led to the bankruptcy of State Security Savings Company, a state-chartered industrial loan and investment company in Lincoln, Nebraska, on July 9, 1984.

The report is structured and written in such a manner which will, hopefully, promote understanding by those readers who do not have an extensive background in the management and regulation of financial institutions. The Committee's inquiry was not intended to be an audit of State Security Savings, and the Committee's findings purposefully do not resemble a treatise on financial institution accounting. While no efforts have been spared in the attempt to make the report accurate and complete, much of the supporting documentation is not cited or included within the text. Copies of documents which are either cumulative in effect, technical in nature, or of marginal relevance have been omitted, and only supporting materials of demonstrative value have been included or cited. Furthermore, it is neither practical nor possible to publish all of the substantiating evidence which was perused by the Committee or its staff. Some records remain in the custody of the Department of Banking and Finance or in the financial institutions themselves, while other records and notes will be forwarded to the Legislature's Executive Board for

safekeeping and, if it desires, public scrutiny. All recorded testimony before the Committee will be forwarded to the Executive Board, and the Committee hereby recommends that the transcripts thereof should be open to the public for review.

While the Committee originally intended (and indeed was granted the authority) to conduct a similar inquiry relating to the bankruptcy (on January 25, 1985) of American Savings Company of Omaha, Nebraska, the Committee was unable to do so within the time allotted by the Legislature's Executive Board. This should not be interpreted to mean that the collapse of State Security Savings Company was more disastrous than that of American Savings Company, or that the account holders of American Savings Company have suffered less individual hardship. Instead, because of several intervening circumstances, including a general election and two special sessions, and because of the overwhelming complexity and abundance of the information presented to the Committee concerning these financial institutions, the Committee determined that it could best carry out its mandate by concentrating its efforts, and those of its staff, on a review of State Security Savings Company alone.

This report is followed by a series of brief reports prepared by the accounting firm which assisted the Committee in its investigation. (See Exhibit 48) These reports were provided in response to those questions from the Committee which warranted a detailed inquiry and a formal reply. Many portions of the accountants' report are specifically referred to within the text which follows. However, the reader should be aware that other segments of the accountants' report are not cited. Furthermore, it

should be noted that much of the accountants' efforts during the course of the Committee's investigation consisted of discovering, compiling or substantiating figures, values and book entries, which are incorporated in the text of this report, and for which specific credit is not given when used.

Parts I through VI of this report have been drafted by Gary L. Rex, Legal Counsel of the Banking, Commerce and Insurance Committee, who is solely responsible for errors in substance and form.

III. HISTORY OF THE INVESTIGATION

On September 19, 1985, the 89th Legislature of the State of Nebraska convened in its first special session of that year. The purpose of the special session was to correct a bill, originally adopted during the 1985 regular session, to disburse 8.5 million dollars to the creditors of Commonwealth Savings Company.

On the sixth day of the special session, September 24, 1985, Senator Jerome Warner, joined by Senators Vickers, Remmers, Lamb, and Nichol, introduced Legislative Resolution 1 (Exhibit 1) requesting that the Legislature convene a panel consisting of the Legislature's Banking, Commerce and Insurance Committee along with four additional legislators to "study all aspects of any potential liability, exposure or responsibility of the State of Nebraska with regard to the failure of State Security

Savings Company and American Savings Company...." LR 1 was debated on the floor of the Legislature as well as in a meeting of the Legislature's Executive Board, chaired by Senator Chris Beutler. However, no formal action was taken on the resolution when the Legislature adjourned on September 25, 1985.

Nevertheless, in response to the concern generated by Senator Jerome Warner's resolution, and in cooperation with Senator Chris Beutler, Senator John DeCamp, as chairman of the Banking Committee appointed Senator Bill Harris of Lincoln to chair a special subcommittee of the Banking Committee to examine the State Security Savings and American Savings matters. (See Exhibit 2) Shortly thereafter, Senator Beutler endorsed the appointment of the special subcommittee, but in his directive to Senator Bill Harris on September 30, 1985 (Exhibit 3), limited the subcommittee's work to a "preliminary investigation," for the purpose of determining "whether further investigation by a larger and more formalized investigative committee would be in order." Senator Bill Harris thereupon appointed seven legislators to the subcommittee, consisting of Senators Loran Schmit, Emil Beyer, James Pappas, Marge Higgins, Jerome Warner, Gary Hannibal and R. Wiley Remmers.(1) Between October, 1985, and

(1) Senators Warner, Hannibal and Remmers were appointed as nonvoting members.

July, 1986,(1) the subcommittee held several meetings and deliberated on the information collected and presented by its legal counsel, Mr. Gary Rex.(2)

Since the subcommittee did not have subpoena authority, the subcommittee's inquiry was limited to receiving information made available to it voluntarily. Nevertheless, a large amount of data was obtained from review of Banking Department records, State Security Savings records, public records held by the County Clerk and the Register of Deeds, and from interviews with key individuals. The subcommittee then issued its recommendation to the Banking, Commerce and Insurance Committee on July 9, 1986, that "it is appropriate for the Legislature's Executive Board to take the necessary steps to conduct a formal investigation of the facts and circumstances leading up to and surrounding the bankruptcies of State Security Savings Company and American Savings Company,...." (See Exhibit 4)(3)

Following receipt of the subcommittee's recommendation, that a formal in-depth examination of State Security Savings Company and American

(1) The subcommittee's progress was interrupted by a Second Special Session between October 17, 1985 and November 15, 1985, and by the 1986 Regular Session, which ran from January 8 to April 16, 1986.

(2) Who also serves as the Legal Counsel of the Banking, Commerce and Insurance Committee.

(3) The subcommittee's resolution was erroneously dated "8-9-86."

Savings Company should be conducted, the Banking Committee met in a closed-door meeting on July 21, 1986. The Committee thereupon approved a resolution (Exhibit 5) proposing that the Executive Board authorize the Banking Committee to conduct such a study. The Committee's resolution further spelled out the scope of the recommended inquiry, and requested that \$25,000 be allocated for funding of the endeavor.

On July 30, 1986, the Executive Board met to consider the Banking Committee's proposal. During deliberations on whether to adopt the Banking Committee's resolution, the Board approved an amendment offered by Senator John DeCamp that the investigation be open to the public unless a witness specifically requested that his or her testimony be given in closed session. Ultimately, the Board unanimously adopted the Committee's request, as amended, and appropriated \$25,000 for the Committee's use. (See Exhibit 6) The Committee and staff immediately set to work collecting additional information and securing the assistance of an accounting firm to aid the Committee in accomplishing its task. August 28, 1986, the accounting firm of Baird, Kurtz, and Dobson was selected from among several applicants.

The Banking Committee commenced its investigation on September 17, 1986, with a two-day briefing by its legal counsel on the findings of the special subcommittee. It was at this point that, because of the large amount of information involved and the complexity of the issues, the Committee decided to first examine State Security Savings, and then deal with American Savings at a later time.

Between September 17, and November 21, 1986, the Committee received 7 days of testimony, while the Committee staff devoted hundreds of hours reviewing records, conducting interviews and preparing information for the Committee members. The following individuals gave formal testimony to the Committee:

Paul Amen	November 21
James Barbee	September 24
Roger Beverage	September 24
Eugene Crump	September 24
Ken Hake	October 17
Mike Heavican	September 24
William Hoppner	November 16
Jerry Joyce	November 7
Robert Kerrey	November 6
Wayne Kubert	November 6
Barry Lake	November 6
Pat O'Brien	September 24
Robert Rentfro	November 7
Robert Spire	September 24

IV. HISTORICAL BACKGROUND OF STATE SECURITY SAVINGS COMPANY - 1927 to 1984

State Securities Company was chartered in 1927 as an "installment investment company" by the Nebraska Department of Trade and Commerce. The charter application, filed under the authority of Nebraska's Installment Investment Companies Act (originally adopted in 1903) was submitted by Mr. Frank E. Card and Mr. Walter S. Adams. While the stock in State Securities Company was held by many individuals in small amounts, two of the larger shareholders were both Mr. Card and Mr. Adams, who also served as the chief managers of the corporation. The initial capitalization of the institution was \$25,000.

Such institutions were, at that time, similar to "Industrial Plan Banks" or "Morris Banks,"(1) as they became known in other states, which were also authorized and regulated by state law. These institutions were specifically designed to provide credit to wage earners on an installment loan basis, and were popular for the reason that they furnished credit to many wage earners to whom such credit would not otherwise be available. Nebraska was only one of many states in which such institutions were authorized.

In 1941, the Nebraska Legislature revised its statutes governing installment investment companies, and essentially caused such institutions to be rechartered as "industrial loan and investment companies" (LB 389,

(1) Even though such institutions were referred to as "banks," there were not, and are not, similar in either structure or regulation to "commercial banks" as we know them today.

1941). While the new laws significantly tightened up the state's regulation of these institutions, "industrials" have remained, to this day, significantly different from other types of financial institutions, such as commercial banks, trust companies, savings and loans, and credit unions. Perhaps their most distinguishing feature has been their relatively unlimited ability to invest the institution's assets in real estate development ventures.(1)

Industrial loan and investment companies have been further distinguished by the fact that they do not technically receive "deposits," but instead exchange "certificates of indebtedness" for funds placed in the institution by the public. Hence, account-holders become investors and creditors in the institution and in its ventures by reason of such "loans."(2) The industrial basically borrows money from the public, and then loans such funds back to the public in much the same manner as other financial institutions. Additionally, certificates of indebtedness are not payable "on demand" as are deposits in a commercial bank, for example, but are subject to repayment restrictions in the investment agreement.

As a result of the Legislature's adoption of LB 389 in 1941, State

(1) At least until the Department of Banking adopted Rule 16 in March, 1981, which restricted such investments.

(2) However, like depositors in other types of financial institutions, the certificate holders do have first priority in any liquidation of the institution's assets, ahead of other creditors.

Securities Company converted its charter to an industrial loan and investment company on August 8, of that year. Many years later, in June of 1977, the institution changed its name from State Securities Company to State Security Savings Company. Ownership of the financial institution remained essentially in the hands of the Adams and Card families until June 7, 1978, when it was purchased by an entity called Security Financial Corporation. The majority of the stock of Security Financial was split among three stockholders:

William F. Wright (32 percent), a partner in the Lincoln law firm of Wright, Remboldt and Ludtke. Wright's stock in Security Financial Corporation was not owned personally, but rather through a corporation named American Consolidated Corporation, and then later through Marmat Corporation (a Wright family corporation).

Leon A. Olson (32 percent), formerly the principal stockholder and president of Landmark of Lincoln, Ltd., a firm which specialized in architecture, real estate development and construction. Mr. Olson also appraised real estate for State Security before he moved to Santa Barbara, California in 1977.

Ken Hake (32 percent), a Certified Public Accountant employed as an accountant and ultimately a partner in the Lincoln accounting firm of Dana F. Cole and Company from 1962 until 1978. Mr. Hake's stock in Security Financial

Corporation was originally held personally, but was later transferred to Marken Equities, Ltd., a limited partnership formed in April 1980 whose partners are Ken Hake and his wife, Maureen. Mr. Hake became and remains the chief executive officer of State Security.

The remainder of the stock in Security Financial was held by Mr. Grant Whitney, who was previously associated with Mr. Olson's firm, and who also changed his residence to California.

Security Financial purchased the stock of State Security for a total price of \$5,750,000, which was approximately one and three-quarters of its "book value."⁽¹⁾ The purchase was structured as follows:

\$4,350,000 was carried by the previous stockholders in a purchase contract to be paid by Security Financial over a period of 8 years at 9 percent interest with aggregate annual payments of approximately \$785,000 beginning on June 7, 1979. The stock was held in escrow in the names of the original stockholders, and was to be transferred to the buyers upon final payment of the contract.

(1) As of June 6, 1978, State Security's records reflect that its "book value" (i.e., the owners' equity as recorded on the books of the institution) was \$3,285,522. (For further details concerning this matter, see "Part B" of Exhibit 48.)

\$1,408,000 was paid in cash to the previous stockholders. This sum was raised by individual contributions of the Security Financial stockholders (Wright-\$110,000; Olson-\$110,000; Hake-\$110,000;(1) and Whitney-\$88,000(2)), and by a loan from City Bank of Lincoln to Security Financial in the amount of \$1,000,000. The City Bank loan was to be amortized over an 8-year period at 9 percent interest, with annual payments of \$137,000. Security Financial pledged its interest in the stock purchase contract as collateral, and the principals also personally guaranteed the loan.

The annual obligation of Security Financial, to retire the debts incurred in the acquisition, totalled approximately \$922,000. However, the purchasers had previously concluded, after reviewing the institution's assets and earnings that Security Financial could make the payments from dividends issued to Security Financial from State Security. In business parlance, such an acquisition is termed a "leveraged buyout," which means that the buyers fund the major portion of the purchase price by incurring debt (i.e., "leveraging") which is to be paid from the earnings and assets of the acquired entity.

(1) The majority of Mr. Hake's contribution was borrowed from First National Bank of Lincoln.

(2) A portion of Mr. Whitney's contribution was through the purchase a \$66,000 debenture.

Following the change in ownership of State Security in 1978, the next major events in the institution's life were State Security's admittance to the Nebraska Depository Institution Guarantee Corporation in August, 1979, and then the collapse of Commonwealth Savings Company on November 1, 1983. At the time of Commonwealth's failure, State Security was the second largest industrial in the state (with total certificates of indebtedness of 50 million dollars, compared to 67 million dollars held by Commonwealth). Then, almost 8 months later, on July 9, 1984, State Security declared bankruptcy under Chapter 11 of the United States Bankruptcy Code. Ultimately, following the institution's reorganization in the Bankruptcy Court, on May 15, 1985, the Nebraska Department of Banking and Finance issued State Security a new charter to operate as a stock-owned building and loan corporation under Nebraska law. The corporation opened for business on June 19, 1985, with accounts insured by the Federal Savings and Loan Insurance Corporation.

Throughout the period of Security Financial's ownership of State Security, Messrs. Wright, Hake, and Olson served as directors on the holding company's board of directors. Of the principal owners of Security Financial, only Mr. Hake has actively engaged in the day-to-day operation of State Security as chief executive officer. Mr. Clyde Card and Mr. Alfred Adams, the founders' sons, continued to serve as directors until January, 1984, when they retired.

The specific details concerning the operation and condition of State

Security between 1977 and the date of its bankruptcy in 1984, will be discussed in the following chapter of this report.

V. CHRONOLOGICAL REVIEW OF THE OPERATION OF STATE SECURITY SAVINGS COMPANY - 1977 TO 1984

A. 1977

In 1977, the year before the takeover of State Security Savings by Wright, Hake and Olson, the members of the Adams and Card families were the predominant owners and managers of the institution. The Chairman of the Board was Clyde Card, while Alfred Adams served as President and Jack Card served as Executive Vice-President. The structure of State Security (see diagram, Exhibit 7) consisted of State Security Savings, the parent company, and four subsidiary corporations:

1. STATE SECURITY BUILDING CORPORATION. Incorporated in 1973, the only asset of this entity was the building located at 1330 "N" Street, Lincoln, Nebraska. The majority of the structure was, and still is, used as a parking garage, with a portion of the first level being leased to several commercial tenants, including State Security. The real estate on which the building rests is owned by two individuals in California, who entered into a long-term lease arrangement with State Securities Company beginning

in 1955.

2. STATE SECURITY INSURANCE SERVICES. This on-site insurance agency, formed in 1955, sold life and casualty insurance.

3. LANCASTER COMPANY. Originated in 1968 to sell mobile homes, it had no inventory at this time, and was being used to cooperate with Randalwood, Inc. (a corporation owned and operated by three of State Security's largest individual borrowers) in a joint venture (called S-K, Ltd.) to purchase and develop residential real estate in the vicinity of 70th and "A" Streets (called "Taylor Meadows"). Acquisition and development of the real estate project began in July, 1977.

4. FIRST NATIONAL LIFE INSURANCE COMPANY OF THE U.S.A. Acquired by State Securities Company in 1969, this subsidiary was chartered to underwrite life and health insurance, but primarily sold credit life insurance policies through a small number of banks in Nebraska.

In addition to the above-mentioned subsidiaries, State Security owned 50 percent interest in "Western State Company" and "RJS."

1. WESTERN STATE COMPANY. Formed in 1973, and terminated in early 1978, it engaged in buying

and developing real estate. The other 50 percent interest was owned by Western Diversified, Ltd., a corporation whose principal was Mr. Wayne Kubert, a Lincoln real estate appraiser who performed a substantial amount of appraisal work for State Security.

2. RJS. Originated in 1976 for the purpose of buying and developing the Seven Oaks real estate project in Lincoln, Nebraska. The other 50 percent interest of this partnership was owned by Mr. Robert Rentfro and Mr. Jerry Joyce of Lincoln.

In March of 1977, the Nebraska Department of Banking and Finance conducted an examination of State Security. According to the examiners' report, the institution's condition was sound, but not without some areas of concern. (See comparison chart, Exhibit 8) While the ratio of capital to assets was satisfactory (10.4 percent -- 8.5 percent being considered a minimum by Department policy), and net earnings were good (\$615,000), yet 8.5 percent of all loans were delinquent (the Banking Department considered anything more than 5 percent to be excessive). Furthermore, according to the examination, the aggregate of State Security's "classified" assets(1)

(1) A classified asset is a loan or other asset of the institution which has been rated by the examiner in one of three categories: substandard, doubtful, or loss. The examiner's determination is based upon several criteria, each dealing with the potential of the institution to eventually

comprised 41.9 percent of the institution's capital. This figure is significant because it indicates that a large portion of the institution's capital(1) was potentially eroded. The institution's history of growth in certificates of indebtedness continued into 1977, with total accounts at 27.7 million dollars in March, and 33.1 million dollars by year end. (In 1960, the total was only \$3.9 million, and by 1975, accounts had risen to \$21.4 million.)

B. 1978

The Nebraska Department of Banking and Finance revisited State Security in early May 1978, for the institution's annual examination, shortly before

collect a debt or realize the institution's investment in the liquidation of the asset.

(1) Capital is subject to more than one technical definition in the regulation of financial institutions. However, it basically consists of the owners' investment in the company (capital stock), along with the investment of outsiders (capital notes and debentures), and certain uncommitted funds in excess of the institution's liabilities (e.g., surplus funds, reserves, and profits not yet disbursed), all of which are subordinate to the institution's obligation to repay its account-holders. Capital is required by law as a "cushion" to protect account-holders from depreciation of the institution's assets in the case of liquidation, and to insure that the owners have a stake in the successful operation of the institution.

the State Security's acquisition by Wright, Hake and Olson. The Department's subsequent report (see Exhibit 8) indicated improvement in most respects. For example, the capital/asset ratio increased from 10.4 percent to 11.5 percent, and the ratio of classified assets to capital decreased significantly from 41.9 percent to 29.1 percent. Accounts grew almost 7 million dollars since the previous year's examination, and net earnings neared 1 million dollars. However, a most disturbing and ominous indicator--the percentage of delinquent loans--rose to 12.1 percent from 8.5 percent. This was, of course, the beginning of an era of soft real estate sales and escalating interest rates. Because of State Security's involvement in the funding of real estate development ventures at that time, it follows that such loans were and would continue to be a source of increasing delinquencies.

Within a few days after the Department's examination, Wright, Hake and Olson consummated their acquisition of State Security on June 7, 1978. (See diagram, Exhibit 9) The new owners of State Security were optimistic that the institution would be a successful enterprise. They had applied their considerable experience and expertise toward analyzing the institution's past performance and its future potential. They were confident, for example, that State Security could generate sufficient dividends to the holding company, Security Financial Corporation, to meet the substantial annual payments due on the acquisition debt. But they did not, nor could they, foresee the increasingly stagnant condition of the real estate market that would follow for the next several years. On or about the date of acquisition, the institution's subsidiary corporations

were valued as follows:(1)

SUBSIDIARY	BOOK VALUE(2)	MARKET VALUE (less indebtedness)
-----	-----	-----
SSBC	\$ 856,000	\$ 1,300,000
SSIC (3)	\$ 18,400	\$ 37,200
LANC. CO. (3)	\$ 15,000	\$ 1,935,000
FNLIC (3)	\$ 234,000	\$ 780,000
-----	-----	-----
TOTAL	\$1,123,400	\$ 4,052,200

Five months after the acquisition, in October, 1978, State Security reorganized its corporate structure. (See diagram, Exhibit 10) The company's rationale for the restructuring was to take advantage of tax laws which would allow the avoidance of substantial taxes, resulting from the original acquisition, if ownership of State Security's subsidiaries

(1) Figures compiled from examination reports, tax returns and other State Security documents.

(2) "Book value" being State Security's equity in the subsidiary as recorded on the books of the subsidiary.

(3) Spun-off from State Security to Security Financial in October, 1978.

was transferred to the holding company within two years. The result of the reorganization was that three of the four subsidiaries previously owned by State Security (i.e., SSIC, Lancaster Co., and FNLIC) were now owned by Security Financial Corporation, State Security's holding company. In exchange for the loss of these assets, Security Financial returned to State Security a total of \$500,000 -- which was approximately \$233,000 more than the combined book value of these former subsidiaries (resulting in a net increase in State Security's capital accounts in that amount). However, the contribution was \$2,252,200 less than the total estimated market value of those entities in 1978.

FNLIC was sold by Security Financial to an outside party shortly after the spin-off for \$780,000 cash. Hence, Security Financial received a net gain of \$280,000 from the spin-off and sale of FNLIC alone. The real estate held by Lancaster Company (i.e., Taylor Meadows) was eventually transferred back to State Security in December, 1983. By that time, the unsold portion of the project would be valued at \$1,770,000, less related indebtedness on the real estate of \$450,000, for a net equity of \$1,320,000. But in 1978, according to Security Financial Corporation's tax return for that year, the market value of the real estate venture was \$1,935,000, which was based on its estimated retail value when fully developed less the estimated cost to complete.

The entire spin-off transaction was characterized as a payment in lieu of

a cash dividend to Security Financial Corporation.(1) There was nothing illegal about the transfers, as the institution continued to maintain the necessary amount of capital required by law.(2) Moreover, there were legitimate tax advantages to be gained by Security Financial and State Security from reorganization. It did result, however, in a significant reduction of the institution's assets, when looking at the market value of those assets. Also, at the time of the spin-offs, Lancaster Company and State Security Building Corporation held capital notes in State Security totalling \$198,000. At the time of the spin-off transaction these capital notes were cancelled, thus resulting in an additional capital infusion to State Security of \$198,000.

Lastly it must be mentioned that in 1978, State Security had loans

(1) State Security Savings also issued a cash dividend of \$124,000 early in 1978, but this was paid to the former stockholders as a part of the stock purchase agreement.

(2) Nebraska Statute 8-413 requires total capital of an industrial loan and investment company to be no less than 10 percent of the institution's indebtedness, with Section 8-403.02 setting an absolute minimum, in State Security's case, of capital stock in the amount of \$550,000. In May, 1978, certificates of indebtedness were 34.5 million dollars, which meant State Security's minimum total capital was \$3,450,000. State Security's capital on December 31, 1978, exceeded the statutory minimum by \$1,514,000. (For a detailed listing of State Security's capital adequacy on an annual basis, see "Part I" of Exhibit 48.)

outstanding to S.E. Copple in the amount of \$425,000. These loans, on the books prior to the sale of State Security, were unsecured, and the proposed use of the loan proceeds was not specified in the loan documents.

C. 1979

The Nebraska Department of Banking and Finance conducted its 1979 examination of State Security in September of that year. Although the institution's capital position continued to improve (capital/assets rose from 11.5 percent to 12.2 percent) and accounts grew (from 34.5 million to 40 million dollars), other key indicators showed deterioration. Classified assets represented almost 108 percent of capital (up from 29 percent in 1978), and nearly 15 percent of all loans were classified. More than 26 percent of all loans were labeled as delinquent, which more than doubled the 1978 figure. Moreover, the distribution of the institution's loans was also disturbing. The Department noted that six borrowers held "concentrations" of loans (i.e., each borrower's loans exceeded 25 percent of capital), and that the aggregate of the loans to those borrowers amounted to 28.1 percent of all loans held by State Security. (These "concentrated loans" involved financing arrangements for real estate development ventures initiated in 1976 and 1977.) The institution's "liquid" assets totaled 20.6 percent of liabilities, which was slightly above the Department's recommended minimum of 20 percent. Notwithstanding any adverse indications, State Security's earnings were a respectable \$586,300. The institution issued a cash dividend of \$150,000 to the holding company in that year.

Also in 1979, the Department's records noted:

1. That unsecured loans to S.E. Copple increased to \$625,000;
2. That State Security was admitted to the NDIGC in August of 1979; and
3. That State Security was cited for two violations of State Statute 8-409 (Exhibit 11), which prohibits an industrial loan and investment company from loaning an amount more than 20 percent of its capital to one person or corporation.(1)

(1) These were the first of several violations of 8-409. In all but one case, the limit would be exceeded for example, when a loan to a particular corporation would become delinquent, thus causing the Department, under its examination policies, to consider any personal guarantees on the loan as a part of the credit line. Since the name of the personal guarantor was usually the same as the person acting for the corporation, the aggregate would sometimes place the line over the limit. Other than bringing these violations to the institution's attention, no enforcement actions were taken by the Department. At the time of the examination, State Security's loan limit was \$815,000. (For additional insight regarding the Banking Department's perspective on violations of section 8-409, see Exhibit 12.)

D. 1980

The condition of State Security in 1980 was typical of the previous two years--improvement in some areas, but marked deterioration in others. According to the Department of Banking's examination in early January, 1981, the capital-to-asset ratio decreased slightly from 12.2 percent to the level of 11.7 percent. Accounts grew an additional 4.1 million dollars, and earnings totalled \$710,800. However, the institution's assets demonstrated further decay. Classified assets now exceeded capital by 44 percent, and classified loans by themselves were 113 percent of capital. Delinquent loans were cut in half from 1979, down to 13 percent, but were still considered to be excessive. In regard to "concentrations," seven borrower's now held almost 46 percent of all of the institution's loans. In fact, the aggregate borrowings of one borrower alone, through his various enterprises, amounted to 97 percent of State Security's capital accounts.

The Department's report also noted two statutory violations by State Security. The first was a violation of section 8-409 (again concerning the institution's lending limit). The second violation related to the extension of an existing loan to one of State Security's cashiers without obtaining prior approval from the board of directors (contrary to state statute 8-409.01). The original loan to the employee was properly approved, but the board had neglected to formally ratify the subsequent extension.

Also, in May of 1980, State Security spun-off its last remaining subsidiary corporation, State Security Building Corporation (SSBC), to the holding company, Security Financial Corporation. (See diagram, Exhibit 13) According to Banking Department records, the assets of SSBC (i.e., the building located at 14th and "N" Streets) were listed with a "book value" of \$843,000.(1) On the other hand, the building's "market value," according to the "proforma" provided to City Bank by Wright, Hake and Olson in 1978, was listed at \$1,300,000. At the time of the spin-off, there was no debt or other encumbrance against the building. Following the transfer of SSBC to Security Financial, three items occurred that are worthy of note:

1. Ten days after the spin-off to Security Financial, SSBC renegotiated its lease with State Security. The lease had previously been scheduled to expire in 1993, and provided for payments by State Security of \$2,000 per month. According to Mr. Hake, the lease payments were substantially below the market rate at that time, which is correct. In any event, prior to the spin-off, neither SSBC or State Security would have been injured by the arrangement, since any

(1) The State Security board of directors minutes in December, 1973, indicate that State Security received approval from the Banking Department in November, 1973, to carry the building on its books at \$843,000.

profit or loss registered by SSBC ultimately accrued to its parent, State Security. In other words, whether State Security's rent to SSBC would have been \$1,000 per square foot or \$1 per square foot, the impact on State Security would have been the same. The newly renegotiated lease, however, trebled the rent to \$6,000 per month with an annual cost of living increase, for a term of 15 years. Not surprisingly, the building's net earnings rose from \$24,600 in 1979, to \$42,300 in 1980 and \$77,000 in 1981. These earnings, of course, now accrued to the holding company, Security Financial, rather than to the financial institution, State Security.

2. Security Financial Corporation borrowed \$950,000 from First National Bank of Lincoln, and pledged the building as collateral for the loan. First National appraised the building, exclusive of the real estate, at \$1,396,500.
3. Security Financial returned \$350,000 to State Security in the form of a capital contribution, and used the remainder of the \$950,000 borrowed from First National to help retire Security Financial's acquisition debt. The benefit accruing to Security Financial as a result of the transfer was registered as a dividend. It should be mentioned that, when the market value of the building is considered, Security Financial essentially acquired an asset worth

approximately \$1,400,000 in exchange for a capital contribution of \$350,000 to State Security. Again, this net depletion of the financial institution's capital accounts was not illegal, as its capital remained above the minimum statutory amount by more than \$1,350,000.

(For further details regarding this matter, refer to "Part D" of Exhibit 48.)

E. 1981

The Department of Banking did not conduct an examination of State Security during 1981. However, according to the Department's next report, issued in March, 1982, the year 1981 was one in which the condition of the institution's assets continued to deteriorate. Those details will be outlined in the following section concerning the year 1982.

In September of 1981, Security Financial Corporation sold its stock in State Security Building Corporation to a general partnership called Eagle Landmark Co. Eagle Landmark was formed in September, 1981, and its partners were William Wright, Marken Equities, Ltd. (i.e., Ken and Maureen Hake), Leon Olson and Mike Fosdick (an officer of State Security). Upon acquisition of SSBC, Eagle Landmark liquidated the corporation, but kept the building and borrowed \$950,000 from First National Bank of Lincoln, pledging the structure as collateral. Eagle Landmark used the loan proceeds to fund its purchase of SSBC. In December, 1981, Eagle Landmark's books recorded the acquisition cost of the building at

\$875,000, and further noted its "fair market value" at \$1,396,500. The lease between SSBC and State Security, which had been renegotiated in 1980, was not changed.

F. 1982

Both 1981 and 1982 were typified by further deterioration of State Security's assets. The Department of Banking's next examination of State Security, initiated in February, 1982, revealed State Security's loan portfolio to be of particular concern. Classified loans totalled 312.1 percent of capital. Also, nearly 23 percent of all of the institution's loans were delinquent, and 42 percent were classified. A large portion of State Security's loans (44.7 percent) were concentrated in the hands of only eight borrowers, who also held most of the institution's classified loans. (Again, these loans originated from real estate development financing arrangements initiated in 1976 and 1977.) Nevertheless, accounts grew to 47.5 million dollars, from 44.1 million dollars at the time of the last examination, and 1981 earnings were \$504,400.

For the first time, State Security's capital-to-asset ratio fell below the Department's recommended minimum (i.e., 8.5 percent), but remained in excess of the statutory minimum by approximately \$874,000 as of December 31, 1981. The decrease in capital was due, at least in part, to State Security's cash dividend to Security Financial in 1981 of \$500,000, which was used to help retire the acquisition debt incurred by Security Financial.

The Banking Department examiners additionally noted the following in their February, 1982, report:

1. Loans to S.E. Copple increased to \$875,000; \$625,000 of the amount remained unsecured, while an additional \$250,000 loan to S.E. and Marv Copple was secured by the pledge of corporate stock.
2. The lending to five borrowers exceeded State Security's loan limit, as proscribed by section 8-409, which occurred as a result of circumstances previously explained.
3. State Security was in violation of the Department's Rule 16, which dictated that real estate acquired by an industrial loan and investment company in satisfaction of debt could not exceed 25 percent of the financial institution's capital without Department approval.
4. State Security was in violation of section 8-407.02, relating to the deposit of the institution's funds in a non-Department-approved financial institution. (In this case, State Security failed to obtain prior approval from the Department for placing its deposits in Lincoln State Bank. Approval was subsequently granted.)

5. State Security was in violation of the Department's Rule 72(2) and state statute 8-411(2), regarding improper advertising (This violation arose from a brochure regarding the parking facility at 14th and "N" Streets which mentioned State Security, and which failed to specify that the institution was an industrial loan and investment company, and failed to identify the institution's insuring agency and the insured amount).

6. Four officers and employees of State Security were cited for violation of section 8-409.04, which requires officers, employees and directors to report their loans from other financial institutions to State Security's board of directors.

The examiners' report caused sufficient concern in the Department to precipitate a letter from Charles Mitchell, Deputy Director of the agency, to State Security's Board of Directors on April 7, 1982. (See Exhibit 14) The letter mentioned many of the problem indicators which surfaced in the examination (and which have been discussed in the previous section), but also:

1. Noted that capital adequacy was "marginal";

2. Recommended that "restricting dividends, bonuses, professional fees and perhaps salaries may be necessary" until "such time as this crisis passes."; and
3. Required quarterly progress reports from the management of State Security.

These comments are of particular importance when considered in the context of later events. For now, however, it should be understood that beginning in 1982, the stockholders of Security Financial Corporation were facing the difficult challenge of finding the means to make the large annual payments on their acquisition debt. They had already spun-off and liquidated State Security's former subsidiaries, and now, because of the April 7 letter, Security Financial could no longer depend upon significant cash dividends from the financial institution without attracting the attention and perhaps the wrath of the Banking Department.(1)

In December, 1982, the Department of Banking conducted a "visitation" of State Security, which was nothing more than an abbreviated examination of the institution. The resulting report revealed an alarming amount of delinquent loans (34.2 percent), slightly improving capital (from 8 percent to 8.9 percent)(2), a 1.4 million dollar increase in accounts,

(1) For Mr. Hake's response to Mr. Mitchell's letter, see Exhibit 15.

(2) Although by year end 1982, State Security's capital accounts were only \$12,485 above the minimum statutory amount.

and (for the first time) a net loss by year end of \$358,600. The report additionally noted that State Security had issued a cash dividend of \$200,000 to Security Financial in March of that year (i.e., before the Charles Mitchell letter of April 7, 1982, but after the examination in February, 1982). When Mr. Hake was asked about the dividend during the December, 1982, visitation, Hake indicated, according to the examiner, that no further dividends would be issued by State Security in 1983 unless profits rose.

The report further reflected that Security Financial Corporation had obtained a 3.5 million dollar line of credit with First National Bank of Lincoln. This line was used by Security Financial to refinance its original acquisition debt.(1) The only collateral provided for the loan was Security Financial's interest in the stock purchase contract, and no personal guarantees by the shareholders of Security Financial were given to, or required by, the bank. When First National Lincoln was asked why it did not request personal guarantees from the Security Financial shareholders, it responded:

"From the late 1950's through the early 1980's it was neither usual nor customary for financial institutions to require personal guarantees in connection with such transactions. This was because

(1) As a result of State Security's bankruptcy on July 9, 1984, First National ultimately "charged off" \$2,800,000 (plus four months' accrued interest) of this debt.

the corporate buyer typically had, as in this case, virtually unquestioned ability to repay the obligation out of accumulated earnings. At the time of the Security Financial Company financing, the banking industry was not experiencing any difficulty in obtaining repayment of such loans within a period of several years. Outside guarantees, additional loan collateral and more conservative loan to value ratios have become more commonplace in the banking industry in the last several years."

(See Exhibit 16) The visitation report further indicated that State Security was in violation of section 8-409 for loans to five borrowers in excess of the institution's lending limit, for the same reason as stated concerning previous years. Additionally, State Security was cited as being in violation of section 8-411(2) for issuing improper advertising (i.e., failure to identify the institution's insuring agency and the insured amount on the same brochure previously noted). The report was followed by another letter to the board of directors from Charles Mitchell on January 19, 1983. (See Exhibit 17) This letter merely reiterated the Department's concern over the deterioration of State Security's assets, and commented that there had been no improvement in the institution's liquidity ratio since the last examination.

1982 ended with the institution's annual audit by Dana F. Cole and Company. For the first time since Security Financial's acquisition of State Security, the auditors "qualified" their opinion for the reason that "it appears that the allowance for losses may be inadequate to cover possible loan losses." The report also commented that "the status of

delinquent loans and consideration of general economic factors, indicates that the allowance for loan losses should approximate 1 percent of the outstanding loans, or \$385,000." As of December 31, 1982, State Security had a reserve for loan losses of \$101,180, or \$283,820 less than the amount indicated as necessary in the auditor's report.(1)

G. 1983

Following the visitation examination of State Security Savings in December, 1982, there were no further examinations of the institution until the Department conducted another "visitation" in February, 1984 -- three months after the closing of Commonwealth Savings Company on November 1, 1983. Unfortunately, the Department's report does not isolate State Security's condition before Commonwealth's disastrous failure. It is nevertheless clear that 1983 was not a banner year for State Security.

The company's assets remained in dangerous condition, with loan delinquencies at 23.9 percent, and with 51.1 percent of all loans concentrated in 9 borrowers. Although the institution's capital position had improved (it was \$452,000 over the statutory minimum by year end), State Security suffered a net loss of \$1,048,000 in 1983.

(1) The auditor's recommended one percent loan loss reserve is not required by statute or regulation for an industrial loan and investment company, but rather reflects the auditor's opinion. (For further details regarding this particular audit, refer to "Part I" of Exhibit 48.)

The reason for the improvement of State Security's capital accounts was a contribution from Security Financial Corporation in December, 1983, of the holding company's interest in Taylor Meadows, a residential development near 70th and "A" Streets (which, as an asset of Lancaster Co., had been spun-off from State Security to Security Financial in October, 1978, with an estimated retail value when developed, less the estimated cost to complete, of \$1,935,000). The amount of this capital contribution was valued by State Security and Security Financial at \$1,320,000 (i.e., \$1,770,000 less related debt of \$450,000).(1) However, later records show that the proceeds generated from the eventual sale of Taylor Meadows lots exceeded the \$450,000 debt on the real estate by only \$255,000. And, when considering interest expense and the charge-off of bad loans relating to the property, State Security and Security Financial ultimately realized a loss from the Taylor Meadows project.

A large share of State Security's \$1,048,000 loss in 1983 was due to the

(1) Without this contribution, State Security's capital accounts would have been approximately \$868,000 below the minimum required by law at year end, 1983. But according to Mr. Hake, Security Financial transferred the real estate to State Security upon the recommendation of the Federal Savings and Loan Insurance Corporation (FSLIC), and only for the purpose of facilitating State Security's review and approval for insurance by the federal agency, for which State Security had filed an application on December 19, 1983.

write-off of the institution's "investment" of \$602,000 in the Nebraska Depository Institution Guarantee Corporation (NDIGC). The NDIGC Act required member institutions to carry their annual assessments for the guarantee fund as a credit on their books (section 21-17,135(3)). Once it became clear, in the wake of the Commonwealth failure that the NDIGC was insolvent, this "investment" was forfeited and registered as a loss.

In spite of State Security's large net loss in 1983, and its resultant inability to issue a dividend to its holding company during that year, Security Financial Corporation nevertheless managed to generate \$200,000 in "fee income" through a transaction involving State Security and the sale of real estate. The transaction through which the fees were generated has been commonly referred to as "Shoppers Fair," which will be thoroughly explained in Part VI-A of this report. At this point, however, the essential details are as follows.

Two of State Security's largest borrowers, even before its acquisition by Security Financial in 1978, were Mr. Robert Rentfro and Mr. Jerry Joyce. Both Rentfro and Joyce were involved in numerous enterprises relating to real estate development, for which State Security served as a source of funding. When Lincoln's real estate market began its downhill tumble in the late 1970's, Rentfro and Joyce had difficulty liquidating their properties and generating sufficient cash flow to service their tremendous debts with State Security. Consequently, Ken Hake, on behalf of State Security, and Rentfro/Joyce entered into negotiations to liquidate some of Rentfro's and Joyce's real estate holdings. The negotiations culminated in a real estate closing on March 31, 1983. At the closing, the ownership

of two parcels of real estate were transferred (see diagram, Exhibit 18):

1. Shoppers Fair, commercial property located in the vicinity of East Park Plaza in Lincoln, Nebraska, was sold(1) by "RJW" (Rentfro's and Joyce's partnership) to American Investment Group (a partnership, at that time, between James Stuart, Jr., a Lincoln banker, and Doctor Fred Kiechel, a Lincoln physician). Part of the purchase price was financed by a loan from State Security to American Investment Group in the amount of \$750,000.(2) In addition, a "fee" of \$150,000 was paid by AIG to State Security's holding company, Security Financial Corporation.

2. Pioneer Plaza, an office building located at 33rd and Pioneers Streets in Lincoln, Nebraska, was sold to State Security, which simultaneously sold the property to Transamerican Investment Co. (a partnership between James Stuart, Jr. and William Wright) on a conditional sales contract. A portion of the purchase price was financed by a loan from State Security to Transamerican Investment

(1) The actual sale of the property was not completed immediately, as the closing documents were held in escrow for several weeks.

(2) The remainder of the financing had been obtained through the National Bank of Commerce in Lincoln, Nebraska.

Co. in the amount of \$500,000.(1)

As a condition of the sale, Transamerican agreed to pay a "fee" to State Security's holding company, Security Financial Corporation, in the amount of \$50,000.

The fees, totalling \$200,000,(2) received by Security Financial Corporation, have been variously described by the principals involved as a "buy-down fee"(3) as a fee for "locating the property and negotiating the purchase," and as a "fee charged for business reasons." While such descriptions appear to be merely an issue of semantics, the characterization is relevant when considering whether, based on customary practice, either State Security or Security Financial was arguably entitled to the funds. If a fee is termed a "buy-down," then the funds customarily go to the lending institution. If, however, the fee is charged for some other service or reason, then an entity other than a lending institution may be appropriately entitled thereto.

(1) The remainder of the financing has been obtained through the New York Life Insurance Company and through the Commerce Savings Company of Lincoln, Nebraska.

(2) None of which came from the funding supplied by State Security, but rather were financed through other sources.

(3) A "buy down" fee is an arrangement wherein the borrower pays an agreed fee to the lender at the time of the transaction in exchange for the lender charging the borrower a preferential interest rate on the loan. Such a fee is, in essence, an advance payment of interest on the loan.

When Mr. Hake testified before the Department of Banking on April 2, 1984 (pursuant to the Department's investigation of Shoppers Fair), he characterized the fees as a "buy-down":

QUESTION BY DIRECTOR BEVERAGE: So rather than a \$150,000 finder's fee, basically what you are saying is that that was a part of the buy-down arrangement that you and Jim negotiated?

ANSWER BY MR. HAKE: Absolutely. And at no point did we ever enter into any agreement to negotiate for or acquire properties for Jim Stuart.

QUESTION: Or for American Investment Group?

ANSWER: Or for American Investment Group, correct, yeah, which is what that--

QUESTION: And I don't mean to testify for you, I just wanted to make sure that I understand where you were coming from because the letter was signed by Jim Stuart, Jr., on behalf of American Investment Group.

ANSWER: The only thing that I can add to that is that Jim Stuart and Bob Nefsky have to relate to the best of their

ability the circumstances arising to the letter and the manner in which it was written.

QUESTION: Just to make sure I understand, at no time did you intend that \$150,000 to be a finder's fee for want of a better term?

ANSWER: Absolutely not. We totally talked about a buy-down arrangement.

(Pages 63 and 64 of the hearing transcript of April 2, 1984.) On April 13, 1984, Mr. Hake repeated his description of the fee as a "buy-down" when he testified as follows:

QUESTION BY DIRECTOR BEVERAGE: Is it fair to say that the \$150,000 which you've previously characterized as a buy-down you would still characterize it as a buy-down?

ANSWER BY MR. HAKE: I still would, basically, and I have to be honest about that, that we did not get a fee for putting the deal together in any way, shape, or form. We were making a 7-year commitment at 12 percent, and that was going to--that had an element of risk in it and for that we wanted to be compensated. And whether you say it's a buy-down--

QUESTION: When you say "we" you're talking about the group?

ANSWER: I'm talking about the corporate group, yeah. We look at it in terms of the overall, generally speaking. You know it's hard to divide them for me except with respect to statutory responsibilities. And this being an unusual transaction, the timing being such as it was, we just elected to contract for it at Security Financial Corporation.

QUESTION: Is it fair to say that the \$150,000 should have come through the books of State Security Savings Company?

ANSWER: Had I to do it over again, there is no question in my mind that that's the way we would have done it and we would have declared a dividend.

QUESTION: That is basically my next question.

ANSWER: And the net effect would have been identical and, you know, that's the bottom line to us.

QUESTION: I understand it. My point, Ken, is that because it wasn't done that way, it has unnecessarily raised a question about the integrity of a transaction which could have been avoided simply by making the payment as a buy-down and then dividending up to the holding company because of an excessive capital position.

ANSWER: I totally understand that concern, and I'm very

regretful that it has that indication at all.

(Pages 537 and 538 of the hearing transcript of April 13, 1984.)

Therefore, according to Mr. Hake, not only was the fee a "buy-down," but it admittedly should have been paid to State Security, and then issued as a dividend to Security Financial Corporation.(1) But because of the Banking Department's letter on April 7, 1982, and because of Mr. Hake's assurance to the examiner in December, 1982, that no dividends would be paid in 1983 until profits rose, such a dividend would have been difficult, if not impossible, to justify to the Department by State Security's board of directors, of which Mr. Hake was a member.

Hence, it obviously became less of a problem to have the fees paid directly to Security Financial in order to help pay the holding company's acquisition debt, rather than possibly draw the Banking Department's attention with the declaration of a dividend in 1983. Note Mr. Hake's comments before the Department of Banking on April 13, 1984:

QUESTION BY RICHARD BUTLER (attorney for State Security):

But you believe that your testimony that you have given is

(1) This characterization and conclusion was shared by the Department in its order of May 29, 1984, following its investigation, wherein it condemned payment of the fees to State Security's holding company. (See Exhibit 29)

accurate to the best of your ability at this time?

ANSWER BY MR. HAKE: Oh, absolutely.

QUESTION: And it is my understanding that as between the holding company and the institution that you file a consolidated tax return?

ANSWER: Correct.

QUESTION: And the holding company as a part of the acquisition of State Security back in 1978 incurred a certain amount of debt, is that correct?

ANSWER: Correct.

QUESTION: And is that debt rather substantial in terms of the dollar amounts that have to be paid annually?

ANSWER: To me it is.

QUESTION: And, approximately, how much does that run a year?

ANSWER: Oh, approximately, a half million or so.

QUESTION: And has it been the history of the business that the monies to pay that debt service of the holding company are

funded substantially by the dividends declared from State Security Savings?

ANSWER: Up to this point, yes.

QUESTION: But in 1983 that did not occur because you short-circuited the dividend route simply by putting money into the holding company?

ANSWER: Correct.

(Pages 541 and 542 of the hearing transcript of April 13, 1984.) In this context, note further that at that time, the Department of Banking did not have the statutory authority to examine the books of the holding companies of state-chartered financial institutions.(1) And in this particular case, the only accounting entry where the fees were recorded was in the books of Security Financial Company, the holding company. Even the buyer's closing statement prepared for the sale of Shoppers Fair to American Investment Group, for example, did not mention payment of the \$150,000 fee. (See Exhibit 19) As a result, existence of the fees relating to Shoppers Fair and Pioneer Plaza would not have been apparent to anyone reviewing the books of State Security. Note Director Beverage's comments:

(1) Such authority was not granted to the Department until 1985, when the Banking Committee introduced, and the legislature adopted, LB 653.

QUESTION BY DIRECTOR BEVERAGE: And in your mind which entity made that contract?

ANSWER BY MR. HAKE: Security Financial Corporation made the contract for the \$150,000.

QUESTION: But in doing so, would it be correct to say that that money never having entered -- that \$150,000 never having entered the books or have been entered on the books of State Security, this Department through its auditing and review function would have never had an opportunity to make an independent determination as to whether to make, in essence, the same determination you say you made with regard to the compliance of that institution with statutory requirements?

ANSWER: Except for the fact that I have provided holding company financial statements to the examiners every year and they have access to the books and records upon their request.

(Page 530 of the hearing transcript on April 13, 1984.) Even though Mr. Hake has provided Security Financial's financial statements to the Department's examiners, it cannot be assumed that the examiners would have realized the significance of an entry merely entitled "fee income."⁽¹⁾ It

(1) Please note page 2 of Exhibit 20, wherein Security Financial's 1983 balance sheet actually reflects \$180,000 in "fee income." The \$20,000

is possible, therefore, that Security Financial's receipt of the fees would not have come to the attention of the Department but for the eruption of the dispute between Rentfro/Joyce and State Security.

With regard to the pivotal question of whether the fee paid in the Shoppers Fair transaction was a "buy-down," it must be mentioned that the fee has been characterized differently in a letter by James Stuart, Jr. to Security Financial, dated March 31, 1983, and in Mr. Hake's subsequent testimony before the Banking, Commerce and Insurance Committee.

In the Stuart letter (Exhibit 21), the fee is described as being paid to Security Financial for the reason that "You were instrumental in locating the property and negotiating the purchase on our behalf." According to Mr. Robert Nefsky, an attorney in Mr. Wright's law firm who represented both State Security and American Investment Group in the transaction and who also drafted the letter for Mr. Stuart, the letter did not characterize the fee as a buy-down because it would have been inappropriate to have done so. In the Banking Department's investigation of Shoppers Fair, Mr. Nefsky testified as follows:

QUESTION BY DIRECTOR BEVERAGE: Are you familiar with the term "buy-down"?

discrepancy represents an estimated rent rebate to the lessors of Shoppers Fair, as required in the purchase agreement. The actual rebate amounted to \$15,564, leaving a balance of \$186,436.

ANSWER BY MR. NEFSKY: Yes, I am.

QUESTION: Tell me what your understanding of that term is.

ANSWER: My understanding of that term is that a payment is made to a lender in exchange for a lower rate on indebtedness, lower rate of interest on indebtedness; that the lender can take that money, the buy-down, and invest it, and increase its interest income yield on the indebtedness.

QUESTION: To put it in something that perhaps is more universally understood, would that be similar to paying points on the purchase of a home?

ANSWER: That would be my understanding.

QUESTION: During that telephone conversation in which you were in the office of Jim Stuart, Jr., was anything mentioned, to the best of your recollection, about a buy-down on the rate?

ANSWER: I don't recall any discussions of that nature.

QUESTION: Had any such discussions been made, would that have affected how you would have drafted (the

March 31, 1983, letter)?

ANSWER: Probably not.

QUESTION: Tell me why, please.

ANSWER: Well, as I indicated earlier, the payment of the \$150,000 was to be paid to Security Financial Corporation, and my perception was that Security Financial Corporation, as an entity separate from State Security, couldn't lend money and take interest for it. As a result, I, in drafting this document, characterized it as a fee.

QUESTION: It was clear to you that the money was to be paid to Security Financial Corporation?

ANSWER: Yes.

(Pages 410 and 411 of the hearing transcript of April 4, 1984.)

In addition, Mr. Hake emphasized during his testimony before the Banking, Commerce and Insurance Committee on October 17, 1986, that despite his previous comments to the Department of Banking, the fee was not a buy-down, but rather a fee for specific "business reasons." (Because of Mr. Hake's extensive testimony in this regard, his comments will not be quoted in the body of this report. However, a transcript of Mr. Hake's testimony concerning the fees is provided as Exhibit 22.)

Lastly, it must be mentioned that in April, 1983, State Security, through its newly-activated subsidiary, Security Investment Company, was successful in securing a \$1,700,000 loan with the assistance of the Nebraska Mortgage Finance Fund (which later became a part of the Nebraska Investment Finance Authority). This funding was handled through First Federal Savings and Loan of Omaha, and was used to aid Security Investment Company in its development of an apartment complex, called Villa Tierra, in Lincoln, Nebraska.(1)

H. 1984

As mentioned in the previous section concerning the year 1983, the Department of Banking was not able to conduct an examination of State Security during that year. Fourteen months passed after the Department's "visitation" in December, 1982, until the next "visitation" in February, 1984. (In fact, a full-scale examination of the institution had not occurred since February, 1982, and no further detailed examinations by the

(1) Security Investment Company was formed by State Security in 1978, but it remained inactive until 1983. Other than Villa Tierra, which was originally acquired in lieu of debt from a defaulted borrower, SIC also received its parent company's interest in Forest Lake Estates and Taylor Meadows. According to Mr. Hake, this subsidiary was formed expressly for the purpose of disposing of, and liquidating, the substandard assets of State Security Savings.

Department of Banking would take place before State Security's bankruptcy in July, 1984. Nevertheless, the examiners' abbreviated review of State Security in February, 1984, revealed some disturbing indications (which have already been discussed). The examiners noted, in addition, several statute and rule violations by the institution, to-wit:

1. Five violations of section 8-409, relating to loans in excess of the institution's lending limit. (All but one of which arose from the same circumstances as mentioned in previous years. The one exception will be discussed in Part VI-A.)
2. Two violations of section 8-409.01, relating to loans to directors, officers and employees without prior approval by the institution's board of directors, (which will be discussed further in Part VI-A).
3. Two violations of Department Rule 16, concerning the unapproved receipt of real estate in satisfaction of debt by an industrial loan and investment company.
4. One violation of section 8-411(2) and one violation of Department Rule 72(2), both relating to improper advertising.
5. One violation of Department Rule 14, concerning inadequate cash reserves (resulting from withdrawal

of certificates following the failure of Commonwealth Savings Company.

The most important event for State Security Savings in 1984 was, of course, its declaration of bankruptcy on July 9 of that year. Several circumstances in 1984 which led up to that event deserve to be mentioned.

The closing of Commonwealth Savings Company by the Nebraska Department of Banking on November 1, 1983, had a profound effect on the level of certificates of indebtedness held by State Security. On the same day as Commonwealth's closing, the Department issued an order partially "freezing" the certificates held by all industrial loan and investment companies in Nebraska. (See Exhibit 23) The freeze prohibited certificates from being paid by the financial institution to its account-holders unless either 1) the certificate had matured, or 2) the certificate-holder died or was declared incompetent. The obvious intent of the Department's action was to prevent an immediate liquidity crisis in the state's industrials by prohibiting panicked account-holders from demanding repayment before the maturity of their certificates. However, the order did not prevent a long-term bleeding of the institutions during the months to follow as certificate holders withdrew their accounts upon maturity. Also, the order had the ultimate and arguable effect of discriminating against the account-holders whose certificates did not mature -- and were therefore not withdrawable -- until after State Security declared bankruptcy on July 9, 1984.

Between November 1, 1983 and the date of State Security's bankruptcy on

July 9, 1984, the institution's accounts dropped by more than 19 million dollars as certificates matured and were withdrawn. (See Exhibit 24) This loss represented approximately 38 percent of State Security's total certificates of indebtedness in only 8 months.

It became evident to State Security's management immediately after Commonwealth's demise that State Security's assets would not be sufficiently "liquid" to keep pace with the withdrawal of certificates as they matured. Consequently, State Security entered into an arrangement with First National Bank of Lincoln whereby First National augmented State Security's liquidity by purchasing some of State Security's performing loans. Beginning on November 16, 1983, through June, 1984, First National purchased loans from State Security totalling \$13,652,000.(1) All of the loans which were not paid off while being held by First National were ultimately repurchased by State Security as a part of its reorganization plan.

(1) First National Lincoln paid approximately 85 percent of the face amount of the loans purchased. The remaining 15 percent served as a reserve to cover First National's collection costs or losses due to nonpayment, and was eventually returned to State Security when the loans were repurchased. In addition, First National purchased the loans "with recourse." In other words, if the loans ultimately failed to yield sufficient funds to equal the purchase price, First National reserved the right to collect the deficiency from State Security.

In March, 1984, the Federal Savings and Loan Insurance Corporation conducted an examination of State Security Savings in response to its application for insurance. (On December 19, 1983, State Security applied for FSLIC insurance coverage as a state-chartered stock-owned building and loan company.) Then in May, State Security's subsidiary, Security Investment Corporation, successfully obtained a tax-exempt endorsement from the Nebraska Investment Finance Authority for a 6.8 million dollar loan to aid in the development of the Villa Tierra apartment complex.(1)

Also in late-1983/early-1984, negotiations took place concerning the possible acquisition of State Security by a Nebraska financial institution and by an individual from Texas (which will be explained in detail in part VI-D of this report). However, neither of those proposed acquisitions were successful.

Then on July 9, State Security filed for reorganization under Chapter 11 of the United States Bankruptcy Code. As background for this event, occurrences within the final days before the filing should be noted.

(1) This loan has not, to this date, been finalized, as Security Investment Corporation has been unable to find a lender to participate in the arrangement, which is necessary under this particular NIFA program. Also, according to NIFA's board minutes, Mr. William Wright, as a member of the board, declared a conflict and abstained from voting on this NIFA action.

On July 5, 1984, a letter (Exhibit 25) from Senators Bill Harris, Chris Beutler, David Landis and Don Wesely was delivered to Mr. Don Nelson, Governor Kerrey's Chief of Staff, outlining the senators' anxiety concerning the condition of State Security. The Department of Banking shared that anxiety, and sent examiners into the institution on or about July 6 in order to closely monitor the situation. The Department's primary concern was that State Security was unable to sell any more of its loans, thus rendering it incapable of maintaining sufficient liquidity to match withdrawals. Director Beverage was also working to find a buyer for State Security, but with no success.

On Saturday, July 7, Mr. Hake met with Director Beverage to discuss State Security's options and the Department's concern over the institution's condition. Director Beverage informed Mr. Hake that no potential buyers of State Security had yet been found. On Sunday, July 8, Mr. Hake consulted with attorneys from an Omaha law firm to discuss possible bankruptcy. When Monday, July 9, arrived, the Banking Department decided, based on the examiners' reports, to take over State Security after the institution was closed for business later that day.

On the morning of July 9, Mr. Hake called Director Beverage and invited him to meet with the State Security board of directors later that day. Mr. Hake intended to inform the Director at the meeting of the board's decision to declare bankruptcy. Director Beverage, on the other hand, intended to inform the board of his decision to close State Security. On the afternoon of July 9, Director Beverage and two of his staff traveled to the law office of "Wright, Rembolt, Milligan and Berger," the attorneys

representing State Security and Security Financial, to attend the scheduled meeting. Upon arrival, the Director was advised that State Security had already filed for bankruptcy earlier in the day.

Following State Security's bankruptcy filing, Director Beverage consulted with the Nebraska Attorney General's office concerning the matter. Based upon the advice he received from Attorney General Paul Douglas, the Department of Banking filed a challenge questioning State Security's eligibility for protection under the Bankruptcy Code.(1) The basis for the Department's action was threefold:

1. It was Director Beverage's belief that the Department simply had an obligation to challenge the ability of a state-chartered industrial loan and investment company to qualify under the federal bankruptcy laws;

2. It was the Department's understanding that State Security had the authority under the bankruptcy provisions, and the intent, to receive new

(1) Incidentally, in December, 1983, Banking Director John Miller solicited an opinion from the law firm of "Wright, Rembolt, Milligan and Berger" (which firm included William Wright as a partner, and which represented State Security and Security Financial), regarding whether Commonwealth Savings Company was eligible for relief under the federal Bankruptcy Code. The firm's response, dated December 29, 1983, concluded that Commonwealth, as an industrial loan and investment company, was not an eligible debtor under the provisions of the Code. (See Exhibit 26)

accounts during the pendency of the bankruptcy proceedings; and

3. There was no provision in State Security's proposed "plan of reorganization" for any regulatory supervision over the corporation given the responsibility of liquidating some of the institution's assets.

Eventually, the challenge was withdrawn as the result of a settlement between the Department and State Security, which required the amendment of the institution's proposed plan of reorganization. The amended plan was submitted to, and ultimately approved by, the bankruptcy court.

VI. ISSUES OF SPECIAL CONCERN

In order to preserve the continuity of the preceding chronicle, the explanation of certain events and issues, which are relatively complex or which span a long time period, have been omitted. These items will be addressed at length in the following sections.

A. SHOPPERS FAIR

The transaction commonly referred to as "Shoppers Fair" has already been briefly discussed in part V-G of this report. However, to completely understand the complexity and ramifications of this real estate transfer, it is necessary to place the event in historical perspective. Toward that end, a "Shoppers Fair Chronology" has been prepared. (See Exhibit 27)

The content of the chronology has been gleaned from the following sources:

1. Public records
2. Department of Banking records, which include:
 - a. Examination reports
 - b. Investigation testimony
 - c. Investigation exhibits
3. Research of the Banking, Commerce and Insurance Committee and of the Special Subcommittee.

The reader will note, upon review of the chronology, references to exhibits and transcribed testimony. Because these documents are so voluminous, they have not been reproduced to accompany the chronology. The supporting documentation is, however, within the Committee's investigatory files.

In regard to the Shoppers Fair transaction, several matters which have not yet been discussed are worthy of note:

1. In April of 1984, the Department of Banking and Finance conducted an investigation into the Shoppers Fair transaction. The inquiry was launched primarily in response to allegations spawned from a videotape prepared by Mr. Alan Plessman, the attorney for Messrs. Rentfro and Joyce, which was sent to Governor Robert Kerrey on March 16, 1984. (See the Department's "Order and Notice of Hearing," Exhibit 28) At the close of

the investigation, Director Roger Beverage issued an order stating:

"...that the practice of Security Financial Corporation, holding company for State Security Savings Company, and of State Security Savings Company of paying a "buy-down" of an interest rate by a borrower directly to the holding company, rather than to State Security Savings Company, is hereby disapproved and prohibited."

(See Exhibit 29) In conjunction with Director Beverage's order, the Department also issued a press release which commented that:

"Based upon the evidence which has been received, the Department is convinced State Security Savings Company has not been damaged or harmed financially as a result of the purchase and sale of Shoppers Fair. The transactions which were involved with this specific transfer of property in fact strengthened the financial position of State Security Savings Company."

(See Exhibit 30) Also as a result of the Department of Banking's investigation, Director Beverage issued an order on May 15, 1984, requiring Department approval of any settlement between State Security and Rentfro/Joyce relating to the Shoppers Fair matter. (See Exhibit 31) Approximately seven months later, on December 12, 1984, the Department formally approved the final settlement of the Rentfro/Joyce claims against State Security (see Exhibits 32 and 33), although the Department had given

its informal approval in June of 1984.(1)

2. The characterization of the "fees" received by Security Financial from the Shoppers Fair/Pioneer Plaza transactions has been addressed earlier in part V-G of this report. If the fees were appropriately termed as "buy-down" fees, then there was the related matter of whether or not the incident warranted criminal prosecution. The justification for such prosecution would arguably be based upon the allegation that Security Financial deprived State Security of funds to which the financial institution was entitled. The matter was reviewed by the Lancaster County Attorney's office, and by the Nebraska Attorney General's office, which determined that no criminal prosecution was justified. Any reconsideration of possible prosecution would not be feasible, as the question is now moot. According to Nebraska statute 29-110, the "statute of limitations" for a misdemeanor is eighteen months, and is three years for a felony (except for certain crimes inapplicable in this situation). Assuming that any arguable felonious criminal activity was involved in the

(1) On July 6, 1984, three days before State Security declared bankruptcy, the "settlement agreement" was amended by the parties to include a "covenant not to sue" in regard to the Shoppers Fair and Pioneer Plaza transactions. (See Exhibit 34) Also executed on July 6, but not as a part of the amendment, was an indemnification agreement between Rentfro/Joyce and State Security to hold each other harmless with respect to any claims by American Investment Group (the purchaser of Shoppers Fair). (See Exhibit 35)

transaction, and that a criminal act occurred as late as June 7, 1983 (when Security Financial received payment of the fees), then the three-year limitation period expired on June 7, 1986.(1)

3. The Department of Banking's examination of State Security in February, 1984, recorded that the institution was in violation of two Nebraska laws relating to its involvement in the Shoppers Fair/Pioneer Plaza transactions. Both alleged violations stemmed from the loans made by State Security to Transamerican Investment Co. (the partnership of William Wright and James Stuart, Jr., which borrowed \$500,000 to assist in its purchase of Pioneer Plaza), and to American Investment Group (the partnership of Mr. Stuart and Dr. Fred Kiechel, and later Messrs. Wright, Kerrey and Rasmussen, which borrowed \$750,000 to assist in the acquisition of Shoppers Fair). Subsequent reviews by the Lancaster County Attorney's office, and by the Nebraska Attorney General's office, resulted in a determination that no criminal prosecution was justified.

The first alleged violation concerned the fact that Mr. Wright's aggregate borrowings from both transactions exceeded State Security's statutory lending limit (section 8-409), which was at that time \$1,035,560. According to a memorandum from the examiner to Patricia Herstein, the

(1) On May 28, 1986, four members of the Harris Subcommittee conducting the preliminary inquiry into the State Security bankruptcy, sent a letter to the Director of Banking outlining their concern in this regard. (See Exhibits 36, 37 and 38)

Department's General Counsel, State Security did not consider its funding of the Pioneer Plaza transaction to be a "loan," since the purchase involved a conditional sales contract, which left the title to the real estate in the hands of State Security. (See Exhibit 39) In other words, since Transamerican Investment Co. used the \$500,000 from State Security to purchase the property by contract, rather than outright, the sum was not a "loan" -- even though the proceeds facilitated the purchase and were applied to the benefit of Transamerican, which had the obligation to repay the funds. Furthermore, according to the legal counsel for State Security, the \$750,000 note relating to the Shoppers Fair transaction was not a "loan" for the purpose of section 8-409, because:

"The \$750,000 note was simply carry-back financing offered by State Security Savings Co., which converted the equity that it held in Shoppers Fair over and above the 1.9 million dollar first mortgage to a negotiable instrument that was an asset accruing interest."

(Page 5 of the Memorandum Brief submitted to the Department of Banking on behalf of State Security; see Exhibit 40)(1) Despite the above-mentioned arguments, it should be observed that in the minutes of the State Security board of directors' meeting on March 2, 1984, where State Security's

(1) Note that with regard to State Security's alleged "equity" in Shoppers Fair, the institution never took title to the real estate. American Investment Group purchased the property directly from the RJW partnership.

financing in the Shoppers Fair and Pioneer Plaza transactions were formally ratified, both financing arrangements were specifically characterized as "loans." (See Exhibit 41) In any event, the financing arrangements to both American Investment Group and Transamerican Investment Co. were eventually sold on a nonrecourse basis by State Security shortly after the Department's investigation, and were thereby removed from the institution's books. (For ease in reference, these particular financing arrangements will be henceforth referred to as "loans," with the caveat that the characterization is disputed.)

The second alleged violation related to Nebraska statute 8-409.01 (Exhibit 42), which forbids industrial loan and investment companies from making loans to officers, directors or employees unless the loan is expressly approved by the institution's board of directors. This prohibition also requires board approval of loans to an officer-controlled corporation or to a partnership in which an officer is a member. In Mr. Wright's case, neither the \$500,000 loan to Transamerican Investment Company (in which he was a partner) or the \$750,000 loan to American Investment Group (in which he subsequently became a partner) received prior approval by the State Security board of directors. While the examiner reported the loans as being in violation of section 8-409.01, it is important to note that the statute does not require board approval of loans to a director-controlled corporation or to a partnership in which a

director is a partner.(1) Further, Mr. Wright was not a partner in American Investment Group on the date the loan was made. The question of whether the provisions of section 8-409.01 were broad enough, despite the above considerations, to successfully prosecute Mr. Wright was discussed between the Banking Department, the Attorney General's office and the Lancaster County Attorney's office. However, no criminal charges were ultimately filed.(2)

4. Lastly, the Shoppers Fair transaction peripherally involved Governor Robert Kerrey, who became a partner in American Investment Group after the initial arrangements for the purchase were made. When Shoppers Fair first came to the public's attention in March/April, 1984, and Governor Kerrey's participation in American Investment Group was revealed, the relationship aroused speculation concerning whether Governor Kerrey improperly used his office to profit from the transfer of the real estate.

According to the testimony given in the Banking Department's investigation

(1) A legislative bill to remove this exclusion was introduced by Senator John DeCamp in 1985 (LB 451). The bill was advanced by the Banking Committee, but was indefinitely postponed by the legislature in 1986.

(2) The loans to American Investment Group and Transamerican Investment Co. were finally and officially ratified by the State Security board of directors at a special meeting on March 2, 1984 (Exhibit 42) -- four weeks before the Banking Department commenced its investigation into the subject.

of Shoppers Fair in April, 1984 (see the Shoppers Fair Chronology, Exhibit 27), Kerrey had been approached by Mr. Wright concerning a possible unnamed "investment" in mid to late March, 1983. It was not until April 1, 1983, however, that Wright specifically identified the investment as being Shoppers Fair. There is no indication that Kerrey was actively involved in Shoppers Fair until, on April 12, 1983, he signed the document amending the American Investment Group partnership agreement to include himself as a partner. (See Exhibit 43) Although, according to Dr. Fred Kiechel, one of the original AIG partners, Mr. Wright indicated as early as March 19, that Governor Kerrey would eventually join the partnership. The transcript of Dr. Kiechel's testimony, while being questioned by Mr. Patrick O'Brien, Chief Deputy Attorney General, reads as follows:

QUESTION: The 19th then is the first time you talked to him (Mr. Wright) about it. Did he explain what the deal was, what the price of the building was, what your contribution would be, who the partners were?

ANSWER: He explained -- He basically explained what my contribution would be and just said that he and Stuart had gone over the figures and they thought it would cash flow without having to put much money into it.

QUESTION: Did he at that time indicate he would be a partner in this arrangement?

ANSWER: He gave me the feeling or impression that he would be a partner.

QUESTION: Did he indicate that Jim Stuart would be a partner in this arrangement?

ANSWER: Yes.

QUESTION: Did he tell you that anybody else would be a partner in this arrangement?

ANSWER: I had the feeling that Kerrey was going to be a partner. I mean, he mentioned Kerrey.

(Pages 450 and 451 of the hearing transcript of April 5, 1984.)

While American Investment Group acquire the property for a relatively low price (1), and Governor Kerrey did eventually become a member of the

(1) An appraisal form completed by Mr. Mike Fosdick, an officer of State Security, dated March 1, 1983, evaluated Shoppers Fair at between \$2,655,000 and \$3,250,000. (See Exhibit 44) Realcorp of Chicago, in its letter of May 11, 1983, offered \$2,950,000 cash for the real estate. (See Exhibit 45) In addition, Ms. Becky Broyles, the real estate broker hired by Rentfro and Joyce to help find a buyer for Shoppers Fair, stated in the

partnership, there is no evidence to suggest that Governor Kerrey used his office to influence the outcome of these events or to otherwise benefit.

B. DISBURSEMENTS FOR ACQUISITION OF STATE SECURITY SAVINGS CO.

A summary of the disbursements of Security Financial Corporation, State Security's holding company, for the acquisition of State Security Savings Co. is provided in "Part K" of Exhibit 48.

C. STATE SECURITY LOANS TO GOVERNOR ROBERT KERREY

During the course of the Banking Committee's inquiry relating to State Security Savings, the Committee learned of the existence of a lengthy and significant lender-borrower relationship between State Security and the business interests of Governor Robert Kerrey. The existence of the relationship was not suspect, by itself. However, the Committee concluded that it was appropriate to obtain the details of the relationship in order to either lay to rest any suspicion of wrongdoing relating thereto, or to uncover such wrongdoing, if it existed.

In response to the Committee's request for information, Governor Kerrey provided the Committee with a summary of his business relationship with

famous videotape prepared by Mr. Plessman, that the property was worth \$3,500,000. American Investment Group paid \$2,650,000 for Shoppers Fair, not including the \$150,000 fee to Security Financial Corporation.

the institution. (See Exhibit 46) The Committee's legal counsel was also given access to State Security's records documenting that borrowing history. Legal counsel's review of the supporting documentation verified the contents and conclusions of the Kerrey summary. Moreover, legal counsel's scrutiny of records relating to Governor Kerrey's personal borrowing relationship with State Security revealed no irregularities or improprieties.

D. ALVEY OFFER TO PURCHASE STATE SECURITY SAVINGS COMPANY

In late-November/early-December, 1983, only weeks after the failure of Commonwealth Savings Company, Security Financial Corporation was approached by Mr. Thomas L. Alvey of Midland, Texas, who expressed an interest in purchasing State Security Savings Co. Mr. Alvey was aware of State Security's precarious position in the wake of Commonwealth's failure and the NDIGC's insolvency, but he represented to the Security Financial stockholders that he could obtain deposit insurance for the financial institution from a well-known national insurance company -- thereby stopping the mounting losses of accounts.

Although not disclosed initially, Mr. Alvey was actually an agent acting on behalf of a principal, Dr. Joseph Boyd, also of Midland, Texas. Dr. Boyd owned and operated a multimillion dollar company which developed and sold condominiums in resort areas, and then held the promissory notes from the individuals who would purchase the condominium units on a "time-share" basis. Dr. Boyd planned to first acquire State Security and then solicit out-of-state deposits for the institution, thus raising its liquidity.

Next, he intended to use State Security to buy the "time-share paper" from his company, which would, in exchange, purchase assets (i.e., loans) from State Security -- all for the benefit and profitability of State Security Savings and Messrs. Boyd and Alvey.

On January 6, 1984, Security Financial entered into an agreement with Mr. Alvey granting him the option to purchase State Security for the sum of \$6,750,000. The agreement, as modified by the parties on January 9, provided for advance payment of a \$2,000,000 option price to Security Financial, with \$675,000 of the amount being paid on that date. (See Exhibit 47)The balance of \$1,325,000 was due on January 16, 1984. The agreement further specified that failure to make the January 16 final payment would result in Mr. Alvey's forfeiture of the \$675,000 down payment on the option.(1)

The principals of Security Financial were, needless to say, pleased with the possibility of selling their interest in State Security for a price that would generate a significant profit, and with the buyer's assurance that insurance could be obtained for the institution. They were also encouraged by receipt of the first installment of the option price, which seemed to indicate the serious intent and and substantial resources of the purchaser. Hence, Security Financial decided to begin disbursement of the proceeds to its stockholders as a part of a structured liquidation

(1) Mr. Alvey also paid a \$350,000 fee to Mr. Gerald Woody of St. Joseph, Missouri, for services rendered in connection with the transaction.

designed to take advantage of certain federal tax provisions.

Upon receipt of the \$675,000 installment from Mr. Alvey on January 9, Security Financial disbursed \$200,000 to Marmat Corporation (the Wright family corporation holding 32 percent of Security Financial's stock) and \$12,500 to Michael Fosdick (an officer of State Security, for the purpose of redeeming his stock in Security Financial). On the following day, Security Financial disbursed an additional \$200,000 to Marken Equities (the Hake family partnership holding 32 percent of Security Financial's stock) as well as \$200,000 to Leon Olson (who personally held 32 percent of Security Financial's stock). The corporation's books reflect that \$100,000 of each of the payments to Marmat, Marken and Olson were termed as loans. The majority of the funds disbursed were eventually returned to Security Financial, as is explained in detail in "Part H" of Exhibit 48.

The January 16 deadline passed without payment of the final installment on the option by Mr. Alvey. Security Financial therefore considered the first \$675,000 installment to be forfeited, as provided in the contract. Nevertheless, Mr. Alvey continued his efforts to consummate the purchase.

Mr. Alvey, through his attorneys, communicated with the Nebraska Department of Banking in late-January/early-February to work out the regulatory details concerning the takeover. Then on or about February 6, 1984, Director Beverage learned that Dr. Boyd, who was the principal behind the proposed acquisition, had been indicted in New Mexico for fraud, embezzlement and racketeering relating to the sale of "time-share condo paper" to a state-chartered savings and loan in New Mexico. Now that the

Department of Banking was aware of the danger involved in approving the acquisition of State Security by Alvey/Boyd, it was highly unlikely that the takeover would have been approved. Regardless, the Department was not called upon to ratify the transaction, as the prospective purchasers were unable to obtain private deposit insurance for State Security, and the deal fell through.(1)

With regard to the ultimate disposition of the \$675,000 received by Security Financial, please refer to the itemization listed in "Part H" of Exhibit 48.

(1) Subsequent research by the Committee has revealed that Dr. Boyd was convicted of securities fraud in New York in the early 1970's, and he remains under an injunction by the court with regard to that matter. Dr. Boyd's New Mexico indictment in November, 1983, involved his purchase of a savings and loan company in Clovis, N.M., where he allegedly used the institution to buy over-valued time-share condo paper from his development company. Charges against Dr. Boyd relating to that matter remain unresolved. However, Dr. Boyd has sued the prosecuting attorneys for damages resulting from, among other things, their interference in his proposed acquisition of State Security Savings Co. of Lincoln.

EXHIBITS

LEGISLATIVE RESOLUTION 1.

Introduced by Warner, 25th District; Vickers, 38th District; Remmers, 1st District; Lamb, 43rd District; Nichol, 48th District.

WHEREAS, two claims have been filed against the State of Nebraska as a result of the insolvency of Commonwealth Savings Company, one of such claims resulting in a settlement appropriation by the Nebraska Legislature in the amount of \$8,500,000, and

WHEREAS, at least two other state chartered financial institutions, namely, State Security Savings Company, and American Savings Company, have failed and, because of their status as Industrial Loan and Investment Companies, and because the funds deposit there were guaranteed by the NDIGC, and possibly as a result of activities by individuals associated either directly or indirectly with either or both of the above institutions, future claims may be filed against the State of Nebraska based upon the same or similar circumstances or theories of liability or guilt which supported the claims filed by the Receiver of Commonwealth Savings Company; and

WHEREAS, it would be prudent for the Nebraska Legislature to study all aspects of any potential liability, exposure, or responsibility of the State of Nebraska with regard to the failure of State Security Savings Company and American Savings Company and other financial institutions chartered by the State of Nebraska whose deposits were insured by the NDIGC.

NOW, THEREFORE, BE IT RESOLVED BY THE MEMBERS OF THE EIGHTY-NINTH LEGISLATURE OF NEBRASKA, SPECIAL SESSION:

1. That the Nebraska Legislature's Banking, Commerce and Insurance Committee together with four additional members of the Legislature to be appointed by the Legislature's Executive Board conduct a complete study and investigation to carry out the purposes of this resolution which are to determine any liability or potential liability or responsibility of the State of Nebraska with regard to the failure of State Security Savings Company and American Savings Company and to determine all aspects of propriety or impropriety of conduct by any or all public officials who in any way were directly or indirectly connected to, affiliated with or involved with State Security Savings Company or American Savings Company; and

2. That this Committee shall have such reasonable and necessary support from the Legislative Council as is appropriate and necessary to do the study and investigation sought by this resolution; and

3. That the Committee shall, upon the conclusion of its work, make a detailed report of its findings, together with any recommendations for legislation or other official action, to the Legislative Council and the Legislature of the State of Nebraska; and

4. That this Committee shall have until the 1st day of March, 1986 to complete its work on this matter unless such date is altered or changed by the Legislature of the State of Nebraska by a majority vote.

Nebraska State Legislature

Unicameral
Lincoln, Nebraska 68509

EXHIBIT 2

SENATOR JOHN DECAMP

District No. 40
Box 34
Neligh, Nebraska 68756

Legislative Address:
State Capitol
Room 1116
Lincoln, Nebraska 68509
Telephone (402) 471-2618



COMMITTEES

Chairman, Banking, Commerce and Insurance
Committee on Committees
Executive Board
Public Works
Reference
Legislative Council

EIGHTY-NINTH LEGISLATURE

MEMORANDUM

TO: All members of the Executive Board, All members of the Banking, Commerce and Insurance Committee and all other interested parties.

FROM: Senator John W. DeCamp

DATE: September 27, 1985

1. As chairman of the Banking, Commerce and Insurance Committee, I am hereby appointing Senator Bill Harris to act as subcommittee chairman with total and complete authority as chairman to handle the Banking, Commerce and Insurance Committee's work on the matter of State Securities and American Savings Company. This action is effective, should Senator Harris choose to accept this mission, beginning the 28th day of September 1985.
2. The goal I am assigning to Senator Harris is to complete the work, at least as far as reasonably possible, by the beginning of the 1986 legislative session. Such work as is not completed by that time, will of course be completed during the session and ideally prior to March 1, 1986. Senator Harris, under this directive, will have sole and complete authority subject only to a majority vote of all of the other committee members to determine all aspects of this study.
3. I am taking this action for a variety of reasons. Chief among these reasons are the following:
 - a. Governor Robert Kerrey has expressed outward hostility towards my conducting the investigation or study as chairman and has suggested that if I were to chair the study, the study would be a "witch hunt." Lest there be even a shadow of a doubt in the mind of the Governor about the objectivity of the study or my motives, this action on my part should clear up that problem. Why? Senator Bill Harris is the Governor's own appointment to the Legislature. Senator Harris is a Lincoln Senator who has repeatedly claimed the State is completely liable in the failure of Commonwealth. Senator Harris is therefore trusted probably as much by the Commonwealth or State Security depositors as anybody in this State from the perspective of protecting their interest. Senator Harris is a Democrat which overcomes the Governor's fear that there is some kind of a partisan plot against him. Senator Harris has

the ability to do the job.

- b. Approximately 80 to 90 percent of the study or investigation of State Securities has already been completed by the Banking, Commerce and Insurance Committee--and any Senator in the Legislature is welcome to receive a briefing from committee counsel with the permission of Senator Harris on the work to date. Therefore, the primary activity of the study will be to gather information on the American Savings situation. Some details still have to be completed on State Securities, but, in my opinion, they are relatively minor.
- c. My personal goals in this entire matter and my goals as chairman of the Banking, Commerce and Insurance Committee are to get all of this junk behind us and behind the State. I watched Watergate paralyze and cripple the United States and I watched Commonwealth paralyze and cripple the State of Nebraska. There are serious matters this State must deal with and at this time, the energy and ability of legislators to deal with the farm crisis, with the budget crisis, with the education crisis, with the financial crisis, is rendered almost inoperable as long as the State is obsessed with Commonwealth, State Securities and who did what or why or how. At some point, these matters have to be over. My personal preference is to have them completely over by January.
- d. My own personal analysis of the State Securities matter leads me to believe that the State of Nebraska has absolutely no liability and this should be quickly and clearly settled so that we do not hang out in the future. The same with American Savings based upon the information I have gathered thus far. And State liability is the only thing I care about from my personal perspective in the matter of Commonwealth, State Securities, and American Savings. What the Governor or Mr. Wright or anybody else did or did not do is of little concern to me so long as there is no exposure for State liability. I am satisfied there is none. And those who fear if I would or should run for Governor that I might or someone else might use the State Securities matter as a device for campaigning are living in a fools paradise. That is not my style. When and if I run for anything I will run based on the issues and my own personal programs or record and not somebody else's private business dealings. I am one individual who is so completely familiar with the concept of witch hunts and have no desire, inclination or anything else to wander on a witch hunt. It takes too much energy and effort.
- e. This matter of liability or potential exposure has to be cleared up now because of other situations which are generating additional state liability and exposure. I speak of the failure of insurance companies in general. Another one failed and I can see the State is potentially going to be exposed for five million dollars. There are those who will say that the other insurance companies have to pick up this potential loss of the recently failed Iowa National Mutual Insurance Company. But, the law in Nebraska is that these other insurance companies can deduct those

Executive Board
Banking Committee
September 27, 1985
Page 3

amounts directly from their taxes. Thus, the taxpayer is picking up the tab. We have to get the State out of the business of guaranteeing insurance companies or banks or anything else. We simply cannot afford it. And to the degree that there is any lingering question of potential exposure on State Securities or American Savings or Commonwealth, we have to get this stopped and resolved once and for all now and get it behind us as I have said.

State of Nebraska

EXHIBIT 3

LEGISLATIVE COUNCIL

1985
EXECUTIVE BOARD
CHRIS BEUTLER, CHAIRPERSON
SHIRLEY MARSH, VICE CHAIRPERSON
WILLIAM E. BARRETT
ERNE CHAMBERS
JOHN W. DECAMP
PATRICIA S. MOREHEAD
WILLIAM E. NICHOL
CAROL MCBRIDE PIRSCH
LORAN SCHMIT
JEROME WARNER



PATRICK J. O'DONNELL
Clerk of the Legislature

DICK HARGESHEIMER
Director of Research

JOANNE PEPPERL
Revisor of Statutes

MICHAEL CALVERT
Legislative Fiscal Analyst

MARSHALL LUX
Ombudsman

STATE CAPITOL, LINCOLN 68509

September 30, 1985

Senator Bill Harris
Box 27 State Capitol
Lincoln, NE 68509

Dear Bill:

Having a subcommittee of the Banking Committee do a preliminary investigation of the State Securities-American Savings situation appears to be a useful first step. I understand from Senator DeCamp's letter that you will structure and chair the subcommittee. It is my further understanding that the subcommittee will eventually make a decision as to whether further investigation by a larger and more formalized investigative committee would be in order. Your report, made to the Banking Committee as a whole, will be forwarded with endorsement by the entire Banking Committee to the Executive Board if further investigation is believed to be in order. Your report should clearly recite the facts that indicate further investigation is appropriate in the event you recommend further investigation.

I understand that Senator Warner and the other introducers of LR 1 are amenable to the use of a Banking Committee subcommittee for preliminary investigative work.

You asked for clarification on certain legislative rules, Bill. It is my opinion that voting members of a subcommittee must be members of the larger committee. Members of the legislature, including introducers of the resolution, may be invited to participate in the work of the subcommittee as non-voting members. Traditionally, the chief introducers of study resolutions have often been invited to participate.

Since all interested parties seem to have agreed to the preliminary subcommittee investigation I will recommend to the Executive Board

Senator Harris
September 30, 1985
Page 2

that LR 1 be held by the committee and not referenced. If Senator Harris' subcommittee issues a detailed report which indicates further investigation is appropriate, then the Executive Board will wrestle once again with the question of the formation of a special investigating committee with subpoena powers and special counsel.

Very Truly Yours,


Chris Beutler
CB/pu

cc: All Executive Board Members
Senator Jerome Warner
Senator Howard Lamb
Senator William Nichol
Senator R. Wiley Remmers
Senator Tom Vickers

RESOLUTION

WHEREAS, the following members of the Legislature's Banking, Commerce and Insurance Committee have been appointed to a Special Subcommittee to examine the bankruptcies of State Security Savings Company and American Savings Company, and the circumstances relating thereto, namely Senators Bill Harris, Loran Schmit, Emil Beyer, and James Pappas; and

WHEREAS, the following members of the Legislature have been appointed ex officio members of the aforementioned Special Subcommittee, namely Senators Jerome Warner, Gary Hannibal and Wiley Remmers; and

WHEREAS, six claims were filed with the State Claims Board in October, 1985, regarding alleged negligent acts and omissions by the State of Nebraska concerning Commonwealth Savings Company, the Nebraska Depository Institutions Guaranty Corporation, State Security Savings Company, and American Savings Company, and such claims are still pending before the State Claims Board; and

WHEREAS, the Legislature may be called upon to review a settlement or judgment in favor of the aforementioned claimants before appropriating funds to pay such settlement or judgment; and

WHEREAS, during the period since its inception, the Special Subcommittee has conducted numerous meetings to consider relevant information made available to it through its legal counsel, and through the Nebraska Department of Banking and Finance; and

WHEREAS, based upon consideration of the information made available to it, the Special Subcommittee finds that it is appropriate to review the adequacy of existing statutes, relating to the regulation of financial institutions, to discourage and eliminate possible future wrongdoing by individuals or financial institutions brought to light by the circumstances leading up to and surrounding the bankruptcies of State Security Savings Company and American Savings Company; and

WHEREAS, the Special Subcommittee finds that there is a continued need for the Legislature to exercise its oversight concerning the resolution of the State Security Savings Company and the American Savings Company matters which, because of the ongoing involvement of the United States Bankruptcy Court, remain as yet unresolved.

NOW, THEREFORE, BE IT RESOLVED, that the members of the Special Subcommittee do hereby recommend to the members of the Banking, Commerce and Insurance Committee that it is appropriate for the Legislature's Executive Board to take the necessary steps to conduct a formal investigation of the facts and circumstances leading up to and surrounding the bankruptcies of State Security Savings Company and American Savings Company, and to conduct a review of the continued status of such financial institutions and their related entities.

DATE: 8-9-86

APPROVED BY:

Bill Harris
Senator Harris

Jim E. Beyer Jr.
Senator Beyer

James E. Pappas
Senator Pappas

Janan Schmit
Senator Schmit

CONCURRED WITH:

Sen. Hannibal
Senator Hannibal

Sen. Remmers
Senator Remmers

Sen. Warner
Senator Warner

RESOLUTION

WHEREAS, in September, 1985, a Special Subcommittee of the Banking, Commerce and Insurance Committee was appointed to conduct a preliminary investigation into the matters leading up to and surrounding the bankruptcy of State Security Savings Company and American Savings Company, and to determine whether a further investigation by a larger and more formalized investigative committee would be in order; and

WHEREAS, on July 10, 1986, the Banking, Commerce and Insurance Committee received a resolution unanimously adopted by the members of the Special Subcommittee recommending that it is appropriate for the Legislature's Executive Board to take the necessary steps to conduct a formal investigation of the facts and circumstances leading up to and surrounding the bankruptcies of State Security Savings Company and American Savings Company, and to conduct a review of the continued status of such financial institutions and their related entities; and

WHEREAS, on July 21, 1986, the Banking, Commerce and Insurance Committee met in a closed meeting to consider and discuss at length the recommendation of the Special Subcommittee; and

WHEREAS, as a result of the Banking, Commerce and Insurance Committee's review of the Special Subcommittee's recommendation, the Banking Committee concluded that an immediate, formal and detailed investigation should be made of:

1. The facts and circumstances leading up to and surrounding the bankruptcies of State Security Savings Company and American Savings Company;

2. The activities of the Department of Banking and Finance, its directors, employees, and agents in examining and monitoring the activities of State Security Savings Company and American Savings Company, their directors, employees and agents, and their related entities and enterprises;
3. Activities of the Attorney General, Lancaster County Attorney, and other law enforcement authorities in examining and monitoring the activities of State Security Savings Company and American Savings Company, and their related entities and enterprises, and the directors, employees and agents of each;
4. Involvement of all past and present public officeholders in the examining and monitoring of, or in their personal transactions with, State Security Savings Company and American Savings Company, and their related entities and enterprises, and the directors, employees and agents of each;
5. Potential liability of the State of Nebraska, its employees, and agents for the losses of depositors, members and creditors of State Security Savings Company and American Savings Company;
6. Possible legislation to improve, where necessary, public institutions charged with oversight responsibilities for financial institutions in Nebraska; and
7. Such other and additional business as may come before the investigative committee that touches upon any of the foregoing matters, persons, entities, or issues.

NOW, THEREFORE, BE IT RESOLVED BY THE MEMBERS OF THE BANKING, COMMERCE AND INSURANCE COMMITTEE that:

1. There is an urgent need for a formalized, in-depth legislative investigation of the matters enumerated in this resolution;

2. The members of the Banking, Commerce and Insurance Committee hereby request and recommend that the members of the Executive Board of the Nebraska Legislature grant authority to the Banking, Commerce and Insurance Committee, pursuant to Section 50-404, to conduct an immediate, formal and detailed investigation into the matters enumerated in this resolution;

3. The members of the Banking, Commerce and Insurance Committee hereby further request and recommend that, for the purpose of conducting such investigation:

- a. The committee should be vested with legislative power to issue subpoenas and to take depositions, pursuant to sections 50-406 and 50-407. This power would commence with the committee's investigation and end upon the conclusion of its investigation. If the committee need additional time for issuing subpoenas, it would return to the Executive Board of the Legislative Council for authorization. The committee would follow Rule 3, Section 20, of the Rules of the Nebraska Unicameral, regarding subpoena procedures;
- b. \$25,000 should be allocated to the committee from Legislative Council appropriations (specifically from unexpended funds previously appropriated for the use of the Miscellaneous Subjects Committee, which will not now be used) for the purpose of retaining legal counsel to assist the Banking, Commerce and Insurance Committee, and its existing legal counsel, in undertaking the investigation, and to cover any necessary committee

expenses;

- c. A majority of the committee members should constitute a quorum for all purposes during the investigation;
- d. The authority of the committee to conduct its investigation should terminate on December 31, 1986, unless additional time be granted by the Executive Board, and a final report should be due upon termination of the committee's investigation.

EXECUTIVE BOARD OF THE LEGISLATIVE COUNCIL

EXECUTIVE SESSION

July 30, 1986

The Executive Board of the Legislative Council met in Executive Session at 10:00 a.m. on July 30, 1986 in Room 2102 of the State Capitol. Present were Senator Calvin F. Carsten, Chairman, and Senators Chambers, DeCamp, Marsh, Morehead, Nichol, Pirsch, Schmit and Warner. Senator Barrett was absent.

The motion was made by Senator Pirsch, seconded by Senator Marsh, that the Executive Board authorize an increase in the cost per computer second which is charged to subscribers to the legislative computer system. The request was made by Ron Bowmaster (see his memo to Executive Board Chairman on July 25, 1986 attached). The motion carried unanimously.

Senator DeCamp made the motion, seconded by Senator Marsh, that the resolution presented by the Banking Committee concerning the State Security Savings and American Savings matters be adopted.

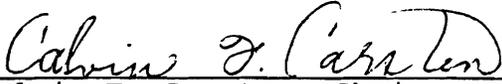
Senator DeCamp offered an amendment to the motion, seconded by Senator Chambers, that the investigation be open to the public unless a specific witness requests his testimony be given in closed session. This amendment was adopted unanimously.

Senator Schmit offered an amendment to the motion, seconded by Nichol, to change the resolution regarding the \$25,000 to say the specific amount that is available and if more is needed that the the Banking Committee come back to the Executive Board. This amendment was unanimously adopted.

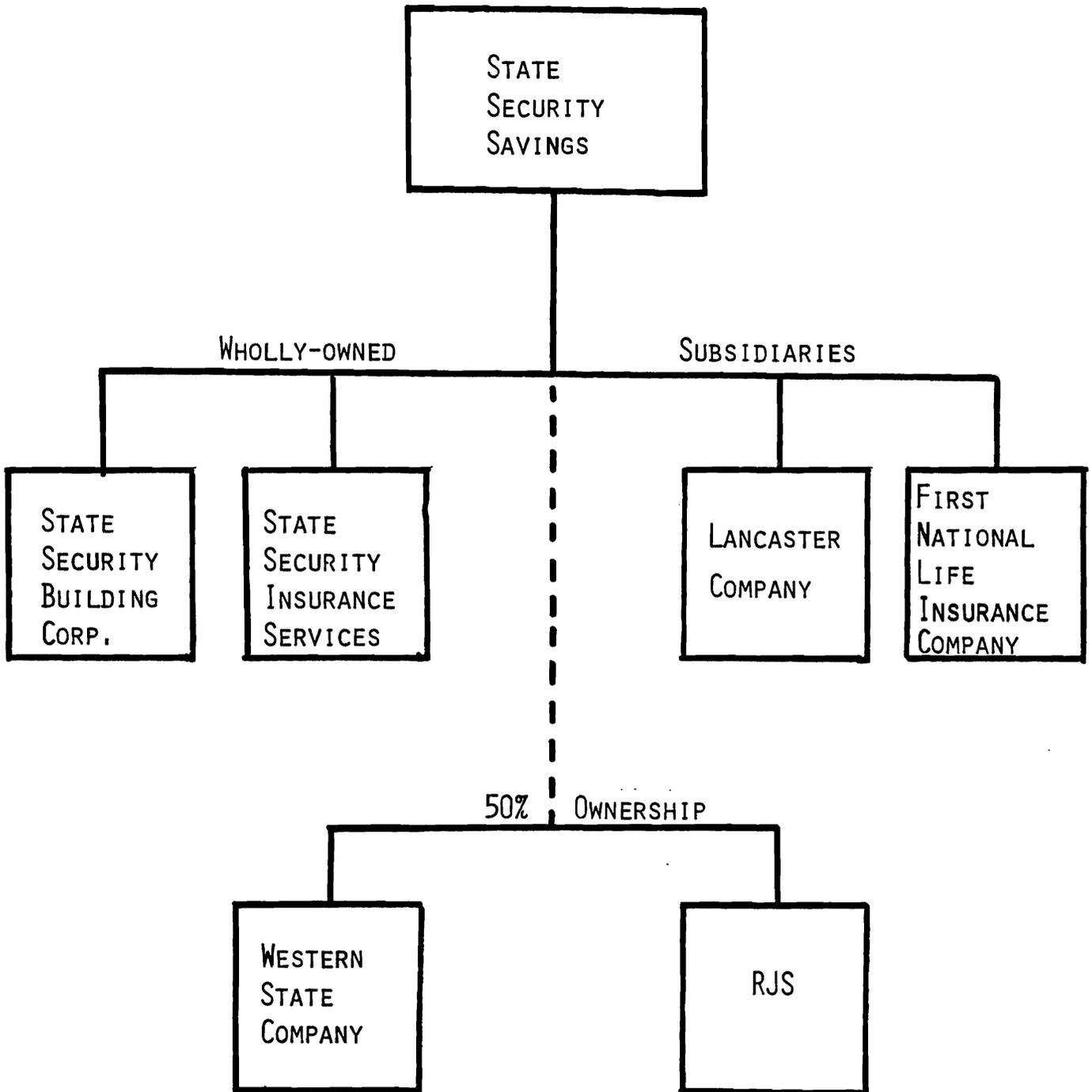
Senator Marsh offered an amendment to the motion, seconded by Senator Nichol, that the Chairman of the Executive Board and one member of his choice concur with the Banking Committee in their choice of outside counsel for the investigation. This amendment was unanimously adopted.

Senator Marsh made the motion, seconded by Senator Chambers, that the original motion as amended be adopted. This motion carried by a vote of 8/0/1. Voting aye: Senators Carsten, Chambers, DeCamp, Marsh, Morehead, Nichol, Pirsch, and Schmit. Absent: Senator Barrett.

Having no further business, the meeting was adjourned.

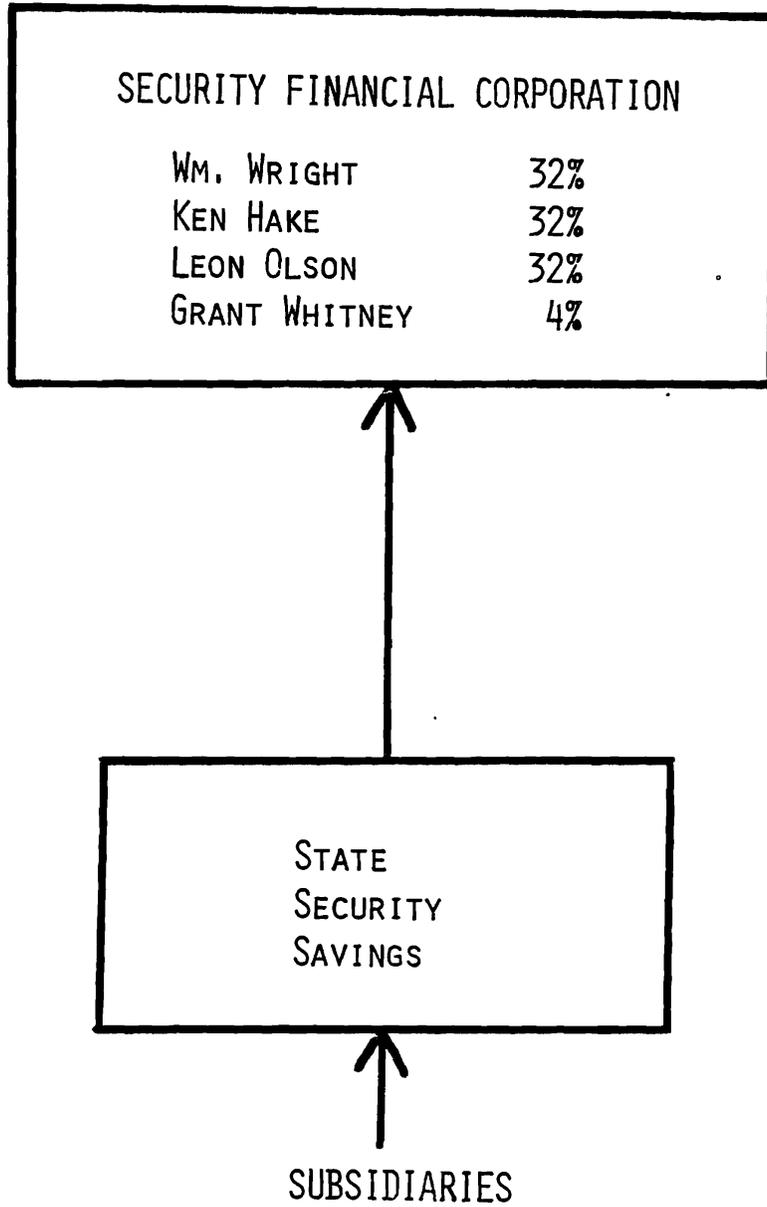

Calvin F. Carsten, Chairperson


Erma J. James, Committee Clerk

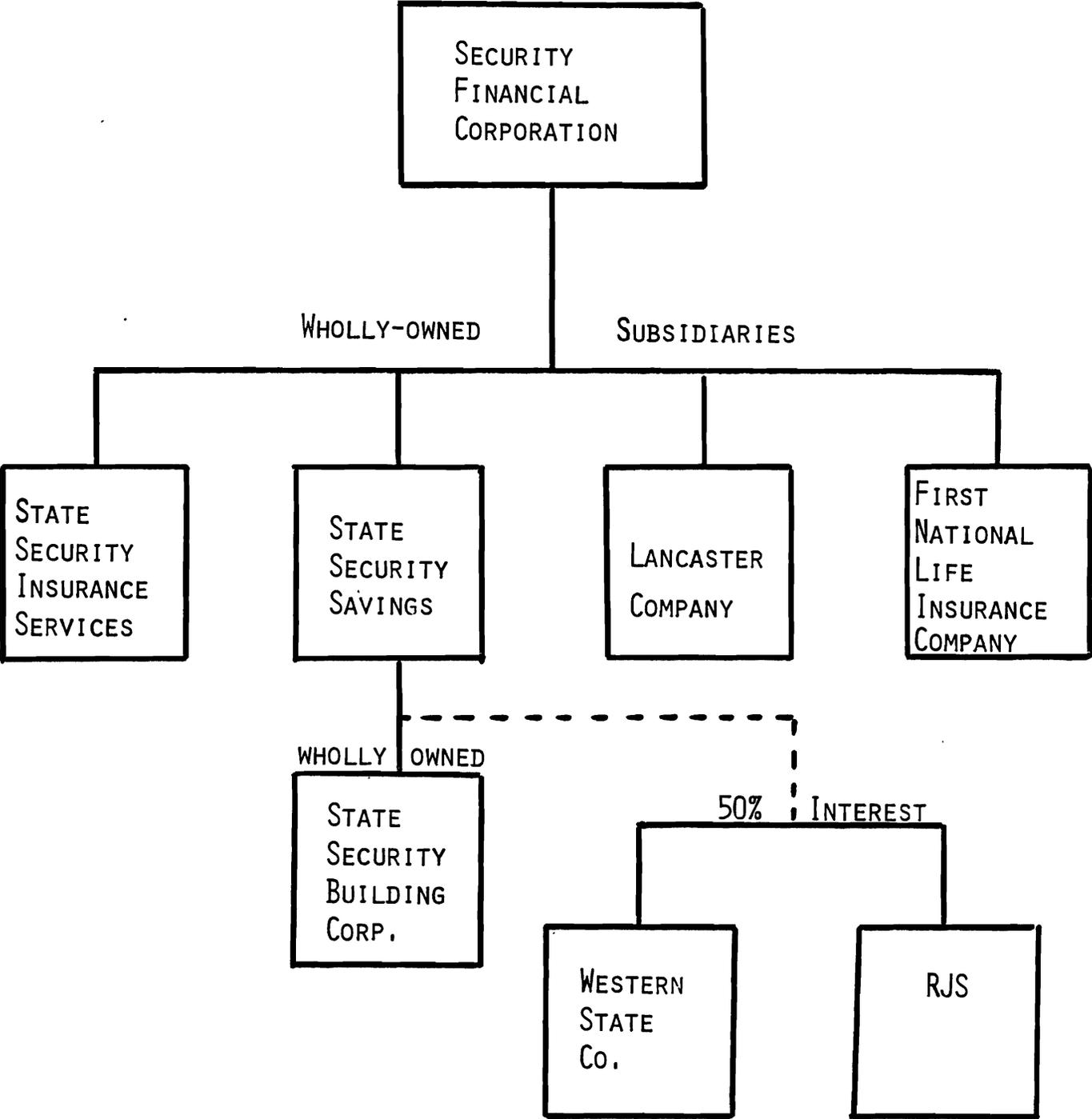


PRE-ACQUISITION STRUCTURE
OF STATE SECURITY SAVINGS

STATE SECURITY SAVINGS	Date of DBF Examination	Capital/Assets	Classified Assets/ Capital	Classified Loans/ Capital	Classified Loans/ All Loans	Delinquent Loans/ All Loans	Concentrations (Exceeds 25% of equity cap and sub notes)	Certificates (in millions)	Net income (or loss) after taxes	Liquidity (as a % of current net liabilities)	Loans/Certificates	Dividends (or payments in lieu thereof*)
1977	3-11-77	10.4%	41.9%	20.4%	2.8%	8.5%	NA	\$27.7	\$615,100	NA	90.1%	None
1978	5-5-78	11.5%	29.1%	7.7%	1.1%	12.1%	NA	\$34.5	\$944,200	NA	78.3%	\$280,000*
1979	9-14-79	12.2%	107.8%	98.2%	14.9%	26.4%	6 hold 28.1% of all loans	\$40.0	\$586,300	20.6%	93.9%	\$150,000
1980	1-5-81	11.7%	144.0%	113.1%	17.2%	13.0%	7 hold 45.8% of all loans	\$44.1	\$710,800	22%	89.6%	\$500,000*
1981	2-12-82	8.0%	335.8%	312.1%	41.8%	23%	8 hold 44.7% of all loans	\$47.5	\$504,400	25%(old system) 12.4% (new system)	88.7%	\$500,000
1982	12-6-82	8.9%	NA	NA	NA	34.2%	8 hold 40.1% of all loans	\$48.9	(\$358,600)	10.2%	79.3%	\$200,000
1983/84	2-17-84	9.3%	NA	NA	NA	23.9%	9 hold 51.1% of all loans	\$41.4	(\$1,048,000)	4.46%	78.9%	\$200,000*



POST-ACQUISITION STRUCTURE
OF STATE SECURITY SAVINGS
(JUNE TO OCTOBER, 1978)



REORGANIZATION OF STATE SECURITY SAVINGS
(OCTOBER, 1978)

8-409. Prohibited activities; banking; acting as fiduciary; excessive loans; exception. Except as provided in this section, no industrial loan and investment company shall (1) accept deposits or in any manner obligate itself to maintain checking accounts or otherwise engage in the business of banking, or (2) accept any trust, or act as guardian, administrator or executor, or in any other fiduciary capacity. Any industrial loan and investment company may accept funds to be held in escrow and act as an escrow agent with respect to such funds. No industrial loan and investment company shall make any loan to any one person or corporation primarily in excess of twenty per cent of its combined capital, surplus, and capital notes and debentures, issued pursuant to section 8-404.01, but for purposes of this section the discounting of bills of exchange, drawn in good faith against actually existing values, and the discounting of commercial paper actually owned by the persons negotiating the same, shall not be considered as the lending of money.

Source: Laws 1941, c. 13, § 8, p. 89; C.S.Supp.,1941, § 8-908; R.S.1943, § 8-409; Laws 1967, c. 27, § 3, p. 138; Laws 1971, LB 657, § 1; Laws 1978, LB 259, § 4.



STATE OF NEBRASKA

ROBERT KERREY • GOVERNOR • ROGER M. BEVERAGE • DIRECTOR

STATE OF NEBRASKA

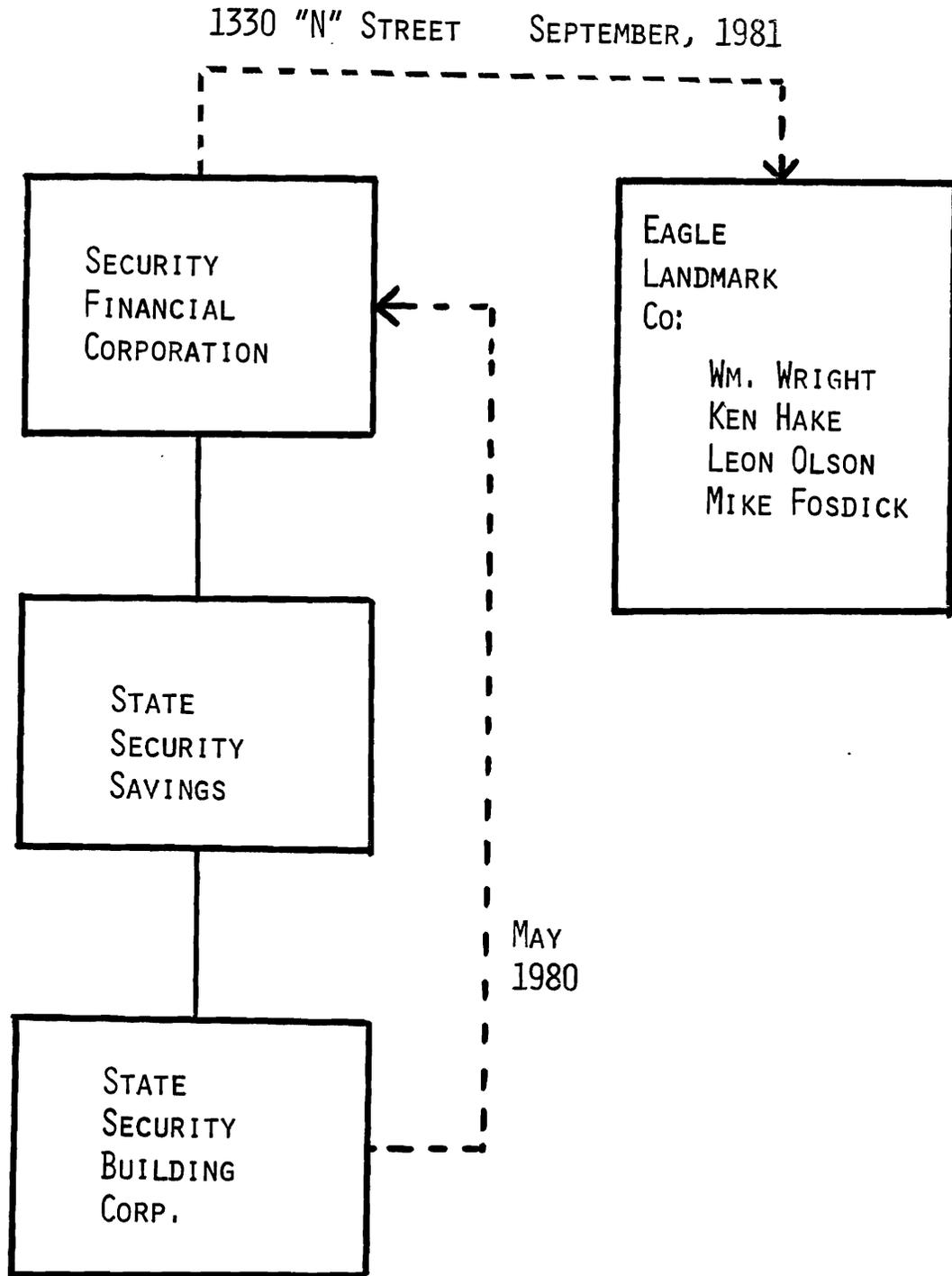
DEPARTMENT OF BANKING & FINANCE

P R E S S R E L E A S E

The Department of Banking and Finance wishes to clarify recent press reports regarding possible criminal violations of loan lending limits established for State Security Savings Company. Recent newspaper articles have indicated that loans to certain individuals exceeded the maximum amount which State Security could legally loan to one individual or corporation.

The Department has reviewed its 1982 Reports of Examination, and it is clear that all of the loans in question were within the legal lending limits when originally made by officials of State Security. However, after the original loans were made, later events, such as delinquent payments on corporate obligations, caused the Department's examiners to include such loans with the other individual loan amounts. For example, for internal examination purposes, the Department treats partnership loans as if each loan was made to each of the general partners. Similarly, the Department treats each individual guarantor on delinquent corporate borrowings as the responsible party for the total amount of the corporate loan in question.

While the Department internally aggregates partnership and corporate debt with an individual's personal borrowings in some instances, the issue of whether its audit/examination treatment will constitute a criminal violation of Section 8-409 has never been ruled on by the courts.



SPIN-OFF OF STATE SECURITY
BUILDING CORPORATION



STATE of NEBRASKA

DEPARTMENT OF BANKING & FINANCE

April 7, 1982

Board of Directors
State Security Savings Company
1330 "N" Street
Lincoln, NE 68508

Gentlemen:

Enclosed you will find a copy of our last Report of Examination dated February 12, 1982. We ask that this report be considered in its entirety by the Board and that your minutes reflect such consideration.

Examiner-Davis, beginning at page 1, comments on those areas which concern him. A major area of concern deals with the preponderant amount of assets subject to adverse comment in one form or another, including concentrations of credit.

Classified assets have dramatically increased since our last examination, with the total now equaling 335.8% of total capital and subordinated debt. This represents a staggering 41.8% of total loans. Additionally, \$8,301,000 has been specially mentioned in need of close supervision. Notwithstanding the depressed real estate market being a major cause of these problem lines, the Board needs to work out a plan to assist management in this matter. Conservation of earnings is in order. Restricting dividends, bonuses, professional fees and perhaps salaries may be necessary.

Concentration of credit may be one of the most serious problems confronting management. These figures appear to represent 44.7% of total loans, with the majority subject to adverse classification. The most serious appears to be the _____ line, aggregating \$4,206,000, with \$850,000 listed as doubtful. Although not yet so serious, the other concentrations do pose a significant risk in the current depressed market.

Capital adequacy as reflected on page 2 appears marginal in light of the large amount of adversely classified assets. The examiner has adjusted these figures downward on page 2 in consideration of doubtful and loss items appearing in the assets. Capital ratios represent a considerable drop since

Board of Directors
State Security Savings Company
Page 2
April 7, 1982

our last examination. Page 4 reflects a net change in capital at year-end 1981 of a minus \$282,100 due to several factors including retirement of subordinated notes, dividends and transfer of funds for provision for loan losses. Where on the one hand it seems necessary to set aside funds in a reserve for loan losses (and even increase this amount), on the other hand earnings can be conserved by restricting dividends, bonuses, professional fees paid and salaries until such time as this crisis passes. The Board would do well in considering the merits of these suggestions.

The Department has made arrangements with management to discuss this report with the members of the Board here in our office April 23, 1982, at 9:00 a.m. Rather than discussing the problem assets appearing in this report, we would prefer discussing the Board's plan to address the solution, if any, to these problems, including ways to conserve earnings and provide stronger reserves to meet losses.

The Department will want a progress report every 90 days from management which should start 90 days after April 23, 1982, the day the Board is to meet in this office.

Upon receipt of this report, please acknowledge on the form enclosed for that purpose and return it to this office.

Sincerely,



Charles W. Mitchell
Deputy Director

pb

encl



STATE SECURITY SAVINGS

1330 N Street • P.O. Box 80609 • Lincoln, Nebraska 68501 • 402/474-4444



April 30, 1982

Mr. Paul Amen, Director
Department of Banking & Finance
P.O. Box 95006
Lincoln, Nebraska 68509

Dear Mr. Amen:

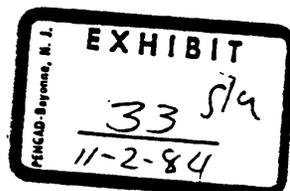
This letter is written in response to your Department's recent Report of Examination and accompanying letter dated April 7, 1982. It represents a summarization of policies and decisions made by the officers and directors of State Security Savings in our on-going attempt to solve problems created primarily by high interest rates and a depressed real estate economy. Concentrations of credit have grown over the last few years due to the commitments to projects which have not liquidated out as projected and to exceedingly high interest rates and other holding costs. Underlying assets collateralizing these loans would be considered to be high quality assets in reasonable times.

EARNINGS AND CAPITAL STRUCTURE

- ✓ 1. No dividends will be declared for the balance of 1982 unless our circumstances and market conditions change substantially. (A regular dividend of \$200,000 was declared in March of 1982).
- ✓ 2. Expense reductions for 1982 from that previously budgeted will total \$162,000 as follows:
 - A. Compensation and benefits to shareholders will be reduced \$66,000.
 - B. Marketing expenses will be reduced \$55,000.
 - C. Other controllable costs will be reduced \$41,000.

These reductions will lower 1982 budgeted operating expenses over \$200,000 from 1981 actual expenses - nearly 17%.

- 3. We anticipate 1982 pretax profits to be in the break-even to \$100,000 range. This projection anticipates the realization of certain non earning assets during the year and possible loan losses up to \$900,000.



ORIG. FILE	✓
BANK	
COPT. FILE	
BANK	✓
EXAMINER	✓
FDIC	
FAS	

CLYDE F. CARP
Chairman Emeritus & Director
ALFRED H. ADAMS
Chairman of the Board & Director
KENLON H. WANE
President & Director
M. CHAS. BROCK

LEON A. OLSON
Director
RICHARD E. KOSMAN
Senior Vice-President
LOWELL A. MILLER
Vice President
ERNA M. GILLASPIE

JAMES L. ESSAY
Vice-President
NANCY A. OSSENKOP
Vice-President Administration
BETTY L. JOHNSON
Cashier
VELDA B. KNESS

Page Two
Mr. Paul Amen
April 30, 1982

4. If the real estate market continues to be extremely depressed, we project 1983 earnings can be maintained at least at a break even point up to a level of \$8,000,000 of non earning assets, comprised of real estate held for resale. We do not anticipate real estate held to equal or exceed that amount except under severe economic conditions. Our present liquidation policy regarding real estate, however, assumes times will get worse, and that time is of the essence in the sale of distressed real estate collateralizing our loans.
5. It continues to be our policy to discontinue accrual of interest on distressed loans when we anticipate difficulty in collecting the ultimate balance through liquidation of the collateral. We are becoming increasingly conservative in our estimates of property values when computing our possible recoveries.
6. We fully expect our capital accounts to reflect statutory requirements as of the year end, even considering potential loan losses.

DEPOSIT GROWTH

1. Rates paid on 30 month certificates have been changed to simple interest from daily compounding and are 1/2% below maximum rates allowable. We expect to continue a gradual reduction of up to 1% below allowable rates, market permitting, in an effort to discourage deposit growth and improve profitability.
2. Advertising budget has been reduced substantially. Deposit growth totaled \$3 million for the first quarter 1982, far above total 1982 projections.
3. Existing capital notes of \$780,000 mature beginning in April of 1984. In anticipation of this, we propose a new capital note offering of \$1,500,000, subject to Department approval, utilizing our annually adjustable, variable rate note.

LIQUIDITY

1. Marketable liquid assets increased from \$5.7 million on January 1, 1982 to \$7.6 million on March 31.
2. Actual commitments for loans that will be funded in cash are less than \$400,000 today.
3. Lending activities, if warranted, will be conducted primarily on an outside participation basis.
4. First mortgage positions held by other lenders on distressed loans (primarily Rock and Van Vliet) have been negotiated by us for assumption by new buyers at very favorable rates, eliminating the need for cash to protect loan equities.

Page Three
Mr. Paul Amen
April 30, 1982

NON-EARNING ASSETS

During the past 30 days, 17 individual property sales have been consumated, totaling \$900,000. These sales have been made with at least 10% downpayments in cash, to 17 individual qualified buyers. We anticipate this trend continuing for at least the near term.

CONCENTRATIONS OF CREDIT

Our present loan policy implemented several years ago limits lending to any one person, including related, controlled corporations, to an aggregate of \$500,000. We continue to try to solve our present concentrations in the following ways:

1. Property sales by borrowers to strong buyers financed under "buy-down" arrangements with our Company.
2. Participations with other lenders of loans secured by income producing properties.
3. Property trades - possible exchange of debt on non-income producing land for strong equities in good income producing properties. This process could reduce our concentration of loans in developed real estate subdivisions for property which can be sold by us through public syndications, private placements, etc.

VIOLATION

Delinquent corporate lines totaling \$1,600,000 of Townhouse, Inc. and Dakota Place, Inc. representing the Countryplace development have been brought current and secured with additional quarantee mortgages on strong income producing properties having equities of \$1.5 million. These 3 properties are scheduled to be sold through a public syndication being arranged with a local brokerage firm. Since we already have first liens of nearly \$1,000,000 on these properties, the sales will provide at least \$2,000,000 of total line reduction to this credit concentration. We belive it to be a realizable plan.

VIOLATION

Additional collateral is being obtained to secure this line. However, the technical violation will not be solved until properties have been sold. The borrowers have pledged a massive sale effort of all their properties to accomplish a reduction. The subject loan in violation was made in 1979 when Department policy did not include partnership loans in the individuals lending limit. Subsequently, in order to maximize our return, we capitalized interest due on the loan, increasing the amount, which violated its "grandfather" status. Property trades to exchange debt on developed land for strong equity in income producing properties held by these borrowers are also being contemplated.

Page Four
Mr. Paul Amen
April 30, 1982

LOANS

A settlement has been negotiated on all the interests whereby all properties will be deeded to an independent trustee. If the properties are sold for values in excess of the loan amount within 6 months, they will receive the excess. Any properties not sold by October will be conveyed to our Company. In the interim, the trustee, in the sole discretion and at the direction of State Security Savings, will make any conveyances to accommodate any sale directed by State Security Savings.

Two primary assets of this line (Tierra West-20 acres of land, zoned for 308 living units and Forest Lake Estates-30 acres of land, zoned for 145 living units) are properties in excellent locations with high development potential. We believe the current market can support the values necessary to prevent a loss on this credit line.

CURRENT LOAN DELINQUENCIES

Current loan delinquencies approximate 6½% compared to 23% at the time of the examination. During the past year the delinquency rate ranged from 8½% to 14½%. Several major loans were in the process of negotiation for additional collateral at the time of the examination which resulted in the abnormally high percentage at that time.

In conclusion, we will continue to report the status of our asset management problems every 30 days until resolved. We appreciate your concerns and your constructive suggestions. Our concerns are and have been the same.

60
A copy of our first quarter financial statements have been enclosed for your information.

Yours truly,

STATE SECURITY SAVINGS



Ken Hake
President

KH:lf

Enclosures

cc: Mr. Jim Moylan
NDIGC
1644 Woodmen Tower
Omaha, Nebraska 68102

STATE SECURITY SAVINGS
BALANCE SHEET
(In Thousands)

ASSETS	12-31-81	3-31-82	Projected 12-31-82
Cash & Federal Funds Sold	4,475	6,233	8,011
U.S. Government Agencies	1,000	1,150	500
Other Bonds	210	210	210
Stocks	48	48	48
Liquid Assets Total	<u>5,733</u>	<u>7,641</u>	<u>8,769</u>
Loans	42,688	42,044	42,000
Interest Receivable:			
Loans	1,469	1,854	1,500
Investments	50	79	50
RJS Partnership	878	871	850
NDIGC	441	441	460
Furniture & Leasehold Improvements (Net)	642	624	550
Other Assets	925	2,108	500
TOTAL ASSETS	<u>52,826</u>	<u>55,662</u>	<u>54,689</u>
 LIABILITIES			
Deposits	46,004	49,125	47,500
Reserve for Bad Debts	202	119	250
Income Taxes Payable & Deferred	367	205	500
Interest Deferred	92	85	60
Interest Payable	616	702	700
Other Liabilities & Reserves	68	81	60
	<u>47,349</u>	<u>50,317</u>	<u>49,070</u>
 CAPITAL NOTES	<u>813</u>	<u>778</u>	<u>780</u>
 STOCKHOLDERS EQUITY			
Capital Stock	310	310	310
Surplus	3,500	3,850	3,700
Undivided Profits	854	407	829
	<u>4,664</u>	<u>4,567</u>	<u>4,839</u>
TOTAL LIABILITIES & EQUITY	<u>52,826</u>	<u>55,662</u>	<u>54,689</u>

STATE SECURITY SAVINGS
STATEMENT OF INCOME
(In Thousands)

	Month of March, 1982	1st Qtr. 1982	1st Qtr. 1981	Projected 1982	Average Mont
INCOME					
Loan Interest Income	603	1,761	1,531	7,095	591
Investment Income	90	234	244	820	68
	<u>693</u>	<u>1,995</u>	<u>1,775</u>	<u>7,915</u>	<u>659</u>
Less Interest Expense	508	1,457	1,123	5,470	456
	<u>185</u>	<u>538</u>	<u>652</u>	<u>2,445</u>	<u>203</u>
Less Provision for Loan Losses	20	60	60	240	20
	<u>165</u>	<u>478</u>	<u>592</u>	<u>2,205</u>	<u>183</u>
Origination Fees	2	5	22	120	10
Other	2	6	7	40	3
	<u>169</u>	<u>489</u>	<u>621</u>	<u>2,365</u>	<u>196</u>
OPERATING EXPENSES					
Salaries	34	93	104	380	32
Advertising	14	37	18	120	10
Premiums	2	5	11	54	5
Payroll Taxes	3	7	7	24	2
Professional Fees	12	30	33	120	10
Rent	7	20	18	82	7
Telephone	1	2	2	10	1
Data Processing	3	7	6	36	3
Printing & Office	5	9	6	36	3
Group Insurance	1	4	3	14	1
Retirement Plan	5	13	15	54	4
Depreciation	8	23	16	91	8
Travel	7	9	16	42	3
NDIGC	-	6	6	12	1
Contributions	2	8	15	15	1
Other	3	20	25	65	5
	<u>107</u>	<u>293</u>	<u>301</u>	<u>1,156</u>	<u>96</u>
NET OPERATING EARNINGS	<u>62</u>	<u>196</u>	<u>320</u>	<u>1,209</u>	<u>100</u>
Less Provision for Income Taxes	29	90	145	534	44
NET EARNINGS	<u>33</u>	<u>106</u>	<u>175</u>	<u>675</u>	<u>56</u>
Return on Average Equity	8.4%	9.2%	14.7%	14.2%	
Return on Average Assets	.7%	.8%	1.4%	1.3%	

SPREAD ANALYSIS

1980				1981				1982			
Date	Yield	Cost	Spread	Date	Yield	Cost	Spread	Date	Yield	Cost	Spread
1- 8	12.21	8.37	3.84	1- 2	14.54	9.92	4.62	1- 5	16.73	11.90	4.83
1-15	12.22	8.43	3.79	1- 9	14.54	9.73	4.81	1-12	16.88	11.93	4.95
1-22	12.14	8.48	3.66	1-16	14.59	9.81	4.77	1-19	16.95	11.92	5.03
1-29	12.31	8.54	3.77	1-23	14.59	9.91	4.68	1-25	17.08	11.94	5.15
2- 5	12.39	8.59	3.80	1-30	14.64	10.02	4.61	2- 1	17.09	11.93	5.16
2-12	12.39	8.63	3.76	2- 6	14.65	10.10	4.56	2- 9	16.92	11.94	4.98
2-19	12.39	8.67	3.72	2-13	14.65	10.15	4.50	2-16	16.78	11.97	4.81
2-25	12.42	8.73	3.70	2-20	14.67	10.21	4.45	2-22	16.77	11.97	4.80
3- 7	12.45	8.80	3.65	2-27	14.72	10.30	4.42	3- 1	16.74	12.19	4.55
3-14	12.49	9.01	3.48	3- 5	14.75	10.35	4.39	3- 8	16.74	12.22	4.52
3-21	12.56	9.09	3.47	3-13	14.75	10.41	4.34	3-15	16.85	12.20	4.65
3-31	12.67	9.16	3.51	3-20	14.82	10.43	4.39	3-22	16.89	12.21	4.68
4- 4	12.79	9.36	3.44	3-27	14.85	10.45	4.40	3-29	16.96	12.22	4.74
4-11	13.11	9.43	3.67	4- 3	14.93	10.45	4.47				
4-18	13.11	9.52	3.59	4-10	14.98	10.52	4.46				
4-25	13.23	9.57	3.65	4-17	15.03	10.59	4.44				
5- 2	13.33	9.59	3.74	4-24	15.06	10.66	4.40				
5- 9	13.41	9.59	3.83	5- 1	15.09	10.69	4.40				
5-16	13.47	9.56	3.91	5- 8	15.11	10.73	4.38				
5-23	13.52	9.55	4.03	5-15	15.10	10.82	4.28				
6- 5	13.73	9.50	4.23	5-22	15.12	10.87	4.25				
6-13	13.77	9.49	4.27	5-29	15.12	10.91	4.21				
6-20	13.80	9.48	4.32	6- 9	15.18	10.96	4.22				
7- 3	13.98	9.42	4.56	6-16	15.25	10.98	4.26				
7-11	14.01	9.34	4.67	6-23	15.28	10.97	4.31				
7-18	14.01	9.31	4.70	6-30	15.29	10.98	4.37				
8- 1	14.04	9.23	4.81	7- 7	15.37	10.93	4.44				
8- 8	14.08	9.20	4.88	7-14	15.36	10.96	4.40				
8-15	14.10	9.18	4.92	7-21	15.37	11.00	4.37				
8-22	14.08	9.17	4.92	7-28	15.39	11.05	4.34				
8-29	14.09	9.09	5.00	8- 3	15.48	11.10	4.38				
9- 5	14.12	9.03	5.09	8-10	15.52	11.22	4.30				
9-12	14.12	8.97	5.16	8-17	15.56	11.33	4.23				
9-19	14.15	8.92	5.23	8-25	15.56	11.44	4.12				
9-26	14.14	8.87	5.27	9- 1	15.75	11.52	4.23				
10- 3	14.16	8.79	5.38	9- 8	15.81	11.64	4.18				
10-10	14.13	8.81	5.33	9-15	15.82	11.73	4.09				
10-17	14.22	8.78	5.44	9-22	15.79	11.82	3.97				
10-24	14.22	8.76	5.45	9-29	15.97	11.90	4.07				
11- 7	14.25	8.85	5.41	10- 6	16.09	11.99	4.10				
11-14	14.26	8.92	5.33	10-13	16.21	12.07	4.14				
11-21	14.24	8.98	5.26	10-20	16.50	12.13	4.37				
11-28	14.35	9.05	5.30	10-27	16.51	12.20	4.31				
12- 5	14.34	9.14	5.19	11- 3	16.55	12.23	4.32				
12-12	14.38	9.23	5.15	11-10	16.56	12.25	4.31				
12-19	14.44	9.31	5.13	11-17	16.63	12.22	4.41				
12-26	14.52	9.48	5.04	11-24	16.71	12.19	4.52				
				12- 1	16.70	12.12	4.58				
				12- 8	16.66	12.04	4.62				
				12-15	16.68	11.98	4.70				
				12-21	16.65	11.90	4.67				



Lincoln

LEGAL DIVISION

November 21, 1986

Mr. Gary L. Rex
Legal Counsel
Banking, Commerce &
Insurance Committee
Nebraska State Legislature
1116 State Capitol
Lincoln, Nebraska 68509

Dear Mr. Rex:

You have asked us to respond to several inquiries raised in connection with the Banking, Commerce & Insurance Committee's hearings on State Security Savings Company.

First, you have asked whether or not our files contain any information regarding the spin-off of affiliates and other assets of the company after the acquisition by the Hake-Wright-Olson Group. Our files do not contain any information concerning any such spin-off other than a comment indicating that the company's plans and activities in this area were discussed. As in the case of other leveraged buyouts, this buyout provided a method by which the company could be purchased without seriously impacting the principal activity of the company -- i.e., an industrial loan and investment company.

Second, you raised a question regarding the fact that the loan by First National Bank & Trust Company of Lincoln to Security Financing Company was not personally guaranteed. From the late 1950's through the early 1980's it was neither usual nor customary for financial institutions to require personal guaranties in connection with such transactions. This was because the corporate buyer typically had, as in this case, virtually unquestioned ability to repay the obligation out of accumulated earnings. At the time of the Security Financial Company financing, the banking industry was not experiencing any difficulty in obtaining repayment of such loans within a period of several years. Outside guaranties, additional loan collateral and more conservative loan

Mr. Gary L. Rex
November 21, 1986
Page 2

to value ratios have become more commonplace in the banking industry in the last several years.

Third, you asked about an appraisal on the land and building occupied by the State Security Savings Company at 14th & "N" Streets. First National Bank & Trust Company of Lincoln received an appraisal report prepared by George W. Hancock, SRA, dated November 1, 1981. This report assigns a fair market value to the property, including land and building, of \$1,550,000. The land under the building was a leasehold interest and its separate value was determined to be \$153,500. Accordingly, the building itself had an appraised value of \$1,396,500.

Fourth, you requested information as to the total amount of the loans purchased by First National Bank & Trust Company of Lincoln during the period November 16, 1983 through August 22, 1984. During this period, the bank purchased loans totalling \$13,652,016.22. These loans were performing loans. The purchase was for the purpose of augmenting the company's liquidity. Regular payments were received from the individual borrowers during the period of time held by the bank. Ultimately, the company repurchased the unpaid balance of all such loans and received back the funds held by the bank in a cash reserve account that had been established by the bank in conjunction with the transaction. The final payout on the purchased loans occurred on September 5, 1985.

Finally, you have asked for the amount of the loan that was charged off by First National Bank & Trust Company of Lincoln that had originally been made to Security Financial Company in June of 1981. As was apparently earlier disclosed to the Committee by Mr. Hake, the amount of the chargeoff was \$2,800,000 plus approximately four months of accrued interest.

Should you have any questions or need any additional information, please do not hesitate to call.

Very truly yours,



Thomas B. Fischer

TBF:cb

FirstTier Bank, N.A.
P.O. Box 81008
Lincoln, Nebraska 68501-1008
(402) 471-1245

Thomas B. Fischer
Vice President & General Counsel

G. Roderic Anderson
Associate General Counsel



Lincoln

LEGAL DIVISION

December 16, 1986

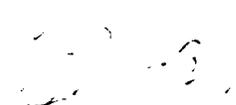
Mr. Gary L. Rex
Legal Counsel
Banking, Commerce &
Insurance Committee
Nebraska State Legislature
1116 State Capitol Building
Lincoln, Nebraska 68509

Dear Mr. Rex:

Following up on our conversation this morning, I checked with Dave Patrick and he indicated that approval of the loan by First National Bank & Trust Company of Lincoln to Security Financial Company occurred in May of 1982, and not in June of 1981, as originally reported to you.

Should you have any further questions, please call.

Very truly yours,



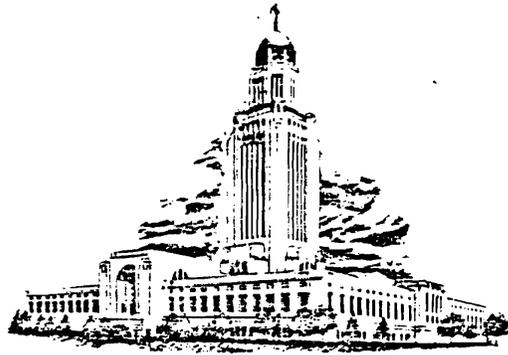
Thomas B. Fischer

TBF:cb

cc: Mr. David L. Patrick

CHARLES THONE
GOVERNOR

PAUL J. AMEN
DIRECTOR



STATE of NEBRASKA

DEPARTMENT OF BANKING & FINANCE

January 19, 1983

Board of Directors
State Security Savings
P. O. Box 80609
Lincoln, NE 68501

Gentlemen:

Enclosed is a copy of our Report of Examination prepared by Examiner Joel D. Fanders as of the close of business December 6, 1982. Please review this report at your next regular board meeting. The enclosed receipt form should then be signed and returned acknowledging receipt of the report.

You are to be guided by the statement appearing on the cover relating to the content of this report and the reminder that it be kept strictly confidential.

As you know, the purpose of this visitation was to determine to a limited extent certain progress made subsequent to our February 12, 1982, Report of Examination. Examiner Fanders has summarized, beginning on page 1, those topics which remain of concern to this office. As you might expect, we remain concerned that further deterioration be prevented with regard to asset quality. In this regard, we would ask that you continue to submit progress reports beginning March 31, 1983, covering assets adversely classified and not subsequently disposed of on our 2-12-82 Report of Examination. We also request that you follow the enclosed format when submitting your reports, which, if followed, will be of assistance to us in making a timely analysis of your report.

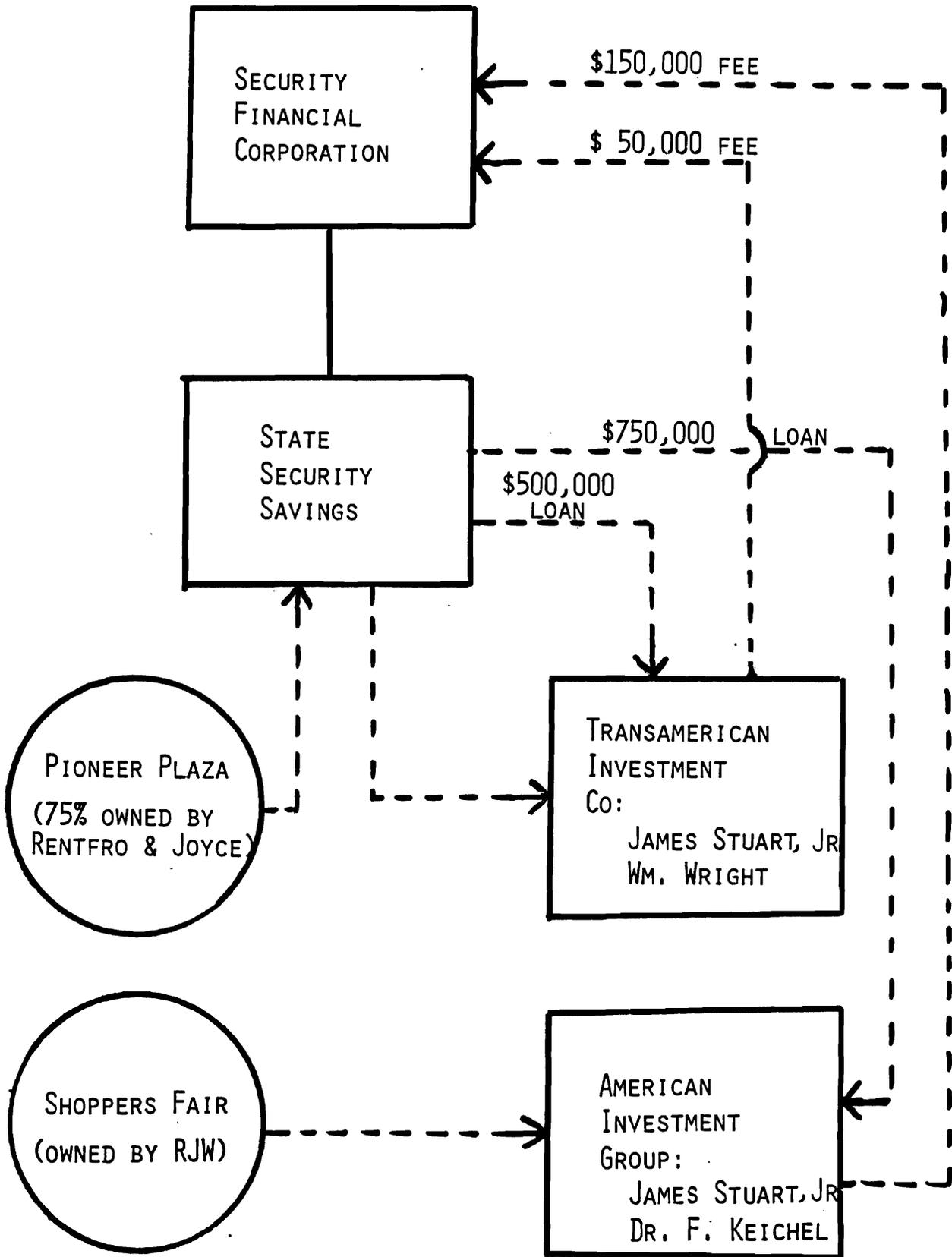
Another topic of concern is the fact that the liquidity ratio has shown no improvement since the most recent examination. Our examiner states management is aware of the situation, but we would like to remind you of the importance of making full use of every opportunity to improve the liquidity of this institution.

Finally, we ask that you carefully consider the balance of this report in the hope that the comments and schedules contained therein will be of assistance to management as they continue to affect needed improvements.

Sincerely,

A handwritten signature in cursive script that reads "C. W. Mitchell".

Charles W. Mitchell
Deputy Director



SHOPPERS FAIR TRANSACTION
(MARCH TO JUNE, 1983)

CLOSING STATEMENT

BUYER

SHOPPERS FAIR

March 31, 1983

	<u>Debits</u>	<u>Credits</u>
Purchase Price.....	2,650,000.00	
Insurance.....	3,769.20	
First Mortgage Balance.....		1,893,010.16
Second Mortgage.....		750,000.00
Tax pro rate (90 days).....		13,221.82
Points	<i>P&L in Silo</i> 2462.78	2,462.78
Recording fee.....	375	375
Cash to Buyer.....		
	<hr/> 2,659,150.23	<hr/> 2,659,150.23



BALANCE SHEET
(Unaudited)
December 31, 1983

ASSETS

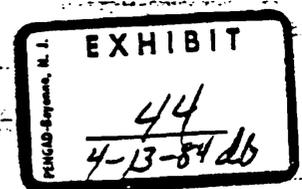
	<u>COST</u>	<u>FMV</u>
Cash	255,105	255,000
Stock of Subsidiaries:		
State Security Savings Co.	3,902,500	6,750,000
Lancaster, Ltd.	500	
Note Receivable	30,000	30,000
Total Assets	<u>4,188,105</u>	<u>7,035,000</u>

LIABILITIES

Note Payable - Bank	2,631,337	
Stock Purchase Contract Payable	524,962	
Debenture Notes Payable (LOC)	538,104	
Accrued Interest Payable	309,763	
Mortgage Note Payable - NBC/TM	63,500	
Option Payable - Whitney	65,264	
Total Liabilities	4,183,430	4,184,000
Deferred Income Taxes Payable	412,199	

STOCKHOLDERS' EQUITY

Common Stock	7,560	
Capital Contributed in Excess of Par	232,511	
Retained Earnings (Deficit)	(647,695)	
Total Equity (Deficit)	(407,524)	2,851,000
Total Liabilities and Equity	<u>4,188,105</u>	<u>7,035,000</u>



SECURITY FINANCIAL CORPORATION
STATEMENT OF INCOME
(Unaudited)

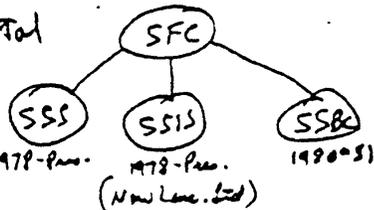
	Year ended December 31					
	1978	1979	1980	1981	1982	1983
INCOME						
Land Sales - Taylor Meadows	638,483	161,676	78,462	75,379	301,673	814,934
Cost of Land Sold	<u>377,097</u>	<u>86,134</u>	<u>34,675</u>	<u>42,788</u>	<u>109,981</u>	<u>211,570</u>
	261,386	75,492	43,787	32,591	191,692	603,364
Allocated Basis	<u>252,000</u>	<u>56,000</u>	<u>28,000</u>	<u>36,000</u>	<u>157,290</u>	<u>111,500</u>
Net Profit	9,386	19,492	15,787	(3,409)	34,402	491,855
Sale of Stock - SSBC	-	-	-	50,000	-	-
Fee Income	-	-	50,000	-	-	180,000
Interest Income	3,843	20,431	8,432	5,004	43,199	13,854
Dividends from Subsidiaries	-	150,000	85,000	550,000	216,000	-
	<u>13,229</u>	<u>189,923</u>	<u>159,219</u>	<u>601,595</u>	<u>293,601</u>	<u>685,709</u>
EXPENSES						
Interest:						
Land	44,722	57,395	135,617	217,631	216,289	130,506
Other	275,669	484,336	497,100	746,329	531,071	492,722
Sales and Other Expenses						
- Land	753	7,255	2,3054	3,619	38,608	9,218
General Expense	1,603	1,699	860	260	4,724	22,773
Amortization of Organization Expense	1,563	3,125	3,125	3,125	3,125	1,563
Consulting Fees	<u>9,200</u>	-	-	<u>15,000</u>	<u>29,500</u>	<u>14,000</u>
	<u>333,510</u>	<u>554,310</u>	<u>639,756</u>	<u>986,464</u>	<u>823,317</u>	<u>671,382</u>
NET LOSS BEFORE INCOME TAX	(320,281)	(364,387)	(480,537)	(384,869)	(529,716)	14,327
Provision for Refundable Income Taxes	<u>154,940</u>	<u>251,968</u>	<u>250,557</u>	<u>448,704</u>	<u>311,603</u>	<u>(7,100)</u>
NET INCOME (LOSS)	<u>(165,341)</u>	<u>(112,419)</u>	<u>(229,980)</u>	<u>63,835</u>	<u>(218,113)</u>	<u>7,227</u>

SSS Dividends (State Security Savings) (4/13) 150,000 - 0 - (6/4) 400,000 (3/30) 200,000 - 0 -
(12/12) 100,000

SSBC Dividends (State Security Bldg Corp) Liquidated 9/81 - 0 - (10/1) 35,000 (4/10) 50,000
(12/15) 40,000

SSIS Dividends (State Security Insurance Services) Sold 3/82 - 0 - (12/15) 10,000 - 0 - (3/30) 16,000

TOTAL



150,000

85,000

550,000

216,000

- 0 -

March 31, 1983

Security Financial Corporation
1330 N Street
Lincoln, NE 68508

Attention: Ken Hake, President

RE: Shoppers Fair Shopping Center
Lincoln, Nebraska

Dear Mr. Hake:

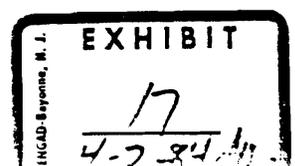
The purpose of this letter is to set forth our understandings with respect to services rendered by Security Financial Corporation in connection with the purchase by the undersigned of Shoppers Fair Shopping Center, 66th & O Streets, Lincoln, Nebraska.

You were instrumental in locating the property and negotiating the purchase on our behalf. For such services, we agree to pay you the sum of \$150,000, subject to the following terms and conditions:

1. The confirmation of the closing of the transaction is contingent upon the nonexercise or release by certain parties of a right of first refusal to purchase the property. You have advised us that the right of first refusal must be exercised by May 1, 1983. Our agreement to pay you any amount is contingent upon the nonexercise (and termination) or release of the right of first refusal.

2. You have arranged with the former owners of the property to allocate percentage rentals payable by Ardan's, one of the tenants of the property, between you, the undersigned, and the former owners of the property. The lease year to which such percentage rentals are attributable ends on August 31, 1983. We will be entitled to receive the entire amount of the percentage rentals. We agree, however, to pay to you that portion of the percentage rentals received equal to one-half (1/2) of seven-twelfths (7/12) thereof, or approximately 29.17%. You will contribute a like amount from the fee payable to you, and the total amount (equal to seven-twelfths (7/12) of the percentage rentals for the lease year) will be paid by you to the former owners of the property.

3. The fee will be payable to you on or before May 31, 1983.

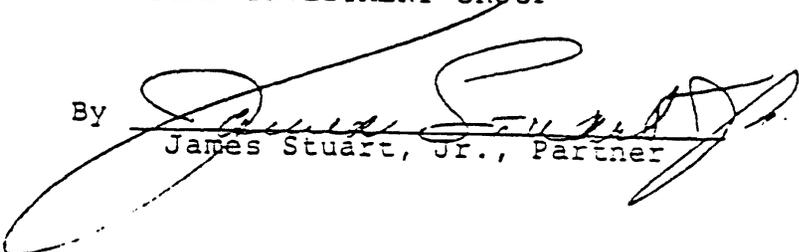


If the foregoing corresponds with your understanding of this matter and you are in agreement with the terms hereof, please signify by signing the enclosed duplicate copy of this letter where indicated and returning the same to us.

Yours very truly,

AMERICAN INVESTMENT GROUP

By


James Stuart, Jr., Partner

AGREED AND ACCEPTED:

SECURITY FINANCIAL CORPORATION

By


Ken Hake, President

Committee on Banking
October 17, 1986
Page 63

SENATOR DECAMP: Okay. However, as you must remember, in the deposition you gave, under oath presumably, you made it very clear it was a "buy down" fee, the same as points when you bought a house or whatever, in which case it would seem logically that 100 percent entitlement to State Securities and, of course, then the depositors, a depositor asset.

KEN HAKE: Three reasons why.

SENATOR DECAMP: Which was it...which would you characterize it as right now, here today?

KEN HAKE: I still characterize it both ways. Let me explain the testimony. The testimony simply wasn't broad enough because I probably wasn't astute enough to identify that that was even an issue. But, number one, I had made comments to Stuart like you ought to pay us 150,000 because this has good financing, it is lower than market, et cetera, et cetera. The fact of the matter is that is my marketing talk to Jim Stuart, things that he can understand. Okay? But we had said we would offer 12 percent, 7 years financing on that before we even thought of taking \$150,000 fee from Stuart, number one. Number two, we had done it countless times before in exactly the same way for State Security

Savings and did not get a fee. And the record can prove that. We simply...I simply did not expound as fully on the business reasons relating to that fee and all of the background on it because I simply didn't understand that that was an issue. Stuart was sitting across the table and I liked to be somewhat consistent with what I told him. And I don't think it probably would have made any difference in the end. I could have said, well it is a finders fee because that is the document that we signed, and that is what I believed it was, was a fee for taking risks that I've already explained and that are legitimate risks and were real risks. So, those are the reasons that I don't believe it should have come there. We wouldn't have had to negotiate for it in the first place even in behalf of State Security Savings because we never had done it before. But in this case there were those responsibilities that I believed Security Financial were going to have to handle because State Security Savings could not make a loan big enough. And I made it specifically clear to these folks when they bought it that that fee cannot come from State Security Savings in any shape, way, or form, it's got to be paid in cash.

SENATOR DECAMP: That doesn't...none of these things change the ultimate character, as I understand it, the ultimate character of 150,000...

KEN HAKE: I think it has to.

SENATOR DECAMP: ...has to be, has to be fish or fowl.

KEN HAKE: No, it can be both things to different people. It can be different rationale. What you have to look at is the business decisions behind the transaction,...

SENATOR DECAMP: Okay.

KEN HAKE: ...which I've given you.

SENATOR DECAMP: Let us then look at the business decisions behind the transaction as affirmed by the records, at least the records I have. Do you have a copy of the transcript?

GARY REX: Not here, it is in the office.

SENATOR DECAMP: I would prefer to have a copy.

GARY REX: Okay.

KEN HAKE: Had I even believed in my mind, I thought the whole hearing was centering around Rentfro-Joyce's extortion attempt. And I may be awful naive, but if I would have even

believed that that was suspect in any way I would have expounded on the business reasons that formulated the transaction. But those are different reasons than what I gave Stuart. And Stuart was in the same room, so I gave the reasons that I gave Stuart. And that is clearly my mistake. I should have expounded on all assets...facets of it because it wasn't until I got the letter from Beverage, on the conclusion of it, that I said, my God, here is what they are thinking. And I apologize. You maybe don't think I am that naive, but I must have been. I'm not sure that anybody thinks very well when they are just coming off the heels of the video tape, were beseeched by deposit withdrawals for six months already and now all of a sudden it is increasing. I'll guarantee you, I had a lot of things on my mind, and I probably...and I didn't do the best job that I should have. I created my own problem when I emphasized that point.

SENATOR DECAMP: On that I would agree.

KEN HAKE: But I wish people would listen to the realities of the business transaction as I've also explained them...

SENATOR DECAMP: That's why I'm having you explain it as fully and as completely, in your own words and at your own leisure, as you can.

KEN HAKE: Right, I know that. And there is credibility to that. The key fact is that State Security Savings offered the 7 percent, 12 years financing and had done it to many others before without a fee, and hadn't intended to get a fee, and in fact got more than they would have gotten under the January transaction. So, I made those decisions, I made them myself and I have to live with them. But that is the rationale. I can only tell you that.

SENATOR HARRIS: You made the decision on 150,000 yourself?

KEN HAKE: Yes.

SENATOR HARRIS: You didn't consult with anybody else on that?

KEN HAKE: I said I think Stuart ought to pay a fee for this deal and here are the risks, here is why...

SENATOR HARRIS: Did you take that to your board? Did you take it to your board and say that is, I think we are entitled to this? Did you go to State Security's board and say, I think we are entitled to this?

KEN HAKE: It wasn't State Security's board that I was addressing, it was Security Financial's board.

SENATOR HARRIS: Did you go to Security Financial's board of directors, officers, and say, I think we're entitled to this?

KEN HAKE: Yes, and here is why.

SENATOR HARRIS: And they agreed to that?

KEN HAKE: And they agreed.

SENATOR HARRIS: So you proceeded on the basis of you were justified in getting the \$150,000 on the basis that it was a fee?

KEN HAKE: That is precisely the way we documented it. That is in the agreement that we signed. And the business reasons I stated to the directors were, again, Security Financial, because of the tenuous nature of the NBC debt versus Stuart, what is going to happen there. But State Security Savings can't make the loan big enough. The percentage rents obligation that Security Financial...

SENATOR HARRIS: So was the obligation on Security Financial or on State Security for that tenuous part?

KEN HAKE: Security Financial was the one that could have solved the problem, State Security Savings could not because they couldn't make a loan of \$2.7 million, it was over our credit line.

SENATOR HARRIS: In what way was Security Financial at risk or...

KEN HAKE: Security Financial was going to, if necessary, would have had to be the borrower through NBC to perhaps alleviate any potential problem with Stuart in my mind, that is how I characterized it because State Security Savings couldn't be. We had to use an entity that was above State Security Savings.

SENATOR DECAMP: Okay. I'm going to get out the transcript and read to you your statements. Let me simply use the same example with you that I've used with the Banking Director and a number of others. If I go into State Securities and I say, I want to buy a house, what are your terms? And you say, our terms are....

KEN HAKE: Twelve percent, seven years.

SENATOR DECAMP: Our terms are 9.5 percent today, and 30 years and 4 points. I pay the points, but instead of

turning it over to the institution Ken Hake says, I'm entitled to that myself.

KEN HAKE: You are assuming that every other...

SENATOR DECAMP: I'm just using this as an example. Would you agree, in this particular instance, that you are not entitled to that four points?

KEN HAKE: Yes.

SENATOR DECAMP: As an individual.

KEN HAKE: Because you are assuming that in every other case of 22 borrowers that they also paid 4 percent and it went to State Security Savings.

SENATOR DECAMP: I'm assuming that those are the standards of the loan and that in return for making that loan the rules apply, the rules being that is the property, those points are the property of the lending institution for granting it nine and a half.

KEN HAKE: Assuming that, again, other loans of that same nature, that was the transaction, yes.

SENATOR HIGGINS: Mr. Chairman.

SENATOR DECAMP: Go ahead.

SENATOR HIGGINS: I hate to bore the committee,...

SENATOR DECAMP: That's okay.

SENATOR HIGGINS: ...but just to recap, to see if I'm understanding this, could I go through this and you stop me when I'm wrong.

KEN HAKE: Okay.

SENATOR HIGGINS: We are talking about Shoppers Fair, owned by Rentfro, Joyce, and Tom White?

KEN HAKE: And the Bresters and Harold Sears.

SENATOR HIGGINS: And, pardon me?

KEN HAKE: And the Bresters and Harold Sears.

SENATOR HIGGINS: Okay. And Shoppers Fair was sold to American Investment Group?

KEN HAKE: Correct.

SENATOR HIGGINS: And that is comprised of James Stuart and Doctor F. Kiechel?

KEN HAKE: Yes.

SENATOR HIGGINS: And did Doctor Kiechel and Stuart pay a \$150,000 fee, or just Mr. Stuart?

KEN HAKE: It came from the partnership.

SENATOR HIGGINS: It came from the partnership.

KEN HAKE: Yes. And Jim Stuart, when I keep referring to Jim, he was representing the partnership.

SENATOR HIGGINS: Okay. The \$150,000 fee did not go to Security Financial Corporation?

KEN HAKE: It did.

SENATOR HIGGINS: It did go to them?

KEN HAKE: Yes.

SENATOR HIGGINS: It didn't go to Ken Hake, personally?

KEN HAKE: Oh, absolutely not.

SENATOR HIGGINS: Now, who again are the officers of Financial Security Corp?

KEN HAKE: Security Financial Corporation, the directors are the stockholders, which are essentially Bill Wright, Leon Olson, myself. I was the president. I think I was probably the treasurer, and I think Mike Fosdick was the vice president and secretary.

SENATOR HIGGINS: Okay. And Security Financial Corporation was owned by or is owned by State Security Savings?

KEN HAKE: No.

SENATOR HIGGINS: No?

KEN HAKE: We got too many securities, I agree.

SENATOR HIGGINS: You have too many corporations.

KEN HAKE: Yes, and we wouldn't have as many as we have if it wouldn't have been for the reorganization. Security

Financial Corporation was the holding company for the old State Security Savings.

SENATOR HIGGINS: Okay.

KEN HAKE: Security Investment Company was a wholly owned subsidiary that was formed in April of '83 for the purpose of doing the Villa Tierra project.

SENATOR HIGGINS: And they were a subsidiary of State Security Savings?

KEN HAKE: Right.

SENATOR HIGGINS: Now, I show State Security Savings \$750,000 loan to American Investment Group.

KEN HAKE: Right.

SENATOR HIGGINS: That would be Stuart and Kiechel again.

KEN HAKE: Yes.

SENATOR HIGGINS: And out of that \$750,000 that was used by American Investment Company?

KEN HAKE: No. The \$750,000...

SENATOR HIGGINS: It was loaned to them.

KEN HAKE: ...loaned to them was used to buy the property, so in that sense it was used by them. The proceeds went to the sellers. A sellers fee...

SENATOR HIGGINS: Except for \$150,000...

KEN HAKE: No, no, no. No, the 150 was outside of that, totally.

SENATOR HIGGINS: I see. So, the 150,000 did not come out of the \$750,000 loan.

KEN HAKE: Absolutely did not. The proceeds of that 750,000 were dispersed to the sellers. And in the case of Rentfro and Joyce they got credit on their loan. In the case of Tom White we, in effect, gave him ownership of some townhouses. We gave...Bresters' received their portion of the cash, and Harold Sears received his portion for participation of a loan.

SENATOR HIGGINS: And one other thing, the \$150,000, is it a "buy down" fee, or was it a finders fee?

KEN HAKE: It was a fee charged for business reasons that I've stated.

SENATOR HIGGINS: A brokers fee?

KEN HAKE: Purely a 5 percent fee.

SENATOR HIGGINS: Well, I mean it's got to have a name, doesn't it, in financial....

KEN HAKE: Right, and when we characterized the agreement for the fee we called it a finders fee, and we said, here are the things that you are going to do, and specifically Security Financial's obligation in the agreement was that it was going to pay whatever percentage rents came up as a liability. Security Financial also entered into the transaction because of the fact that I was not certain how NBC was going to deal with Stuart on that loan, and State Security Savings couldn't have managed that because of its loan limit problem, whereas Security Financial could have dealt with the situation.

SENATOR HIGGINS: But the \$150,000 fee, you just pulled the name "fee" out of the air.

KEN HAKE: Correct, that is right.

SENATOR HIGGINS: It's not a brokers, finders fee?

KEN HAKE: Just called it a fee, I don't remember if we went any beyond that. But what I first said to Stuart, and these are my words...

SENATOR HIGGINS: Was it a commission?

KEN HAKE: Yes, same thing probably. But I don't...

SENATOR HIGGINS: A commission.

KEN HAKE: I don't know that it makes any difference. I called it a fee. Some people may equate it to a percentage because it is calculated on a percentage amount.

SENATOR HIGGINS: Was it a commission for you to put the package together then?

KEN HAKE: And to take the business risk that Security Financial had to take. The...my words...

SENATOR HIGGINS: Well if it's a risk I understand that is why you have "buy down" points.

KEN HAKE: No, no that is different.

SENATOR HIGGINS: That is what I've been told by several savings and loans, banks..

KEN HAKE: Sure, sure.

SENATOR HIGGINS: ...that the "buy down" points are to offset the risk that a financial institution is taking.

KEN HAKE: No, this is a different risk that we are talking about. We are talking about the risk of the underlying NBC financing, which has nothing to do with the financing provided by State Security Savings. State Security Savings wasn't capable of protecting itself against risk there because they couldn't make a loan big enough to pay off the National Bank of Commerce. That was over our loan limit.

SENATOR HIGGINS: What was the loan limit?

KEN HAKE: It was probably about \$900,000.

SENATOR HIGGINS: And you'd already loaned half a million to TransAmerican Investment Corporation.

KEN HAKE: No, that wasn't a loan. That was a sale on an installment contract. It might have characteristics of a loan, but it is legally not a loan. Let me go back again to the characterization, again, with Stuart. These are the words that I can remember. I said to Jim, Jim, this is a good enough deal, I think you ought to pay a fee for it. I said, interest rates are lower than what are in the marketplace, but the fact of the matter is it was a financing arrangement that we had offered on the property when we said we were going to take it back, 12 percent, 7 years, no points, 100 percent financing. And I can document that we did it 20 other times in the preceding year, identically where people did not pay points for repossessed properties. It was our way of refinancing and getting State Security Savings in a better position. Now, we interject into it these additional facts and obligations for which I believe Security Financial should take a fee. But yet I justified it to Stuart because he's a banker and he can understand well, yes, it's probably a good enough deal, it's just part of my marketing talk. Stuart was there at the hearing. I emphasized it because that is the reason that we did it. I could have said the other business reasons too, but I was naive enough to not understand what the focus was. I believed this was an extortion attempt hearing that we were hearing on Rentfro-Joyce.

SENATOR HIGGINS: Who was extorting what?

KEN HAKE: Rentfro and Joyce were extorting us.

SENATOR HIGGINS: How?

KEN HAKE: This hearing that they are talking about arose from the video tape incident on Shoppers Fair. Okay?

SENATOR HIGGINS: Um huh.

KEN HAKE: As soon as Commonwealth failed they came to us and said, by virtue, first, of a lawsuit that we said get out of here on, and it went away for three months, then they found another attorney. They put together this video tape and accused us of all kinds of improprieties and said, unless you negotiate right now and absolve us of all this kind of debt, if you read their demands in that they wanted to be released of \$3 million worth of debt free and clear, all kinds of things.

SENATOR HIGGINS: What would they do if you didn't do that?

KEN HAKE: They were going to give the video tape to the media. And I said, wait a minute, you're going to give it to....

SENATOR HARRIS: The county attorney looked at it and said it wasn't extortion.

KEN HAKE: Pardon me?

SENATOR HARRIS: Just for the record, the county attorney looked at it and said it wasn't extortion.

KEN HAKE: It wasn't chargeable extortion. But I'll guarantee you that when a borrower does that to a lender, under the circumstances in which the borrower...the lender is in, subsequent to Commonwealth,...

SENATOR DECAMP: We have the tape if anybody wants to look at it.

KEN HAKE: ...it is bizarre. I mean I can't call it...

SENATOR HARRIS: It's done in business every day where you say, I'm going to do this if you don't do that and that is common business anyway.

KEN HAKE: Not from a lender...from a borrower to a lender to ask for forgiveness of \$3 million worth of debt or he's going to give this video tape to the media because they know

we can't stand the media at that point. The fact of the matter is we gave it immediately, that day, to the Attorney General's office, the Comptroller of the Currency, the Banking Department, the County Attorney, the FBI as fast as we could because we thought it was an extortion attempt, pure and simple.

SENATOR HARRIS: And none of them thought so.

SENATOR HIGGINS: One other question, Mr. Hake.

KEN HAKE: What is the definition of extortion when you are not trying to get something that doesn't belong to you? Do you.... You know I...

SENATOR HARRIS: I'm just trying to keep the record straight that it was dealt with and it was not called extortion. And you are continually calling it extortion. That is a charge.

KEN HAKE: If you went to a lender and said, I know something about you that I'm going to turn over to the media unless you forgive my \$3 million worth of debt, would you agree that is extortion?

SENATOR HARRIS: I won't even talk...I'm just trying to keep the record straight and let's go on to the next...

KEN HAKE: I mean I disagree totally that it was not extortion, but that is, evidentially, beside the point.

SENATOR HIGGINS: Well, this is my last question. You stated many times how desperate you were to save the depositors money to handle this Shoppers Fair. Weren't you kind of gambling when you kept insisting, with Mr. Stuart, that he pay \$150,000 fee in order to put this deal together that you'd been trying so desperately, going all the way to Des Moines and California and everything else?

KEN HAKE: I hadn't done those things, they had done those things.

SENATOR HIGGINS: Well, but knowing the situation, I mean you did say that saving the depositors was the ultimate and primary goal.

KEN HAKE: Correct, correct.

SENATOR HIGGINS: So, why would you risk saying, hey, unless we get \$150,000 no deal?

KEN HAKE: I didn't quite say it that way. And I'll guarantee you the deal...

SENATOR HIGGINS: Well, I'm sure you didn't, but it boils down to that.

KEN HAKE: I'll guarantee you the deal would have gotten together if there was no fee.

SENATOR HIGGINS: In other words, you bluffed him.
(Laughter.)

KEN HAKE: Don't ask me to answer that. (Laughter.)

SENATOR HIGGINS: Well, that is the way it sounds.

KEN HAKE: I will assure you the deal would have gone together regardless. But I thought...I asked for...

SENATOR HIGGINS: Well then it was a bluff.

KEN HAKE: I asked for what I thought was fair and reasonable considering the business aspects of the transaction, and he paid it. He did.... I asked for 225,000. He knocked it down 25.

SENATOR HIGGINS: Okay. Thank you, Mr. Hake.

STATE OF NEBRASKA

ROBERT KERRÉY • GOVERNOR • PAUL J. AMEN • DIRECTOR



November 1, 1983

TO THE EXECUTIVE OFFICER OF THE INSTITUTION ADDRESSED

The Department has taken over and closed the Commonwealth Savings Company of Lincoln, Nebraska, this morning for reasons of insolvency and its inability to meet withdrawals of its certificate of indebtedness holders. This action may impact upon your institution and as such it would be wise to take precautionary methods, such as:

1. provide for liquidity needs;
2. determine if another type of financial institution with federal insurance of accounts is available to merge into;
3. take steps to qualify for FDIC insurance;
4. determine maturity schedules on all fully paid certificates of indebtedness. In this regard, you are directed to withhold any repayment until maturity except those you are required to pay due to the death of an owner or declaration of incompetency of the certificate holder.

The Department has visited with the Federal Reserve and the FDIC, who have informed the Department that applications for mergers will be handled expeditiously through their emergency powers. Applications for insurance cannot be processed as rapidly.

The Department has authority also to expedite applications for mergers on an emergency basis.

One word of caution: we ask that no financial institution attempt to take advantage of this situation through any advertising or promotional type program.

Finally, you should be aware that the Department has under consideration a special assessment on all N.D.I.G.C. members to reduce the impact on Commonwealth Savings Company customers.

Sincerely,

A handwritten signature in dark ink, appearing to read "Paul J. Amen". The signature is fluid and cursive, written over the typed name.

Paul J. Amen, Director

pb

DEPOSIT ACTIVITY
 BETWEEN NOVEMBER 1, 1983 AND JULY 9, 1984
 (Prepared by State Security Savings)

<u>MONTH</u>	<u>WITHDRAWALS</u>	<u>DEPOSITS</u>	<u>COMPOUND INTEREST</u>	<u>BALANCE</u>
October 1983				\$ 50,462,299
November 1983	\$ 5,568,201	\$ 331,100	\$ 260,319	45,485,517
December 1983	2,120,074	4,201,545*	330,007	47,896,995
January 1984	5,981,913*	434,916	303,139	42,653,137
February 1984	2,542,823	264,363	250,281	40,624,958
March 1984	3,370,445	508,200	297,366	38,060,079
April 1984	4,419,225	526,230	269,670	34,436,754
May 1984	2,239,589	476,458	188,627	32,862,250
June 1984	2,057,403	923,135	244,101	31,972,083
July 9, 1984	<u>988,144</u>	<u>95,823</u>	<u>80,161</u>	31,159,923
	\$29,287,817	\$7,761,770	\$2,223,671	
Less Special Deposit	<u>3,763,392</u>	<u>3,763,392</u>		
TOTAL	\$25,524,425	\$3,998,378	\$2,223,671	

*A deposit of \$3,763,392 was made by a single customer on December 30, 1983 and withdrawn on January 9, 1984.

Nebraska State Legislature

Unicameral

EXHIBIT 25



July 5, 1984

Mr. Don Nelson
Chief of Staff
Governor's Office
State Capitol Building
Lincoln, NE 68509

Dear Mr. Nelson:

At the request of the Lancaster County Legislative Delegation, Banking Director Roger Beverage met with Senators Beutler, Harris, Warner, Marsh and Wesely (Senator Landis was out of town) on June 22, 1984, in regard to our concerns for the depositors of State Security Savings Co. of Lincoln. We appreciated Roger's candor and diligence in pursuing a solution to this matter. However, we were shocked to hear for the first time that the situation is seriously deteriorating to the point that State Security Savings Co. may soon be a failed institution.

The facts are that State Security Savings Co. has 57% of its assets classified as sub-standard by the FSLIC as of March 6, 1984, and the capital is impaired by 468% due to the large number of classified assets. When asked how much the institution would be short if closed June 22, 1984, Roger indicated that State Security Savings Co. would be short \$14 million and possibly as high as \$21 million if it were closed immediately.

Our foremost concern is for the remaining depositors. Additionally, we are concerned that the potential for state liability grows every day. The lesson of the Commonwealth Savings Co. should be clear to us: delay in dealing with a failed institution for whatever strategic or well-intentioned reason, shifts responsibility from the regulated institution to the regulator. We cannot allow a repetition of the Commonwealth debacle.

We have daily discussed the options available to deal with this serious problem since our meeting June 22. Here is a listing of these options and our reactions to them. We are keeping in mind that Roger presented these options as "possible, not probable."

1. Allow the FSLIC coverage option to "run its course":
We understand this could take another three to six months. It is not acceptable to simply let it "run its course" when we are dealing with an essentially failed institution where the FSLIC itself has classified as sub-standard 57% of the assets. The deposits are dropping every day, cash is vanishing and the good loans are being sold to get cash to cover depositors' withdrawals. (Apparently 50% of the "frozen" deposits when due were being retained or redeposited. We doubt this information, which was based on information provided by the institution itself. This should be checked immediately for verification.) We would hope that the Governor would personally go to the FSLIC immediately and determine if there is in fact any probability of immediate coverage after explaining the current situation and the possible disastrous effects that the closure would have on other Nebraska FSLIC institutions and the basic faith in the Nebraska banking system itself. If there is no probability of immediate FSLIC coverage the other options should be considered immediately.
2. Investors proposal to package together \$20 million in bad assets to trade for good assets based on a tax deduction for the receivers of the \$20 million in bad assets by July 1, 1984. Roger was unable to explain details of this proposal to us. Perhaps for that reason it seemed a highly unlikely proposal. In any event, the result would be known by the time you determine the probability of FSLIC coverage.
3. Private insurance on accounts: Under current circumstances it is highly unlikely that such insurance can be obtained and would waste valuable time to attempt to obtain it. Even if it were possible with the \$15-20 million shortfall, it is not an option as there would be no faith in private insurance (i.e. NDIGC). We are going to have a hard enough time keeping basic faith in the public insurance (FDIC & FSLIC).
4. Sale or Merger: With the limitations on potential purchasers, it is highly unlikely that a Nebraska institution of the appropriate size will purchase State Security Savings Co. due to deteriorating conditions and lack of insurance. Why would anyone want to buy a \$15-21 million loss. They were unable to find a suitable buyer many months ago, let alone now.
5. There is a "special relationship" between the First National Bank of Lincoln and State Security which makes it unlikely that First National would allow State Security to close:
Mr. Beverage presented this as an option for keeping State Security Savings Company open although he said that "They would not tell him what the special relationship was." Without further information we find this a highly questionable reason to keep a "failed" institution open.

Mr. Don Nelson
July 5, 1984
Page 3

6. Let it "bleed to death" until it runs out of cash to cover withdrawals: This is an unacceptable option due to the deteriorating financial condition of the institution, the obligation to protect the interests of the depositors, and the duty to tell the truth to the depositors about the condition of the institution. Also, the new depositors have a right to know the true condition although Mr. Beverage said there were "damn few" new depositors.

In summary, if the FSLIC is not immediately probable by early July of this year, there is no option that we are aware of that justifies the continued operation of State Securities. A failed institution, we have learned to our cost, should be closed so that the financial well-being of additional depositors is not endangered. We suggest the following:

1. We would like to meet with the Governor to inform him of these facts. If we have your assurance that he is currently aware of the gravity of the situation, we would, in the alternative, like to meet with you and any other appropriate administration officials for a discussion. The agenda would include a review of the facts and an analysis of existing options.
2. We want to offer our assistance in handling the matter, including bill drafting for legislative alternatives. We think competition should be as broad as possible to secure the highest price from a successor-purchaser. We pledge to introduce and support a measure permitting out of state bidders for the purchase of State Securities Co.

We would appreciate an answer to our inquiry within two days so that we may plan accordingly. Certainly the interests of the Governor's office, the depositors and ourselves are the same. We are ready to assist you to exonerate those interests.

Very truly yours,


Senator Bill Harris


Senator Dave Landis


Senator Chris Beutler


Senator Don Wesely



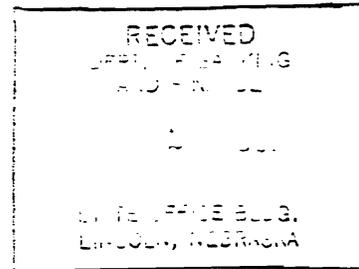
WRIGHT REMBOLT MILLIGAN & BERGER
ATTORNEYS AT LAW

1201 LINCOLN MALL, SUITE 102
P. O. BOX 82506
LINCOLN, NEBRASKA 68501
402-475-5100

WM. F. WRIGHT
JAMES E. REMBOLT
DAVID A. LUDTKE
CYNTHIA H. MILLIGAN
PENNY J. BERGER
ALAN D. SLATTERY
ROBERT L. NEFSKY
JOHN S. PIERCE
PETER C. WEGMAN

December 29, 1983

John P. Miller, Director
Nebraska Department of Banking
& Finance
301 Centennial Mall South
Lincoln, NE 68508



Dear John:

This is in response to your recent inquiry of whether the assets of Commonwealth Savings Company are subject to administration and whether the entity is eligible for relief under the federal Bankruptcy Code.

Our review of existing authority leads us to conclude that should a bankruptcy petition be filed, on either a voluntary or involuntary basis, with the United States Bankruptcy Court for the District of Nebraska, the same ought to be promptly dismissed on the jurisdictional ground that Commonwealth Savings Company is not an eligible debtor under the provisions of Section 109 of the Bankruptcy Code.

Historically, the federal bankruptcy laws have not been applicable to banking corporations. Our conclusion is reached on the basis of legislative history surrounding the enactment by Congress of the 1978 Bankruptcy Code and the Garn-St. Germain Depository Institutions Act of 1982. Our conclusion is also based on case law from the Eighth Circuit Court of Appeals in controversies arising under the pre-1978 Bankruptcy Act and by reference to the provisions of Chapter 8 of the Nebraska Statutes and the Nebraska Depository Institution Guaranty Corporation Act. Our conclusion is without the benefit of any definitive decision from the Eighth Circuit Court of Appeals or the United States Supreme Court applying Section 109 of the Bankruptcy Code to an entity such as Commonwealth Savings Company.

Historically, banking corporations have been excluded from the purview of federal bankruptcy administration for the reasons that (1) they are extensively regulated by well organized departments of the state and of the United States; (2) they are entities for which alternate provision is made for their liquidation under various state or federal regulatory laws; and (3) their business is public or quasi-public in nature and involves, upon insolvency and liquidation, interests beyond those of a debtor-creditor relationship.

Section 109 of the Bankruptcy Code provides that any person, including a corporation, may be a debtor under Chapter 7 (liquidation) or Chapter 11 (rehabilitation) only if such person is not:

a domestic insurance company, bank, savings bank, cooperative bank, savings and loan association, building and loan association, homestead association, credit union, or industrial bank or similar institution which is an insured bank as defined in section 3(h) of the Federal Deposit Insurance Act. . . 11 U.S.C. §109(b)(2).

Garn-St. Germain added to Section 109 the phrase "or industrial bank or similar institution which is an insured bank as defined in section 3(h) of the Federal Deposit Insurance Act." Although we find no case law supporting our interpretation of this amendment, we believe the requirement of FDIC insurance applies only to an institution which is a "similar institution" and is not a requirement necessary to exclude an industrial bank from administration under the Bankruptcy Code. *

Historically, in determining whether an entity is a banking corporation to be excluded from the purview of the federal bankruptcy statutes, the courts have employed a "state classification test" under which heavy emphasis is placed upon the enabling legislation and charter under which the entity is organized and operating. In this connection, note must be taken of Section 8-409 R.S. Supp. 1982 which prohibits an industrial loan and investment company from accepting deposits or otherwise engaging in the business of banking.

In Gamble v. Daniel 39 F.2d 447 (8th Cir. 1930), the court held that a trust company organized under Nebraska law was not a banking corporation notwithstanding the fact that its enabling legislation permitted it to exercise most, if not all of the powers customarily exercised by Nebraska banks. Similar to the statutes applicable to Commonwealth Savings Company, the trust company's enabling legislation forbade the entity to receive deposits or to otherwise conduct the business of banking. In Gamble, the court rejected appellant's argument that the entity had "depositors" and was therefore a banking corporation to be excluded from bankruptcy administration. The court held that the term "depositor," as used in the entity's enabling legislation, did not mean the acceptance of deposits in the banking sense, but rather the conduct of a safety deposit vault business and to act as a depository for money in court. In stressing the importance of the acceptance of deposits, the court stated:

When Congress spoke of "banking corporations" it spoke as of 1910. It used the words in no technical nor special sense, but as they were then ordinarily understood. At that time, the ordinary conception of a

bank was of a business which was based primarily on the receipt of deposits (general or special), which deposits were used by the bank for loans, discounts, buying and selling commercial paper, and other business purposes. None but national banks could then issue bank notes as currency. The prime incentive for engaging in the business was the profit to be made, directly or indirectly, from the use of deposits. Most of the then existing state legislation concerning banks had as its principal purpose the protection of such depositors. Much of the right to regulate banks was the public interest in protecting depositors. Banking has been a development, and the above was its status in 1910. Other businesses might and did, and still do, deal in commercial paper, make loans or borrow money without anyone thinking of them as banks. When a business takes deposits and then does the above or related things, everyone knows it is doing a banking business. As far back as *Oulton v. German Sav. & L. Soc.*, 17 Wall. 109, 118, 21 L. Ed. 618, it was said: "strictly speaking the term bank implies a place for the deposit of money, as that is the most obvious purpose of such an institution." * * * In short, while there may be other attributes which a bank may possess, yet a necessary one is the receipt of deposits which it may use in its business. Without attempting a full definition of these words used in this section of the Bankruptcy Act (as amended), this necessary element of deposit is stressed because it is important in this case. Id. at 450-451.

Notwithstanding the prohibitions of Section 8-409 of the Nebraska Statutes, we believe that Commonwealth Savings Company constitutes an "industrial bank" within the meaning of the 1982 Garn-St. Germain amendment to Section 109 of the Bankruptcy Code. Garn-St. Germain also amended the definition of "state bank" set forth in the Federal Deposit Insurance Act to include industrial banks:

The term "State bank" means any bank, banking association, trust company, savings bank, industrial bank or similar financial institution which the Board of Directors finds to be operating substantially in the same manner as an industrial bank, or other banking institution which is engaged in the business of receiving deposits, other than trust funds as herein defined, and which is incorporated under the laws of any State . . . 12 U.S.C. §1813(a). (emphasis supplied)

In addition, Garn-St. Germain amended the definition of "deposit" under the Federal Deposit Insurance Act to include certificates of indebtedness. Deposit means:

The unpaid balance of money or its equivalent received or held by a bank in the usual course of business . . . which is evidenced by its certificate of deposit, thrift certificate, investment certificate, certificate of indebtedness, or other similar name . . . 12 U.S.C. §1813 (1). (emphasis supplied)

The above amendments to the Federal Deposit Insurance Act, together with the amendment including industrial banks as a part of Section 109 of the Bankruptcy Code were all included as part of Title VII of Garn-St. Germain. With respect to Title VII, the legislative history states:

The bill also contains an amendment making industrial banks and like-type institutions eligible for Federal Deposit Insurance. Industrial banks, industrial loan companies, industrial loan and thrift companies, loan and investment companies are all names for state financial institutions which extend installment credit to consumers and accept some form of savings deposit from their customers. These institutions are chartered and supervised under state industrial banking or industrial loan laws. The purpose of these amendments is to permit this type of financial institution to be eligible for membership in the FDIC on the same basis as other state financial institutions which offer the same or similar services to the public. 1982 U.S. Code of Cong. and Adm. News, p. 3097.

Notwithstanding the limitations of Section 8-409 of the Nebraska Statutes prohibiting Commonwealth Savings from accepting deposits or otherwise engaging in the business of banking, we believe Garn-St. Germain squarely places the entity within the category of a state bank whose certificates of indebtedness constitute deposits for purposes of the Federal Deposit Insurance Act.

In Gamble, supra, the Eighth Circuit distinguished the business of banking from that of a trust company under Nebraska law by reference to the fact that bank depositors were afforded protection under a guarantee fund which was based upon average deposits, whereas protection was afforded to trust company customers by a deposit of securities, the value of which was measured by the trust company's capitalization. The administration of the banking guarantee fund and the protection afforded by that fund were distinctly different from the administration and protection afforded through security deposits made by trust companies. The distinction thus made in Gamble, should not apply in the case of Commonwealth Savings Company. Under the

John P. Miller, Director
December 29, 1983

Nebraska Depository Institution Guaranty Corporation Act, Commonwealth Savings Company is clearly within the definition of a "depository institution"; and persons holding certificates of indebtedness issued by the entity are entitled to the same protections afforded the members and depositors of credit unions, savings and loan associations, building and loan associations and, in certain instances, banks which have acquired the assets and liabilities of a savings or building and loan association or an industrial loan and investment company.

We trust you will find the above discussion useful. If we can be of further assistance, please call.

Respectfully submitted,


John S. Pierce

JSP:lh

SHOPPERS FAIR CHRONOLOGY

Prepared by Gary L. Rex, Legal Counsel
Banking, Commerce and Insurance Committee

AIG = American Investment Group
DBF = Department of Banking and Finance
EPP = East Park Plaza, Inc.
Fosdick = Mike Fosdick
Hake = Ken Hake
Joyce = Jerry Joyce
Kerrey = Robert Kerrey
PP = Pioneer Plaza
Rentfro = Robert Rentfro
RJW = Rentfro, Joyce and Tom White partnership
SF = Shoppers Fair
SFC = Security Financial Corporation (holding company of SSS)
SIC = Security Investment Corporation (subsidiary of SSS)
SSS = State Security Savings
Stuart = James Stuart, Jr.
White = Tom White
Wright = William Wright

Ex = Exhibit numbers of documents received in evidence by the Department of Banking in its formal investigation of SF during April, 1984.

p. = Page number of the transcribed testimony given before the Department of Banking in its formal investigation of SF during April, 1984.

July 23, 1979 Execution of warranty deed to property underlying SF from Rentro and Joyce to RJW. (Ex 6) The original construction financing was obtained through NBC on June 16, 1980 for \$1,675,000 (Exs 30, 31, 32), and by the time SF was sold by RJW in 1983, the balance owed NBC was 1.9 million, with an annual interest rate of 17%.

(Before and during the time that followed, Rentfro and Joyce financed the development of several properties (but not SF) through SSS. Also during this time, the bottom fell out of the real estate and construction markets, which caused Rentfro and Joyce to have serious cash flow problems. Furthermore, Rentfro and Joyce were allegedly being charged "prime" rate or above by SSS (contrary to their verbal agreement with SSS, according to Rentfro). As a result, they were unable to service their loans with SSS, which continued to grow as unpaid accrued interest was rolled over onto principle as the notes were renewed. Rentfro and Joyce then began trying to liquidate their properties in order to service and reduce their debts.)

(Beginning in 1978, and in each year following, the Rentfro/Joyce line of credit with SSS was listed as a "concentration" by the Banking Department in its annual examination reports. (Before 1978, examination reports did

not note "concentrations.") Furthermore, in the years 1981 through 1984, loans to Rentfro and Joyce were cited as being in violation of 8-409 (in excess of loan limits) because, as some of the loans to their corporations became delinquent, their personal guarantees on those loans caused the loans to be added to their personal total borrowings under DBF computations.)

(Also, before the end of 1980, the RJW partnership added the following partners: Harold & Phyllis Sears, Ronald Brester and Donald Brester.)

January 16, 1981 RJW signed a listing contract with National Investment Counselors of Kansas City, Missouri, for NIC to act as broker for the sale of SF. The selling price for SF specified in the contract was \$3,200,000.

April 7, 1982 Letter from Charles Mitchell, Deputy Director of DBF, to SSS commenting on the results of the Department's examination of the institution in February 1982. Mr. Mitchell advised the board that, because of the institution's marginal adequacy of capital, "Conservation of earnings is in order. Restricting dividends, bonuses, professional fees and perhaps salaries may be necessary." Mr. Mitchell also noted that 41.8% of all loans were "classified," and that loans totalling \$8,301,000 deserved "special mention." Because of the institution's problems, Mitchell required SSS to submit quarterly reports to the Department.

May 3, 1982 Letter from White on behalf of Cherry Hill Realty Co. to Leon Olson (of SSS) concerning a possible sale of SF and PP. (Ex 23) Among other things, the letter included details and figures concerning the properties' operation, and stated the price of SF to be \$3.25 million, and the price of PP to be \$2 million. In regard to SF, the document noted the outstanding loan with NBC (1.9 million for 3 years at 17%), and the mortgage held by NBC in the same amount dated December 23, 1981.

July 2, 1982 Hake counseled Rentfro and Joyce concerning their debt problems and requested additional collateral to secure the growing amounts of unpaid interest on their loans (per Hake, p 100).

Letter from Rentfro and Joyce to SSS (c/o Hake) suggesting that SSS purchase real estate from them, and that a portion of the proceeds from such sale be used to reduce their indebtedness to SSS.

July 7, 1982 Letter from Rentfro and Joyce to Hake memorializing their July 2 meeting and making proposals for possible sales of real estate (including SF) to SSS. (Ex 24) The proposal offered a price of \$2,336,000 for Rentfro's and Joyce's 73% interest in SF. (However, according to the loan agreement signed September 8, Joyce and Rentfro had only a 55% interest in RJW, which owned SF.)

August 10, 1982 Rentfro met with Hake concerning credit problems, and agreed to work to reduce debt to SSS by selling certain

properties--including SF and PP--and to use the proceeds of any such sales to reduce the debt.

August 12, 1982 Letter from Rentfro to Hake memorializing their meeting of August 10. (Ex 25)

September 8, 1982 Execution of a loan agreement by Joyce and Rentfro in which they assigned to SSS their 55% interest in RJW (which held SF) and their 75% interest in PP, as additional collateral to capitalize accrued interest. Rentfro and Joyce also agreed to use their best efforts to market their properties to pay off their indebtedness to SSS. SSS agreed to extend the existing loans and to make new loans to cover accrued interest (this agreement was finally signed by SSS on October 22). (Ex 9)

October 15, 1982 Offer from American Heritage Service Corporation of Chicago to buy SF from RJW for cash and real estate totalling \$2.8 million. (Ex 10)

October 26, 1982 Letter from Hake on behalf of SIC (a subsidiary of SSS) to RJW (c/o Rentfro) offering to buy SF for cash and real estate totalling \$2.8 million. (Ex 12)

Letter from White on behalf of RJW to SSS (c/o Hake) clarifying that the sale would not be contingent on the ability of the buyer to obtain better terms on the NBC loan. (Ex 12)

October 28, 1982 Letter from Hake on behalf of SIC (subsidiary of SSS) to RJW (c/o Rentfro) offering to buy SF from RJW for 2.8 million on similar terms as the October 26 offer, but with amendment of the terms regarding the buyer's assumption of the NBC loan. (Ex 11)

November 10, 1982 Offer from Midland Financial Savings and Loan of Des Moines to buy SF from RJW for cash, discounted mortgages, and real estate totalling \$3 million, with National Investment Counselors acting as broker (evidenced by proposed real estate contracts, Ex 13 and Ex 14).

December 8, 1982 Date of follow-up examination of SSS by the Department of Banking (to review some of the problems noted in its February 1982 examination). The examination report notes that Hake told the examiner that no dividends were expected to be issued by SSS to SFC unless profits rose.

(Note: According to subsequent DBF examination reports, SSS had net losses of \$358,600 in 1982, and \$1,048,000 in 1983 (almost \$600,000 of the 1983 loss resulted from SSS's forfeiture of its investment in the NDIGC after its collapse).)

January 13, 1983 Deed signed by RJW partners to prospectively convey SF to Midland Financial Savings. (Ex 7) (The deal then fell through, and

White instructed David Hunter (of State Title Services) to keep the deed, on which the "buyer" was never written in, for later use. (per Hake, p. 75, per Hunter, p. 253 et seq.)

(The offer from Midland was subsequently renegotiated, but never solidified (as evidenced by notes of Hake, Ex 15) (per Hake, pp. 39-41, per Rentfro, p. 215).)

February 7, 1983 "Notice of Nonconsent" (Ex 26A) signed by the Brester brothers (partners in RJW) because of their discontent with the contemplated sale of SF to SSS (per Hunter, p 260). This Notice was recorded with the County Clerk on the next day. The notice does not specify any particular offer or terms with which they were discontented, or the buyer making such offer.

February 10, 1983 Execution of "Release of Notice of Nonconsent" (Ex 27) by the Brester brothers. This release was not recorded, however, until March 30, 1983.

Mid February, 1983 Rentfro and Joyce proposed to Hake that SSS buy property (i.e., SF and PP) from them (per Hake, p. 46). Rentfro and Joyce also suggested that a SSS subsidiary take title to the properties in any eventual sale, rather than SSS itself, so that RJW's other lenders would not become alarmed (per Rentfro and Joyce, pp. 226, 297-99). (Rentfro and Joyce later assumed, at the time of the closing, that the buyer of SF (i.e., AIG) was a subsidiary of SSS (per Rentfro and Joyce, pp. 226, 297-98).)

During this time, Wright first learned of the proposed sale of SF to SSS when Hake showed him a letter that SSS planned to send to RJW offering to buy SF (per Wright, pp. 317 et seq).

February 25, 1983 Letter from Hake on behalf of SSS to RJW (c/o Rentfro) which made an offer by SSS to purchase SF for 2.65 million, with the offer to expire on March 2, 1983. (Ex 16) (According to Hake, this offer was made with the intent to resell the property (p. 49).)

March, 1983 Wright met twice with Stuart to discuss Stuart's possible participation in the purchase of SF from RJW and Rentfro/Joyce's 75% interest in PP (per Stuart, p. 133, 134).

March 15-20, 1983 Hake advised Wright that SSS would probably be acquiring SF from RJW, gave Wright a packet of material about SF, and asked Wright if he knew anyone else who might be interested in information about the property (per Wright, pp. 320, 353).

March 18, 1983 Rentfro and Joyce accepted the offer from SSS to purchase SF for 2.65 million, and signed a purchase agreement (i.e., the letter of February 25, 1983) (p 52). (According to Rentfro and Joyce, their

acceptance was based on the assumption and the representation that SSS would be stuck with the property, that it would have to exert efforts to market the property, that it might have to help to finance any eventual purchase, and that it should therefore be given a discount on the purchase price (pp. 220 et seq., 279).)

March 18-25, 1983 At the request of Wright, Hake contacted Stuart to see if he would be interested in buying SF (per Hake, p. 58).

March 18-31, 1983 Hake called Wright, Leon Olson, and Ross Wilcox (of Union Bank) to see if they would be interested in purchasing SF (per Hake, pp. 57, 103). Wright called Kerrey concerning a possible un-named "investment" (per Kerrey, pp. 8, 9).

March 19, 1983 Fred Kiechel met with Wright at Wright's office concerning the purchase of SF. Wright informed Kiechel that he would have to invest \$15,000, that Stuart had gone over the figures, and that the property would cash flow (per Kiechel, p 435 et seq.). Kiechel was also informed that there would eventually be 4 partners in the partnership acquiring SF (namely himself, Wright, Stuart, and Kerrey), and that Wright could not help to arrange the financing because of his relationship to SSS (per Kiechel, pp 452, 467).

March 20-21, 1983 Wright informed Hake that he had possible buyers for SF (per Hake, p. 58). According to Wright, he specified to Hake that the possible buyers were Transamerican Investment Co. (i.e., Wright and Stuart) and another partnership involving Stuart (per Wright, p. 396).

March 20-28, 1983 Wright contacted Stuart about SF and gave him details concerning the property. They also discussed possible partners who might be willing to go in on the acquisition of SF, including Kerrey and Fred Kiechel (per Wright, pp. 321, 357).

March 24, 1983 At the request of SSS, Dave Hunter (representing State Title Services, Inc.) supplied SSS with a title insurance commitment (Ex 28) for the sale of SF to AIG (per Hunter, p. 262).

March 27, 1983 RJW gave notice to EPP that it had 45 days to exercise its first right of refusal with regard to the pending sale of SF. (Ex 18 is a copy of EPP's option). (Eventually, the notice had to be sent again, as the first notice had not been sent by registered mail.)

March 30, 1983 The Bresters' "Release of Notice of Nonconsent," which was originally signed on February 10, 1983, was filed with the County Clerk (pp. 258, 259). (Ex 27).

Wright informed Bob Nefsky (an attorney in Wright's law office) of the terms of a possible purchase of SF and PP. Nefsky admitted that he was

aware that the original partners of AIG were to be Stuart and Fred Kiechel, and that additional partners would join later (per Nefsky, pp. 406, 407).

March 31, 1983 Execution of the original general partnership agreement by Stuart and Fred Kiechel to form AIG (pp. 412, 413, 437). (Ex 4)

Wright met with Stuart (about 1:00 to 3:30) in Stuart's office concerning the purchase of SF by AIG. While Wright was present, Stuart called Hake on the speaker phone to discuss the interest rate on the \$750,000 loan from SSS to AIG (which was to be used by AIG to help finance its purchase of SF) and the \$150,000 "fee" which was to be paid by AIG (per Wright, pp. 324 et seq.). According to Wright, Hake did not know that Wright was a prospective partner in AIG as Wright admitted that he had not brought up the possibility since it would have been improper for him to be a partner in AIG at that time (per Wright, p. 327).

Also present at the above-mentioned meeting was Bob Nefsky, an attorney in Wright's law office. During the meeting, and while Stuart was speaking with Hake on the speaker phone, Nefsky obtained the necessary details to draft the documents for the proposed sale of SF to AIG, and PP to Transamerican. Nefsky specifically recalls that Stuart and Hake discussed the \$150,000 "fee" to be paid to SFC (which, according to Hake (p. 537), was a "buy down" of the interest rate for the loan to AIG). (When Nefsky later drafted the sale agreement, he characterized the payment as a "fee" because SFC was not in the business of lending money, so the payment could not be labelled as an interest "buy down" (per Nefsky, pp. 407 et seq.).) (Nefsky admitted that at this time, he perceived his role as the attorney representing both SSS and AIG (per Nefsky, p. 419).)

Date of letter from Stuart on behalf of AIG to SFC (c/o Hake) spelling out the terms of the sale of SF to AIG. (Ex 17) The terms in the letter were acknowledged by Hake's signature as "agreed and accepted." In the letter, AIG agreed to pay \$150,000 to SFC for SFC's "services" of being "instrumental in locating the property and negotiating the purchase on our behalf." (This document was actually prepared by Nefsky about a week later, back-dated, and then signed by Stuart in mid or later April (per Nefsky, pp. 415 et seq.).)

AT THE CLOSING:

Execution of the note for \$750,000 from AIG to SSS. (Ex 2) (Terms: 12% for 83 months (7 years), with an additional \$150,000 "fee" to be paid to SFC (per Wright, p. 385). (The funds for the \$150,000 fee were eventually obtained by a loan from Union Bank to AIG on June 6, 1983.) Payments on the \$750,000 note were to be \$7,899 per month with a final balloon payment of \$705,871 due on 3-31-90 (after which date, interest was to increase to 17%). In exchange, SSS applied about \$350,000 toward the reduction of Rentfro's and Joyce's indebtedness to SSS (per Hake, p. 488). (See Ex 26 and pp. 113-14 concerning the disposition of the proceeds of the loan.)

Execution of the trust deed from AIG to SSS to secure the above-mentioned note. (Ex 3)

Completion and execution of the warranty deed transferring SF to AIG from RJW. (Ex 7) (The deed was originally dated and signed by the RJW partners on January 13, 1983, for the intended sale to Midland Financial Savings (per Hake, p. 75, per Hunter, pp. 253 et seq.). The deed was eventually filed on May 13, 1983.) (Rentfro and Joyce assumed AIG would be subsidiary of SSS (per Rentfro, p. 226, per Joyce, pp. 297-99).)

According to Hake (p. 78), he suggested to the RJW partners during the closing that perhaps RJW could work with EPP to have EPP buy SF from SSS by exercising its option, and then RJW could buy back SF from EPP later. According to Rentfro and Dave Hunter (pp. 232 et seq., 271 et seq.), Hake gave Rentfro, Joyce and White an oral assurance that they had until the end of EPP's option period (45 days beginning on May 31) to find a better offer for SFC and, until then, the closing documents were to be held by Hunter in escrow, and the deed was not to be recorded.

Hake and Fosdick told Rentfro and Joyce that they may have found a buyer (other than SSS) for SF (per Rentfro, pp. 218, 248).

Rentfro and Joyce also transferred their 3/4 interest in PP to SSS in exchange for a \$400,000 reduction in their indebtedness to SSS. SSS then immediately sold PP to Transamerican on a conditional sales contract. (per Wright, p. 392; per Hake, pp. 488, 517)

April 1, 1983 Wright met with Kerrey to discuss a possible investment in SF (per Kerrey, p. 9). According to Wright, this was the first time he would have discussed the purchase of SF with Kerrey (per Wright, pp. 323, 374).

April 2 or 3, 1983 At Kerrey's request, Wright contacted Dean Rasmussen concerning the purchase of SF (per Wright, p. 323).

April 5-19, 1983 Wright personally advised some of the SSS Directors that he intended to become a partner in AIG (per Wright, p. 331).

April 12-25, 1983 Date of execution of the amendment to AIG partnership agreement which added the partners of Kerrey, Wright and Dean Rasmussen. (Ex 5) Wright stated (p. 378) that, unlike the other partners, he made no financial contribution to the partnership. The document reflects the following ownership percentages and signature dates:

Kerrey	12.5%	April 12
Wright	25%	April 13
Stuart	25%	April 18
Rasmussen	12.5%	April 20

Kiechel

25%

April 25

(The document was not filed with the County Clerk until October, 1983.) (A "Certificate of Admission of Additional Partners" was not filed until October 20, 1983.)

April 15 (approx), 1983 Wright and Dean Rasmussen had a luncheon meeting to finalize Rasmussen's and Kerrey's involvement in AIG (per Wright, p. 375).

April 19, 1983 Wright advised the other SSS Directors of his intent to become involved in AIG (per Hake, pp. 94, 108; per Wright, p. 331).

May 11, 1983 Letter from Realcorp of Chicago to RJW (c/o White) offering to buy SF from RJW for 2.95 million (per Hake, pp. 79-80, per Hunter, pp. 277-78). (Ex 20) Among other things, the offer required \$25,000 earnest money to be paid upon signing, with the closing date to be before July 30, 1983. Acceptance of the offer was acknowledged on the letter by the signatures of White, Joyce, Rentfro, and Sears (but not the Bresters) on May 12, 1983.

May 11-13, 1983 Phone call to Hake from Becky Broyles (representing National Investment Counselors) concerning her client's (Realcorp of Chicago) interest in the purchase of SF. Hake advised her that the property had been sold, and that he was not interested in negotiating for the sale of the property. (Per Hake, pp. 86, et seq.)

May 12, 1983 Release of right of first refusal executed by, and obtained from, EPP. (Ex 19)

Because of the pending offer from Realcorp, RJW instructed Hunter not to file the escrowed deed which transferred SF to AIG (per Hunter, p. 279).

Wright recalled that he "could" have advised Hake that the closing documents should be filed since the release of EPP's option had been received (per Wright, p. 344).

(4:30 P.M.) Hake told Hunter to file the closing documents concerning the sale of SF to AIG the following morning, since the release of the option was obtained from EPP, because Hake considered the Realcorp letter (of May 11) merely an indication of its intent to provide an offer (and not an offer, per se), and because it was suspected that Tom White would be attempting to enjoin the filing of the papers held by Hunter (per Hake and Hunter,). At Hunter's request, Hake signed an indemnification agreement (Ex 21), prepared by Hunter's attorney, to hold Hunter harmless should anyone object to the filing (per Hake and Hunter).

May 13, 1983 (8:16 A.M.) Hunter filed the documents as directed.

June 6, 1983 AIG borrowed \$150,000 from Union Bank (through Ross Wilcox) to pay the "fee" to SFC pursuant to the sale arrangement (per Wright, p. 377, per Director Beverage, p. 553) (as evidenced by the check from Union Bank to AIG (Ex 42), and by the note (Ex 43)). (The note (Ex 43) states that the purpose of the loan is for "the purchase of SF from SSS.)

June 8, 1983 \$150,000 "fee" payment from AIG to SFC deposited in SFC's account (per Hake, p. 545). (Hake admitted that the payment to SFC was merely a means of short circuiting the usual method of dividending funds to the holding company, and that the holding company was in need of the cash (per Hake, pp. 524 et seq.). Hake further stated that such a payment would not, ordinarily, be recorded on SSS's books in a manner which would normally be scrutinized by the examiners from DBF.)

May/June, 1983 Meeting between Hake, Joyce and Rentfro. In response to Hake's query concerning what unresolved problems they had had with SSS in the past, Joyce and Rentfro stated that they had no complaints concerning the handling of SF (per Hake, pp. 95, 96).

October 17, 1983 Date of "Certificate of Admission of Additional Partners" to AIG. (The Certificate was recorded with the County Clerk on October 20, 1983.)

November/December, 1983 Rentfro, Joyce and White mention to Hunter that RJW did not receive a fair shake from SSS with regard to the SF transaction (per Hunter, p. 283).

February 28, 1984 Date of assignment of the Deed of Trust to SF (which was originally given from AIG to SSS to secure the \$750,000 loan used to purchase SF). This document assigned SSS's interest in the Deed of Trust to 1st National Lincoln, and cited that the balance of the debt secured by the deed is \$674,560. The document was recorded on February 29, 1984. (Ex 40)

March 2, 1984 Special meeting of SSS Board of Directors to officially ratify the following transactions on the minutes (as evidenced by the minutes of the Board, Ex 22):

- (1) Loan of \$500,000 to Young, Kerrey, Stuart, and Kiechel on April 14, 1982 (re Quail Valley apartments).
- (2) Loan of to \$200,000 Young, Kerrey, Stuart, and Kiechel on January 5, 1983 (re Quail Valley apartments).
- (3) Loan of \$750,000 to AIG on March 31, 1983 (re SF).
- (4) Conditional sales contract between SSS and Transamerican Investment Co. on March 31, 1983 (re sale of PP).

page 10

March 16, 1984 Letter from Al Plessman to Kerrey concerning SF (Ex 8), along with a copy of the videotape.

April 2-5, 13, 1984 DBF conducted hearings concerning the SF transaction.

May 8, 1984 Deed of Trust to SF issued by Wright on behalf of AIG to Norwest Funding, Inc. to secure a loan of \$2,380,000 from Norwest to AIG.

May 15, 1984 Issuance of an "Order Requiring Notice and Approval" by DBF concerning any settlement of the dispute between SSS and Rentfro/Joyce.

National Bank of Commerce releases its mortgage interest in SF (which was last given to NBC by RJW in December 1981).

May 29, 1984 Director Beverage issued an Order which disapproved and prohibited SSS from continuing the practice of transferring "buy down" fees directly to SFC, SSS's holding company, as a result of loans issued by SSS. The Order also assessed the costs of the hearing (\$1,364) to SSS.

June 20, 1984 Settlement Agreement executed by SSS and Rentfro/Joyce.

December 12, 1984 Director Beverage issued an order approving the final settlement of the Rentfro/Joyce claims against SSS.

12/15/86

OFSPROMT DFILE :E@TEXT

STATE OF NEBRASKA
DEPARTMENT OF BANKING & FINANCE

In the matter of)
STATE SECURITY SAVINGS CO.,) ORDER AND NOTICE OF HEARING
an Industrial Loan and)
Investment Company)

This matter comes on for consideration by the Department of Banking and Finance (DEPARTMENT) based upon the following facts and developments:

1. On March 20, 1984, the DEPARTMENT, through its Director and General Counsel, were informed of an alleged conspiracy involving some of the principals, officers and directors of State Security Savings Company and others. The alleged conspiracy purports to involve property formerly owned by two borrowers of State Security Savings, Robert Rentfro and Jerry Joyce. The officers involved allegedly include Ken Hake, Chairman, and Michael Fosdick, President. One of the Directors of State Security Savings, William F. Wright, is also alleged to be involved in the purported conspiracy. The allegations are that the conspiracy may have included a violation of Neb. Rev. Stat. Section 8-409.01 to Section 8-409.06.

2. A videotape, copyrighted by A. Plessman, was delivered to the DEPARTMENT by Ken Hake and Leon Olson, a director of State Security Savings. It was viewed by the Director, the General Counsel of the Department, and the Assistant Attorney General assigned to the DEPARTMENT. Upon viewing the film, it was concluded that a hearing should be held to fully investigate the charges of conspiracy and insider dealings which were being made by Robert Rentfro, Jerry Joyce and Alan Plessman, their attorney. The videotape which was delivered to the DEPARTMENT, after it had been viewed, was delivered to the Lancaster County Attorney. The videotape sets forth that it represents a settlement demand and, further, if not accepted by April 2, 1984, suit will be filed and the matter released to the news media.

3. On March 27, 1984, L.B. 1039 was signed by Governor Kerrey and became effective on March 28, 1984. Pursuant to L.B. 1039, the Director of the Department of Banking and Finance is empowered to require that any person or corporation who has allegedly violated any provision of Chapter 8 of the Nebraska Revised Statutes shall appear at a time and place specified to answer the allegations surrounding the alleged violation. L.B. 1039 further provides that in the event an emergency is found to exist which requires immediate action to protect the safety and soundness of the institution involved, an order may be issued requiring such action as may be deemed necessary to meet the emergency without the necessity for a notice to be served at least 10 days before the hearing.

4. On March 29, 1984, the DEPARTMENT was officially advised that a criminal investigation is being conducted by the Lancaster County Attorney's office. The investigation includes an alleged extortion attempt by Robert Rentfro, Jerry C. Joyce, and their attorney, Alan Plessman, as well as an alleged violation of Section 8-409.03 (involving an insider loan transaction) by William F. Wright at State Security Savings Company. The Department was also advised that an investigation was being conducted into the alleged conspiracy in which Wright, Hake, and others, including Governor Kerrey, were purportedly involved.

WHEREFORE, IT IS ORDERED that:

(1) an emergency exists, given the nature of State Security Savings Company as an uninsured industrial loan and investment company, which requires that immediate action be taken to investigate the allegations which have been made in order to protect the safety and soundness of the institution;

(2) State Security Savings Company, by and through its Chairman, Ken Hake, and its President, Michael Fosdick shall appear before the Department of Banking and Finance on the 2nd day of April, 1984, at 9:30 a.m. and that the DEPARTMENT shall conduct an investigation into the facts and circumstances surrounding the allegations which have been made; and,

(3) State Security Savings Company, by and through its Chairman, Ken Hake, shall provide copies of any and all documentation concerning the transaction in question as may exist and shall bring the same to the hearing to be held on April 2, 1984. These documents shall include the following:

(a) all deeds, mortgages, promissory notes and partnership agreements of American Investment Group;

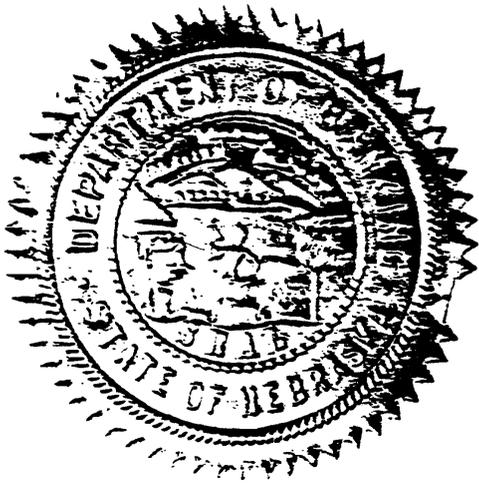
(b) all promissory notes, financial statements, deeds, mortgages or agreements made by or in connection with R. J. W. Partnership, Robert J. Rentfro, and Jerry C. Joyce which forms the subject of the charge and complaint which has been made by Messrs. Rentfro and Joyce through their attorney, Alan J. Plessman.

Dated this 30th day of March, 1984.

BY: STATE OF NEBRASKA
DEPARTMENT OF BANKING & FINANCE



Roger M. Beverage, Director



DEPARTMENT OF BANKING & FINANCE

In the matter of)
 STATE SECURITY SAVINGS COMPANY) ORDER
 an Industrial Loan and)
 Investment Company)

This matter came on for hearing by order of the Department of Banking and Finance pursuant to the authority granted by L.B. 1039 of the Eighty-eighth Legislature, Second Session, 1984. Evidence was adduced, and Findings of Fact and Conclusions of Law were adopted by the Department. The institution has had an opportunity to review the Department's proposed Findings of Fact and Conclusions of Law, and to submit exceptions and suggestions. Both have been duly considered by the Department. Pursuant to said Findings of Fact and Conclusions of Law, an order is hereby entered to prohibit the practice of receiving funds directly by Security Financial Corporation, holding company for State Security Savings Company from a borrower under the guise of a "buy-down" of the interest rate on the borrower's loan from State Security Savings without having first paid that amount to State Security Savings Company, the wholly-owned subsidiary. This practice is unacceptable and is specifically disapproved and prohibited by the Department.

WHEREFORE, IT IS ORDERED that the practice of Security Financial Corporation, holding company for State Security Savings Company, and of State Security Savings Company of paying a "buy-down" of an interest rate by a borrower directly to the holding company, rather than to State Security Savings Company, is hereby disapproved and prohibited.

IT IS FURTHER ORDERED THAT the costs of this hearing are taxed to State Security Savings Company in the amount of

\$ 1,364.85.

Dated this 29 of May, 1984.



BY THE DEPARTMENT OF BANKING AND FINANCE

Roger M. Beverage
 Roger M. Beverage, Director



STATE OF NEBRASKA

ROBERT KERREY • GOVERNOR • ROGER M. BEVERAGE • DIRECTOR

P R E S S R E L E A S E

The Department of Banking and Finance has conducted a series of hearings into allegations of potential misconduct by officers and directors of State Security Savings Company in the purchase and subsequent transfer of a piece of property known as "Shopper's Fair" in Lincoln, Nebraska. These allegations were first called to the attention of the Department by Governor Kerrey and representatives of State Security Savings Company. After taking several days of testimony, the Department has now completed its investigation.

Based upon the evidence which has been received, the Department is convinced State Security Savings Company has not been damaged or harmed financially as a result of the purchase and sale of Shopper's Fair. The transactions which were involved with this specific transfer of property in fact strengthened the financial position of State Security Savings Company.

In full cooperation with the office of the Attorney General and the Lancaster County Attorney's office, the Department has turned over the evidence which it obtained during the course of these hearings to these offices for their review. From the standpoint of its regulatory responsibilities, the Department's investigation is complete.

STATE OF NEBRASKA

DEPARTMENT OF BANKING AND FINANCE

In the matter of)	
State Security Savings)	ORDER
Company, Lincoln, Lancaster)	REQUIRING
County, Nebraska.)	NOTICE AND APPROVAL
)	
)	

COMES NOW the State of Nebraska, Department of Banking and Finance, by and through the Director of Banking and Finance, and finds that:

1) State Security Savings Company is an industrial loan and investment company licensed to do business in the State of Nebraska and currently operating without any form of insurance of its accounts;

2) That State Security Savings Company has experienced a decline in its account level as a result of a) the failure of Commonwealth Savings Company and its own uninsured status and b) the allegations of impropriety which were the subject of a hearing convened pursuant to L.B. 1039 on April 2, 1984, (hereinafter referred to as the Rentfro/Joyce claims);

3) That the Department of Banking and Finance is aware that the probability exists that an out-of-court settlement of the Rentfro/Joyce claims will be made;

4) That pursuant to Neb. Rev. Stat. Section 8-103 (Reissue 1983) the Director of Banking and Finance has the responsibility to constructively aid industrial loan and investment companies in maintaining proper standards and efficiency, in addition to the general supervision and control of such companies pursuant to Neb. Rev. Stat. Section 8-401.01 (Reissue 1983);

5) That the Director has determined that it would be in the public interest and in furtherance of his statutory responsibilities to review and approve the proposed final settlement of the Rentfro/Joyce claims if the monies to fund such are to be taken from any accounts, capital or otherwise, of State Security Savings Company, its parent holding company, or any of its affiliates, so that a determination may be made as to whether it would affect the safety and soundness of the institution.

IT IS, THEREFORE, HEREBY ORDERED that State Security Savings Company shall submit to the Department of Banking and Finance the proposed final settlement of the Rentfro/Jovce claims for the review and approval of the Director of Banking and Finance if the monies to fund such settlement are to be taken from any accounts, capital or otherwise, of State Security Savings Company, its parent holding company, or any of its affiliates.

Dated this 15 day of May, 1984.



STATE OF NEBRASKA
DEPARTMENT OF BANKING AND FINANCE

BY Roger M. Beverages
Roger M. Beverages, Director

In the Matter of:)
STATE SECURITY SAVINGS) ORDER
COMPANY, Lincoln, Nebraska) OF
) APPROVAL
)

COMES NOW the State of Nebraska, Department of Banking and Finance, by and through the Director of Banking and Finance and finds that:

On the 15th day of May, 1984, the Department of Banking and Finance issued an Order to State Security Savings Company requiring that State Security Savings Company submit to the Department of Banking and Finance the proposed final settlement of the Rentfro/Joyce claims for the review and approval of the Director of the Department of Banking and Finance if the monies to fund such settlement were to be taken from any accounts, capital or otherwise, of State Security Savings Company, its parent holding company, or any of its affiliates;

That State Security Savings Company complied with the provisions of that Order by submitting the proposed final settlement to the Department of Banking and Finance;

That the Department of Banking and Finance reviewed and gave verbal approval of the proposed final settlement to State Security Savings Company in early to mid June 1984, and did not require State Security Savings Company to await a written Order of Approval from the Department before proceeding with the settlement;

That State Security Savings Company has requested a written Order of Approval notwithstanding the fact that the transaction has been completed and it has filed a Chapter 11 Petition in Bankruptcy;

That the Department has determined that it is proper and necessary to formalize the verbal Order of Approval given to State Security Savings Company prior to its petition in Bankruptcy.

IT IS THEREFORE CONSIDERED, ORDERED AND ADJUDGED that the final settlement of the Rentfro/Joyce claims be, and hereby is, approved.

DATED this 12 day of December, 1984.



State of Nebraska
Department of Banking and Finance

BY: *Roger M. Beverage*
Roger M. Beverage, Director

S E T T L E M E N T A G R E E M E N T

THIS SETTLEMENT AGREEMENT is entered into by BORROWER whether one or more and LENDER, whether one or more, as identified hereinafter.

1. RJS: LENDER shall purchase from BORROWER all of their interest in and to RJS, a partnership, subject to liens, encumbrances and unpaid taxes at a price of \$ 1,400,000. Of that price, \$ 973,380 shall be applied to principal and \$126,100 shall be applied to interest due by BORROWER to LENDER on obligations incurred in connection with RJS, a partnership. The balance of \$ 300,520 shall be applied to other obligations of BORROWER to LENDER as hereinafter set out in paragraph 7. This transaction shall close within 15 days of the date hereof.

2. DJR: LENDER shall purchase from BORROWER all of their interest in and to 24 townhouse lots: Lots 17-40, Block 11, and 5 single family lots to be selected in Block 1, all in Sevanoaks First Addition, presently held by DJR subject to liens, encumbrances and unpaid taxes at a price of \$ 317,500. That sum shall be applied to principal and interest due by BORROWER to LENDER on obligations incurred in connection with DJR, leaving a loan balance of \$578,380 which will be refinanced in accordance with the terms set out in paragraph 8. This transaction shall close within 15 days of the date hereof.

LENDER shall give BORROWER construction loans for two spec homes for an ongoing building program on lots owned by DJR. These loans will not exceed 75% of appraised value and all plans and specifications must be approved by LENDER'S management committee. The interest rate will be 12% plus 1 point. These loans will be made within 15 days after LENDER obtains FSLIC insurance of accounts.

✓ 3. WALKWAY: BORROWER will assign their interest in the walkway; provided, however, that any balances held by East Park Plaza rightfully due to RJW or any successor at this time shall be released to BORROWER.

4. TRANQUILITY BASE: LENDER shall purchase from BORROWER all of their interest in and to Tranquility Base Apartments subject to liens and encumbrances of record at a price of \$ 1,100,000. (An appraisal obtained from an appraiser acceptable to LENDER within 45 days of the date of this agreement showing a higher value will accordingly increase the price of said purchase and the portions thereof applied to principal and the balance thereof.) Of that price, \$ 647,000 shall be applied to principal due by BORROWER to LENDER on obligations incurred in connection with Tranquility Base Apartments and the balance of \$ 453,000 shall be applied to other obligations of BORROWER to LENDER as hereinafter set out in paragraph 7. The debt mentioned above must be assumable at 8%. BORROWER must deliver to LENDER the 1983 statement of cash flow and the cash flow statement for the first quarter of 1984 for their review and acceptance prior to any closing. This transaction shall close within 45 days of the date hereof.

5. 4701 PIERCE: LENDER shall purchase from BORROWER all of their interest in and to 4701 Pierce subject to liens and encumbrances of record at a price of \$300,000. (An appraisal obtained from an appraiser acceptable to LENDER within 45 days showing a higher value will accordingly increase the price of said purchase and the portions thereof applied to principal and the balance thereof.) Of that price, \$ 202,000 shall be applied to principal and the

balance of \$ 98,000 shall be applied to other obligations of BORROWER to LENDER as hereinafter set out at paragraph 7. This transaction shall close within 45 days after the date hereof.

6. CODDINGTON HEIGHTS: Coddington Heights First Addition shall have the following release schedule:

Townhouse lots	\$ 4,500 per lot
Single Family lots	\$10,000 per lot
Patio home lots	\$ 6,500 per lot

As the debt increases the release figures will also increase proportionately, so loans 77876 and 77878 will be paid in full when the last lot is released.

LENDER will give BORROWER construction loans for two spec homes for an ongoing building program at Coddington Heights First Addition. These loans will not exceed 75% of appraised value and all plans and specifications must be approved by LENDER'S management committee. The interest rate on the loans will be 12 % plus 1 point. These loans will be made within 15 days after LENDER obtains FSLIC insurance of accounts.

7. APPLICATION OF EQUITY: Total equity available to BORROWER produced from the above described purchases amounts to approximately \$ 851,520.00. This equity will be applied to the BORROWER'S notes with LENDER which are listed below; provided, however, that at the time of the first closing of any one of the transactions described in paragraphs 1, 4 or 5, out of the net sale proceeds, the sum of \$65,000 in cash shall be paid to Robert J. Rentfro, Jerry C. Joyce and Alan Plessman, rather than have that sum applied on other obligations of BORROWER in accordance with this list.

LOAN #	BORROWER	PRINCIPAL	INTEREST	TOTAL
77874	BOB	\$ 354,448.64	\$ 45,072.65	\$ 399,521.29
77873	DJR	AFTER APPLICATION OF \$ 317,500		578,380.00
77816	JERRY	73,000.00	9,444.65	82,444.65
77870	JERRY	52,698.85	6,052.42	58,751.27
77871	BOB	51,700.15	5,937.72	57,637.80
77815	BOB	73,000.00	9,458.22	82,458.22
77828	CHERRY HILL	-----	--PAID--	-----
77865	JERRY	260,903.21	33,281.24	294,184.45
77864	JERRY	122,203.84	15,588.52	137,792.36
TOTALS		\$ 987,954.69	\$ 442,335.42	\$ 1,691,170.04
LESS: APPLICATION OF EQUITY				851,520.00
BALANCE DUE				\$ 839,650.04

8. REFINANCING: LENDER will carry the balance due in Paragraph 2 as well as loans numbered:

77876	77878
77875	77879
77922	77881

77866

for two years with interest at 12% per annum, with interest payable only on a semi-annual basis.

9. LOAN 75900: BORROWERS will immediately be completely released from loan numbered 75900.

10. LOAN SUBORDINATION: LENDER will subordinate its loans numbered: 77875, 77922, 77876, 77878, 77873 and 77881 to short term financing as long as the terms and rates are reasonable to construct a spec building on any of the properties securing such loans.

11. NORTHWEST TERRITORY: LENDER will review with Robert Rentfro and Alfred Adams the Northwest Territory Joint Venture Agreement to determine the liability of Robert Rentfro and Frances Jean Rentfro in relationship to loans numbered: 77829 and 77830.

12. SATELLITE: LENDER will renew loan numbered: 77866, at 12% interest paid at maturity. The loan will mature August 1, 1984, at which time, if the building securing said loan (the Satellite) is not sold, BORROWER and LENDER will have one week to agree on a minimum price for the building and auction the same within sixty (60) days of August 7, 1984. If the auction proceeds are insufficient to pay off loan numbered: 77866, LENDER will reduce said loan payoff by one-third of the deficiency to be treated as the other BORROWER loans mentioned in paragraph 8 above.

13. PARK BLVD: BORROWER will provide all income and expense records pertaining to the Park Blvd. property and all back net rents paid to LENDER to be applied to loan numbered: 77868. LENDER will then renew the loan for two years at 12% per annum with monthly payments of interest only or net operating income less any payments due to mortgage liens, which are senior to the mortgage lien of LENDER, whichever is greater.

14. MOTOR VEHICLE TITLES: LENDER will immediately release as collateral Jerry Joyce's motor vehicle titles.

✓ 15. NORTH 28TH STREET: LENDER will release as collateral the property situated at 1109 North 28th Street and at 1121 North 28th Street if BORROWER pays down on the indebtedness secured by said property, at least the sum of \$325,000.

✓ 16. COVENANT NOT TO SUE: BORROWER shall give to LENDER a covenant not to sue LENDER and State Title Services, Inc. and their officers on the RJS, Shoppers' Fair and Pioneer Plaza transactions immediately after the closings of all the transactions referred to in paragraphs 1, 4 and 5.

17. REPRESENTATIONS: No statements or representations other than those expressly recited herein have influenced or induced the parties to execute or deliver this Settlement Agreement.

18. **BINDING EFFECT:** This Settlement Agreement shall be binding upon each of the parties, their heirs, successors, assigns, personal representatives, and devisees.

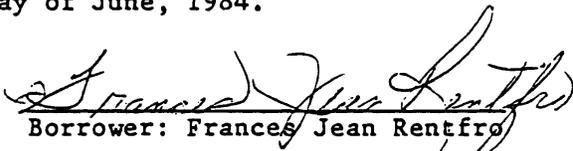
19. **PERFORMANCE OF AGREEMENT:** BORROWER and LENDER agree to execute, join in and acknowledge any and all instruments, conveyances, assignments or transfers of whatever nature may be necessary or convenient to carry out the expressed and intended purposes of this Settlement Agreement.

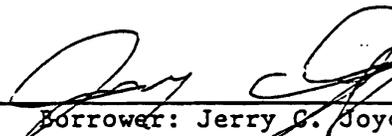
20. **PRESS RELEASE:** BORROWER and LENDER may issue a joint press release concerning the execution of this Settlement Agreement, within 7 days of the date hereof, the content of which shall be acceptable to all, and shall constitute the only public release concerning the details of this Settlement Agreement.

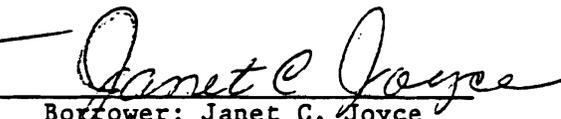
21. All purchases and debt refinancing referred to herein shall be effective as of June 1, 1984.

Dated this 20th day of June, 1984.

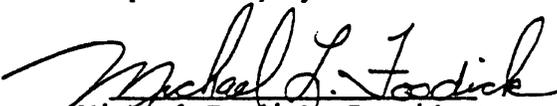

Borrower: Robert J. Rentfro


Borrower: Frances Jean Rentfro


Borrower: Jerry C. Joyce

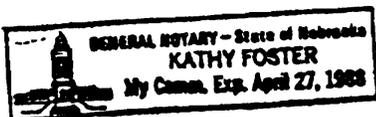

Borrower: Janet C. Joyce

Lender: State Security Savings, Co.,
A Corporation, By its President


Michael Fosdick, President

STATE OF NEBRASKA)
)
COUNTY OF LANCASTER)

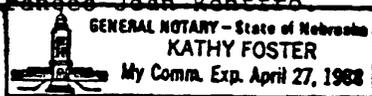
The above and foregoing SETTLEMENT AGREEMENT was acknowledged before me this 13th day of June, 1984, by Robert J. Rentfro.




Notary Public

STATE OF NEBRASKA)
)
COUNTY OF LANCASTER)

The above and foregoing SETTLEMENT AGREEMENT was acknowledged before me this 19 day of June, 1984, by ~~Frances Jean Rontfro~~

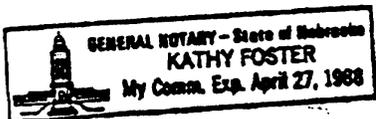


Kathy Foster

Notary Public

STATE OF NEBRASKA)
)
COUNTY OF LANCASTER)

The above and foregoing SETTLEMENT AGREEMENT was acknowledged before me this 13th day of June, 1984, by Jerry G. Joyce.



Kathy Foster

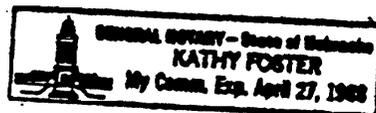
Notary Public

STATE OF NEBRASKA)
)
COUNTY OF LANCASTER)

The above and foregoing SETTLEMENT AGREEMENT was acknowledged before me this 20 day of June, 1984, by Janet C. Joyce.

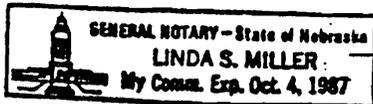
Kathy Foster

Notary Public



STATE OF NEBRASKA)
)
COUNTY OF LANCASTER)

The above and foregoing SETTLEMENT AGREEMENT was acknowledged before me this 20th day of June, 1984, by Michael Fosdick, as President of State Security Savings Co., A Corporation, for and on behalf of said corporation, with full authority to do so.



Linda S. Miller

Notary Public

ADDENDUM

This is an addendum to a settlement agreement entered into by Borrower and Lender, dated June 20th, 1984.

1. There will be one simultaneous closing for the closing and exchange of documents, property, money, etc. on all matters referred to in paragraphs 1, 2, 3, 4, 5, 7, 8, 9, 13, 14 and 16. Closing to occur on or before July 6th, 1984.

2. There are no liens junior to those of Lender nor any intervening liens on properties of Borrower.

3. Paragraph 15 is hereby modified to provide that a release of \$325,000 in indebtedness on the North 28th Street property will be provided by the Lender so long as the monies applied to the North 28th Street indebtedness come either from the sale proceeds of that property or any other source of proceeds, except from the sale of other assets that are pledged to Lender as collateral by the buyer, unless such sale results in sufficient proceeds to pay the indebtedness on the sold property with net proceeds remaining after the payment of the indebtedness to Lender, which net proceeds then can be applied to the North 28th Street indebtedness.

4. Borrower shall execute and deliver the attached Covenant Not to Sue.

5. Paragraph 20 is modified in that a press release, if any, shall be within seven (7) days after closing.

6. Borrower hereby agrees not to use any of the video tapes produced in connection with the subject matter of the settlement agreement in any way against the Lender nor to broadcast or publish the same in any manner except that the Borrower shall have the right to use the video tapes in connection with bona fide litigation and only for such litigation purposes until said litigation is disposed of, at which time all right to use said video tapes hereby ceases and terminates.

DATED this 6th day of July, 1984.

BORROWER:

LENDER:

Robert J. Rentfro
Robert J. Rentfro

STATE SECURITY SAVINGS CO.

Frances Jean Rentfro
Frances Jean Rentfro

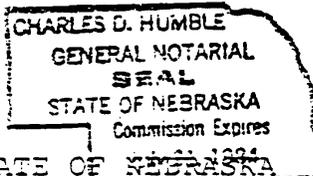
By Michael L. Fosdick
Michael Fosdick, President

Jerry C. Joyce
Jerry C. Joyce

Janet C. Joyce
Janet C. Joyce

STATE OF NEBRASKA)
) ss.
COUNTY OF LANCASTER)

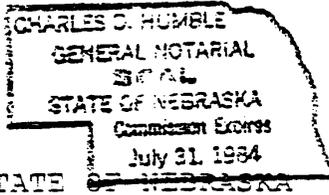
6th The foregoing Addendum was acknowledged before me this
day of July, 1984, by Robert J. Rentfro.



Charles D. Humble
Notary Public

STATE OF NEBRASKA)
) ss.
COUNTY OF LANCASTER)

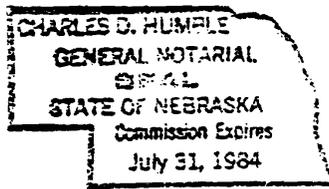
6th The foregoing Addendum was acknowledged before me this
day of July, 1984, by Frances Jean Rentfro.



Charles D. Humble
Notary Public

STATE OF NEBRASKA)
) ss.
COUNTY OF LANCASTER)

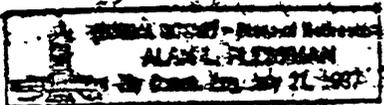
6th The foregoing Addendum was acknowledged before me this
day of July, 1984, by Jerry C. Joyce.



Charles D. Humble
Notary Public

STATE OF NEBRASKA)
) ss.
COUNTY OF LANCASTER)

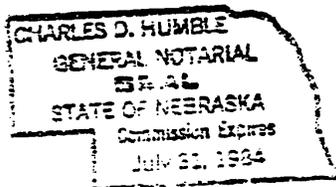
9th The foregoing Addendum was acknowledged before me this
day of July, 1984, by Janet C. Joyce.



Alan Flebman
Notary Public

STATE OF NEBRASKA)
) ss.
COUNTY OF LANCASTER)

The foregoing Addendum was acknowledged before me this 6th day of July, 1984, by Michael Fosdick, the President of State Security Savings Co., a Nebraska corporation, on behalf of the Corporation.



Charles D. Humble
Notary Public

COVENANT NOT TO SUE

KNOW ALL MEN BY THESE PRESENTS:

That Robert J. Rentfro and Frances Jean Rentfro, husband and wife; Jerry C. Joyce and Janet C. Joyce, husband and wife, individually and as partners, officers and/or directors of RJW, a partnership; Rentfro-Joyce Enterprises, a partnership; DJR, a partnership; Cherry Hill, Inc., a corporation; RJS, a partnership; Park Boulevard Partners, a partnership; Cherry Hill Construction, Inc., a corporation; Cherry Hill Realty, Inc., a corporation; and Marathon Enterprises, Inc., a corporation, hereinafter collectively referred to as "Borrower", for themselves, their successors, assigns, heirs, devisees and personal representatives, for good and valuable consideration, receipt of which is hereby acknowledged, do hereby now and forever covenant and agree not to sue or make any claim against and not to consent to sue or make any claim and shall forever refrain from instituting, pressing, collecting, urging, promoting, participating, or in any way aiding or proceeding upon any and all claims, demands, causes of action, suits, proceedings or adjudications whatsoever, which Borrower ever had, now has or may have for damages, injuries, losses, expenses, costs or any other claim whatsoever heretofore or hereafter arising out of any matter, cause or thing relating to any of the following:

- 1) Shoppers Fair. A certain sale and transfer by Borrower of a shopping center known as "The Shoppers Fair Shopping Center", 6800-6810 "P" Street, Lincoln, Nebraska, which was sold by Borrower to a third party for approximately \$2,650,000 in the spring of 1983, or any matters related to or incident to said sale, including but not limited to sale or assignment of The Walkway, rights of first refusal, contracts, representations, warranties, closings and disbursements or receipt of funds.
- 2) Pioneer Plaza. A certain sale and transfer by Borrower of an office and retail center known as "Pioneer Plaza" located at 33rd and Pioneers, Lincoln, Nebraska, which was transferred by Borrower to Lender in the spring of 1983 or any matters related or incident thereto.
- 3) Interest Rates. Any and all interest rates or amounts charged prior hereto to Borrower and/or any partnership, corporation, or other entity with which Borrower is or was a partner, shareholder or director including but not limited to interest on Seven Oaks related loans and prime rate and standard lending rate loans.
- 4) R.J.S. The affairs of a partnership known as R.J.S., a general partnership.

all as against State Security Savings Co., a corporation, its holding company, Security Financial Corporation, a corporation, State Title Services, Inc., a corporation, and their officers, employees as of the date of this agreement, including without limitation Kenlon Hake, Michael Fosdick, and David Hunter, and any and all successors, assigns, devisees, heirs, or personal representatives of the foregoing, and applies to them each individually and collectively as well, all of the above being hereafter referred to as the "Covenantee".

It is hereby expressly understood and agreed that these presents may be pleaded by Covenantee to bar all suits or other proceedings whatsoever pending against Covenantee in breach of this covenant, and that all further proceedings shall be barred and estopped thereby.

Borrower does hereby expressly represent and warrant that the following statements are true: That Borrower is of legal age; that Borrower has neither made nor suffered any assignments or transfers whatsoever of any part of the claims of Borrower identified above; that to the best of Borrower's knowledge Borrower is now sole and absolute legal and equitable owner of all claims thereof; that Borrower relies solely upon their own judgment, belief and knowledge of the nature, extent and duration of any damage, injuries and loss sustained by them by virtue of any and all matters herein stated whatsoever; and that no statements or representations made by Covenantee or otherwise have influenced or induced Borrower to execute or deliver this covenant.

It is hereby expressly understood and agreed that the consideration for this agreement has been received by Borrower in full payment for this Covenant Not to Sue and that there is no promise, agreement or obligation on the part of Covenantee to do or omit to do any act or thing not set forth herein, except as may be contained in the settlement agreement dated June 20th, 1984.

It is hereby expressly understood and agreed that Borrower expressly reserves any claim against parties that are not Covenantees herein, and to the effect that Covenantee hereby purchases peace and is hereby given peace upon any and all claims and matters above set forth and that Covenantee has done so solely to obtain such peace and does not hereby admit any liability on account of any said claims or matters but expressly denies all such claims whatsoever.

DATED this 6th day of July, 1984.

Robert J. Rentfro
Robert J. Rentfro

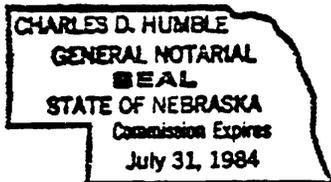
Jerry C. Joyce
Jerry C. Joyce

Frances Jean Rentfro
Frances Jean Rentfro

Janet C. Joyce
Janet C. Joyce

STATE OF NEBRASKA)
) ss.
COUNTY OF LANCASTER)

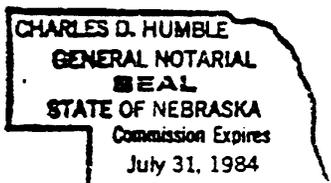
The foregoing Covenant Not to Sue was acknowledged before me this 6th day of July, 1984, by Robert J. Rentfro.



Charles D. Humble
Notary Public

STATE OF NEBRASKA)
) ss.
COUNTY OF LANCASTER)

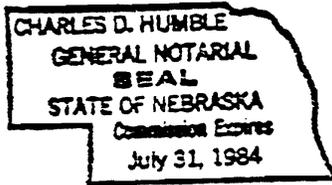
The foregoing Covenant Not to Sue was acknowledged before me this 6th day of July, 1984, by Frances Jean Rentfro.



Charles D. Humble
Notary Public

STATE OF NEBRASKA)
) ss.
COUNTY OF LANCASTER)

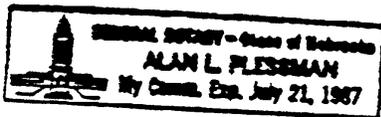
The foregoing Covenant Not to Sue was acknowledged before me this 6th day of July, 1984, by Jerry C. Joyce.



Charles D. Humble
Notary Public

STATE OF NEBRASKA)
) ss.
COUNTY OF LANCASTER)

The foregoing Covenant Not to Sue was acknowledged before me this 9th day of July, 1984, by Janet C. Joyce.



Alan Plesman
Notary Public

INDEMNIFICATION

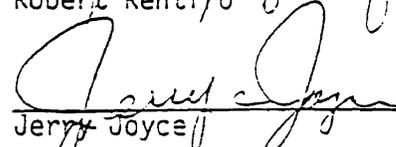
The undersigned agree to indemnify and hold harmless State Security Savings Co. and its holding company and all directors, officers, and employees thereof from any claim by American Investment Group, a partnership, as a result of any suit filed or claim pursued by RJW and/or Robert Rentfro and Jerry Joyce against American Investment Group on the transfer of Shoppers Fair from RJW, a partnership, to American Investment Group.

State Security Savings Co. shall indemnify and hold harmless Robert Rentfro and Jerry Joyce from any suit or claim made by American Investment Group on the transfer of Shoppers Fair from RJW, a partnership.

DATED this 6th day of July, 19 84.



Robert Rentfro



Jerry Joyce



Michael L. Fosdick, President of State Security Savings Co.

Nebraska State Legislature

Unicameral
Lincoln, Nebraska 68509

EXHIBIT 36

SENATOR BILL HARRIS

District No. 27
1726 Otoe
Lincoln, Nebraska 68502

Legislative Address:
Room 1017, State Capitol
Lincoln, Nebraska 68509
(402) 471-2632



COMMITTEES

Chairperson, Nebraska Retirement Systems
Banking, Commerce and Insurance
Public Works
Legislative Council

EIGHTY-NINTH LEGISLATURE

May 28, 1986

~~CONFIDENTIAL~~

Mr. James C. Barbee, Director
Department of Banking
P.O. Box 95006
Lincoln, Nebraska 68509

CONFIDENTIAL

HAND DELIVERED

Dear Mr. Barbee:

As you are aware, we, the members of the Special Legislative Subcommittee examining the matters of State Security Savings Company and American Savings Company, have been commissioned to recommend to the Legislature's Banking Committee and Executive Board whether the Legislature should conduct a detailed, more-formalized inquiry into the circumstances surrounding the deterioration and ultimate failure of those financial institutions. In helping us to fulfill our responsibilities, you have met with us, and our counsel Gary Rex, on several occasions and we appreciate your efforts. While we intend to make our recommendation to the full Banking Committee within a very short time, we would like to bring one particular issue to your attention in advance. The justification for such early notice will be apparent.

During the course of our study, we became aware of information relating to the "Shoppers Fair" transaction involving State Security Savings which disturbs us very much. We learned that when the partnership entitled American Investment Group (AIG) purchased Shoppers Fair from the partnership called "RJW" on March 31, 1983, a portion (\$750,000) of the purchase price was financed by State Security at 12% interest. As a part of that transaction, and in consideration for the preferential interest rate charged by State Security, AIG agreed to pay a "buy-down" fee of \$150,000 (see deposition of Ken Hake before the Nebraska State Department of Banking and Finance, In the Matter of State Security Savings, April 2, 1984, pages 63 and 64). Normally,

CONFIDENTIAL

Mr. James C. Barbee

May 28, 1986

Page -2-

a "buy-down" fee is paid to the lender in lieu of interest which the lender agrees to forego during the amortization of the loan. However, in this case, the fee was actually paid not to State Security, which was the lender, but instead to State Security's holding company, Security Financial Corporation.

Specifically, on June 6, 1983, three of the partners of AIG signed a note to Union Bank and Trust for \$150,000 (at 14% interest), which proceeds were deposited to the account of Security Financial Corporation on June 7, 1983. Also, another \$50,000 was received by Security Financial Corporation on June 7, 1983, which represents a buy-down fee relating to a loan from State Security to TransAmerica Corporation for the acquisition of Pioneer Plaza.

It is our collective concern that the receipt of the above-mentioned buy-down fees, totalling \$200,000 by Security Financial Corporation was not only improper, but perhaps illegal -- especially when considering that State Security Savings had been cautioned by the Department of Banking and Finance in April, 1982, to conserve its earnings in order to restore the institution's marginally adequate capital. While we do not feel that it is our responsibility to specify which criminal statute was violated, or by whom, we have been advised by our legal counsel that three criminal provisions may apply:

1. 28-519(1)(c) -- involving intentionally or maliciously causing another to suffer pecuniary loss by deception or threat (a Class IV felony if the loss exceeds \$300).
2. 28-511(2) -- which consists of transferring non-physical items of another or any interest therein with the intent to benefit the person making such transfer or another not entitled thereto (a Class III felony if the theft exceeds \$1,000).
3. 28-515(2) -- which involves a person having control over the disposition of services of others to which he is not entitled, and who diverts such services to his own benefit or to the benefit of another not entitled thereto (a Class III felony if the theft exceeds \$1,000).

It is our belief that we have an obligation to bring our concern to your attention. Admittedly, the announced responsibilities of the subcommittee do not include making recommendations concerning criminal prosecution. However, because of the nature of the information which has been brought to our attention during our inquiry, and because the statutory limitation on initiating prosecution in this case may expire on June 7, 1986, we feel that we have no choice but to forward this request for your consideration of this matter. We urge you to

CONFIDENTIAL

Mr. James C. Barbee

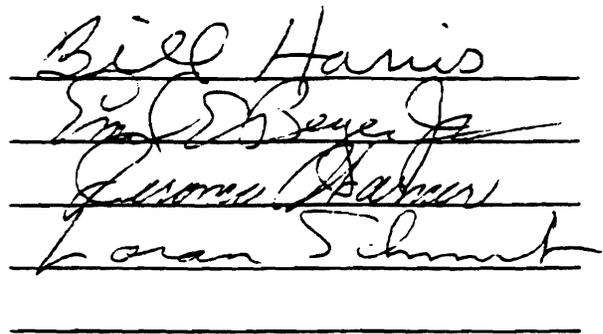
May 28, 1986

Page -3-

consult immediately with the appropriate law enforcement authorities to determine whether criminal prosecution is warranted.

If you wish to discuss this matter further, please contact Senator Bill Harris, the subcommittee's chairman, or the subcommittee's legal counsel, Gary Rex.

Sincerely,

The signature block contains four handwritten signatures, each written over a horizontal line. From top to bottom, the signatures are: "Bill Harris", "Ed Beyer Jr", "Leroy Harris", and "Loran Schmitt". There is an additional horizontal line below the last signature.

BH/at

cc: Robert Spire, Nebraska Attorney General
Michael Heavican, Lancaster County Attorney

DEPARTMENT OF JUSTICE

STATE OF NEBRASKA

TELEPHONE 402/471-2682 • STATE CAPITOL • LINCOLN, NEBRASKA 68509

ROBERT M. SPIRE
Attorney General
A. EUGENE CRUMP
Deputy Attorney General

May 30, 1986

Mr. Michael Heavican
Lancaster County Attorney
555 South 10th Street
County-City Building
Lincoln, Nebraska 68508

RE: Senator Bill Harris' Letter of May 28, 1986

Dear Mr. Heavican:

The Office of the Attorney General previously investigated not only the matter referred to in the above mentioned letter but other matters regarding the mentioned institutions. The above referenced letter does not reveal any information not already previously made known to this office.

As a result, this office will rely upon the Banking Department to contact you directly regarding any recommendations that they might have with this matter. If you have any questions, please do not hesitate to contact our office.

Very truly yours,

ROBERT M. SPIRE
Attorney General



LeRoy W. Sievers
Assistant Attorney General

LWS:kmw

cc: James C. Barbee
Patty Herstein

L. Jay Bartel
John M. Boehm
Dale D. Brodkey
Maribel J. Bundy
Janie C. Castaneda

Dale A. Comer
Laura L. Freppel
Lynne R. Fritz
Ruth Anne E. Galter
Yvonne E. Gates

Jill Gradwohl
Calvin D. Hansen
Royce N. Harper
William L. Howland
Marilyn B. Hutchinson

Mei Kammerlohr
Sharon M. Lindgren
Charles E. Lowe
Harold I. Mosher
Bernard L. Peckett

Terry R. Schaaf
LeRoy W. Sievers
Mark D. Starr
John R. Thompson
Linda L. Willard



STATE OF NEBRASKA

ROBERT KERREY • GOVERNOR • JAMES C. BARBEE • DIRECTOR

June 2, 1986

Mr. Michael Heavican
Lancaster County Attorney
555 South 10th Street
County-City Building
Lincoln, Nebraska 68508

RE: State Security Savings Company

Dear Mr. Heavican,

This is with reference to Senator Bill Harris' letter of May 28, 1986, regarding potential criminal violations surrounding the 1983 "Shoppers Fair" buydown transactions which involved State Security Savings Company and Security Financial Corporation. You and Attorney General Spire have received copies of that letter, so I will not repeat its contents.

I have reviewed the files of the Department, including the hearing conducted on the Rentiro/Joyce allegations and the subsequent orders issued by the Department, and conclude that no further evidence has come to light from the Subcommittee.

It is also my understanding that these matters were previously referred to your office. If that is not the case, or should you decide to re-investigate this matter, please be advised that the files of the Department will be open to you and this office will provide you with any assistance that you may require.

Please contact me if you have any questions.

Sincerely,

James C. Barbee
Director

cc: Senator Bill Harris
Robert Spire
LeRoy Sievers

0042P

JUN 4 1986



STATE OF NEBRASKA

ROBERT KERREY • GOVERNOR • ROGER M. BEVERAGE • DIRECTOR

RECEIVED
DEPT. OF BANKING
AND FINANCE
MAR 14 1984
STATE OFFICE BLDG.
LINCOLN, NEBRASKA

RE: Apparent violations subject to Class IV felony
State Security Savings Company

Patti,

Director William F. Wright's line of credit (via several partnerships of which he has interest in) is in apparent violation of the cited sections as highlighted on the attached sheets. These apparent violations are subject to class IV felony charges.

The extension of credit to Transamerican Investment Company, of which Director Wright is a partner, is a purchase contract of property from State Security Savings Company. Chairman Kenlon Hake indicated that the Board of Directors had discussed this installment sales contract to Transamerican Investment Company and they felt that this transaction would not be considered a loan since title to the real estate remains in State Security Savings name. Chairman Hake stated that these extensions of credit in question will be taken out of the subject company.

[Handwritten Signature]
Examiner

Ginsburg, Rosenberg, Ginsburg, Cathcart, Curry and Gordon

LAWYERS

SUITE 320, STUART BUILDING
TELEPHONE 402-476-1010
LINCOLN, NEBRASKA 68508

April 9, 1984

HERMAN GINSBURG
(1903-1974)
HYMEN ROSENBERG
JOSEPH GINSBURG
R. P. CATHCART
DOUGLAS L. CURRY
JAMES E. GORDON
CHARLES D. HUMBLE
LARRY V. ALBERS
RICHARD J. BUTLER
MARY C. WICKENKAMP
KENT L. FROBISH

Roger Beverage
Director of Department of Banking
and Finance
301 Centennial Mall South
State Office Building
Lincoln, NE 68508

RE: State Security Savings Co.

Dear Mr. Beverage:

Enclosed please find a Memorandum Brief that I am submitting on behalf of my clients, State Security Savings Co., its officers and directors, in relation to the hearing that you are conducting pursuant to your Order dated March 30, 1984.

Very truly yours,



Charles D. Humble

CDH:ju

Enclosure

RECEIVED
DEPT. OF BANKING
AND FINANCE
APR 09 1984
STATE OFFICE BLDG.
LINCOLN, NEBRASKA

STATE OF NEBRASKA

DEPARTMENT OF BANKING AND FINANCE

IN THE MATTER OF)
)
STATE SECURITY SAVINGS CO.,)
an industrial loan and invest-))
ment company,)

MEMORANDUM BRIEF

Submitted by:

Charles D. Humble
GINSBURG, ROSENBERG, GINSBURG,
CATHCART, CURRY & GORDON
820 Stuart Building
Lincoln, NE 68508
(402) 476-1010

On behalf of:

STATE SECURITY SAVINGS CO.,
its Officers and Directors

INDEX

	<u>Page</u>
FACTS.....	1
ARGUMENTS	
I. Criminal statutes are to be strictly construed and no act is criminal unless expressly made so by the plain import of the statute.....	2
II. The Nebraska statute does not expressly prohibit borrowing of funds by a partnership as to which a director is a partner.....	2
1) The statute makes it clear that the Legislature was familiar with distinctions between partnership or corporation borrowings versus individual borrowings.....	2
2) If the Legislature had intended it could have expanded the prohibitions to include borrowings by a partnership as to which a director is a partner.....	3
3) Any enlargement of the statute should be created by the Legislature as opposed to constructions placed upon the statute by the courts or regulatory agencies.....	4
III. A partnership is a legal entity distinct and separate from its members.....	4
IV. There was no borrowing of funds, which is a condition precedent to the applicability of the prohibitory statute.....	5
V. The note was executed for regular commercial purposes and there was no subterfuge.....	6
VI. Even if the note fell within the ambit of the statute, the appropriate board approval was given.....	7
CONCLUSION.....	8

FACTS

RJW, a partnership, owned Shoppers Fair. Rentfro and Joyce, 55% partners in RJW, had extensive borrowings at State Security Savings Co. These borrowings were secured in part by an assignment of Rentfro and Joyce's partnership interest. Beginning at least as early as May of 1982, efforts were made by the partners to attempt to sell Shoppers Fair. Numerous offers and counteroffers were made for the property by various entities. All of those proved to be unfruitful until an offer for the property made by State Security Savings Co. on February 25, 1983, was accepted by Rentfro and Joyce in March of 1983. Upon learning that Rentfro and Joyce had accepted their offer, State Security Savings immediately began efforts to find a new owner for the property. Those efforts were successful. On March 31, 1983, simultaneous closings occurred. On that date Rentfro and Joyce sold the property to State Security Savings Co., receiving offsetting credits to their indebtedness to the extent of proceeds that they otherwise would have realized. In addition, on that same day State Security Savings Co. sold the property to American Investment Group, a partnership. State Security Savings Co. offered the new buyer a carryback second trust deed on the property. On March 31st American Investment Group, a partnership, signed a promissory note to State Security Savings Co. in the principal amount of \$750,000, by and through its sole partners, James Stuart and Fred Kiechel.

William Wright, a director of State Security Savings Co., later became a partner of American Investment Group.

ARGUMENTS

I.

CRIMINAL STATUTES ARE TO BE STRICTLY CONSTRUED AND NO ACT IS CRIMINAL UNLESS EXPRESSLY MADE SO BY THE PLAIN IMPORT OF THE STATUTE.

State v. Suhr, 207 Neb. 553, 300 N.W.2d 25 (1980);

State v. Ewert, 194 Neb. 203, 230 N.W.2d 609 (1975);

State v. Buttner, 180 Neb. 529, 143 N.W.2d 907 (1966);

Lincoln Dairy Company v. Finigan, 170 Neb. 777, 104 N.W.2d 227 (1960);

Lane v. State, 120 Neb. 302, 232 N.W. 96;

State v. Pielsticker, 118 Neb. 419, 225 N.W. 51.

II.

THE NEBRASKA STATUTE DOES NOT EXPRESSLY PROHIBIT BORROWING OF FUNDS BY A PARTNERSHIP AS TO WHICH A DIRECTOR IS A PARTNER.

1. The statute makes it clear that the Legislature was familiar with distinctions between partnership or corporation borrowings versus individual borrowings.

Neb. Rev. Stat. §8-409.01 prohibits borrowing of funds without prior board approval to the following:

- 1) a director,
- 2) an officer,
- 3) an employee,
- 4) a corporation in which an officer is the owner of a controlling interest,
- 5) a partnership in which an officer is a member.

The distinctions made in the statute clearly reveal that the Legislature was familiar with the distinctions between borrowings by individuals, corporations and partnerships. There are express

prohibitions for borrowings by partnerships as to which officers are members. However, there is no express prohibition for borrowings by a partnership as to which a director or an employee are members.

2. If the Legislature had intended it could have expanded the prohibitions to include borrowings by a partnership as to which a director is a partner.

Neb. Rev. Stat. §8-409.01 was enacted in 1979 and parallels verbatim the language of Neb. Rev. Stat. §8-140, which applies to state banks. It is worth noting that prior to 1929 the successor to Neb. Rev. Stat. §8-140 did not contain any express prohibition against borrowings by partnerships as to which officers were a member. In State v. Pielsticker, 118 Neb. 419, 225 N.W. 51 (1929), the Nebraska Supreme Court held that under that statute borrowings by a partnership formed by bank officers and directors were not prohibited. In that case the partnership consisted of Pielsticker, who was an officer and director of the bank, and an individual named Scott, who was only a director of the bank. After the Pielsticker decision came down the Nebraska Legislature modified the predecessor to Neb. Rev. Stat. §8-140 to prohibit borrowings by partnerships as to which an officer is a member. However, even though Pielsticker involved a partnership in which a director only was a partner, no similar statutory prohibition was created for borrowings by a partnership as to which an individual who was only a director was a member.

3. Any enlargement of the statute should be created by the Legislature as opposed to constructions placed upon the statute by the courts or regulatory agencies.

State v. Pielsticker, supra.

State v. Hesemeyer, 248 Ia. 154, 79 N.W.2d 755 (1956).

III.

A PARTNERSHIP IS A LEGAL ENTITY DISTINCT AND SEPARATE FROM ITS MEMBERS.

In the absence of a statute expressly controlling the matter, whether a loan which cannot lawfully be made to an officer or director of a bank may be made to a partnership of which the officer or director is a member, depends upon whether the partnership is regarded as a legal entity distinct from the members composing it. 10 Am.Jur.2d Banks §241. In State v. Pielsticker, supra, the court held that borrowings by a partnership were not prohibited because a partnership is a distinct legal entity. The court noted that "this court is committed to the doctrine that a partnership is a legal entity by a long line of cases." Id. at 52. This commitment has continued since 1929 to the present and it continues to be the law in Nebraska that a partnership is an entity distinct and apart from the members composing it. State v. Siers, 197 Neb. 1, 248 N.W.2d 1 (1976); Morse v. Mayberry, 183 Neb. 89, 157 N.W.2d 881 (1968); Horn's Crane Service v. Prior, 182 Neb. 94, 152 N.W.2d 421 (1967); In re Svoboda and Hannah, 180 Neb. 215, 142 N.W.2d 328; Rasmussen v. Trico Feed Mills, 148 Neb. 855, 29 N.W.2d 641; In re Zents' Estate, 148 Neb. 104, 26 N.W.2d 793.

Iowa has recognized the applicability of this distinction under its banking laws as well. In State v. Haesemeyer, supra, an officer of a bank was acquitted from a claim that a loan to a partnership as to which he was a member violated statutory prohibitions against loans to officers. The court noted that a partnership is an entity distinct from its members and that the statute did not expressly prohibit loans to partnerships as to which an officer is a member. In addition, the court noted that any enlargement to the statute should be done by the Legislature as opposed to judicial construction.

IV.

THERE WAS NO BORROWING OF FUNDS, WHICH IS A CONDITION PRECEDENT TO THE APPLICABILITY OF THE PROHIBITORY STATUTE.

Neither William Wright nor any of the other partners of American Investment Group received \$750,000 from State Security Savings Co. nor any other funds in relation to the transaction concerning Shoppers Fair. The \$750,000 note was simply carryback financing offered by State Security Savings Co., which converted the equity that it held in Shoppers Fair over and above the 1.9 million dollar first mortgage to a negotiable instrument that was an asset accruing interest. There were no checks issued to or any other source of funds issued to American Investment Group or any of its partners. In essence, all that occurred was a substitution of obligors on the Rentfro-Joyce line of credit. Instead of Rentfro and Joyce owing money to State Security Savings Co. to the extent of their partnership interest in RJW, that indebtedness was

simply renewed, converted and substituted over as against American Investment Group and its partners.

Neb. Rev. Stat. §8-409.01 is specifically limited to the borrowing of the funds of State Security Savings Co. The situation is analogous to the following two cases. In Price v. State, 204 Ind. 316, 184 N.E. 181 (1933), the court held that where an officer gave a bank a note in exchange for notes of two debtors and the officer did not himself obtain any money from the bank, the court held that there was no statutory violation because there was no evidence that the officer obtained funds of the bank in executing the note.

In State v. Flowers, 187 Minn. 493, 245 N.W. 334 (1932), the court held that a guaranty by an officer of a loan of a bank customer was not prohibited because there were no funds parted with by the bank; the guaranty was simply a substitution for worthless securities that were original collateral to the loan and the officer gave the guaranty in an effort to protect the bank.

V.

THE NOTE WAS EXECUTED FOR REGULAR COMMERCIAL PURPOSES
AND THERE WAS NO SUBTERFUGE.

There is absolutely no evidence that there was any intent by anyone to create a sham transaction or subterfuge. The evidence is clear that from its inception the \$750,000 was going to be a partnership note. The note was used by the partnership in its usual course of business, i.e. for the purchase of Shoppers Fair. The recital language to the general

partnership agreement of American Investment Group specifically states that the partnership is for "the initial purpose of acquiring, developing and operating certain real property". The \$750,000 was not used by William Wright or any of the other partners of American Investment Group for their own personal use.

VI.

EVEN IF THE NOTE FELL WITHIN THE AMBIT OF THE STATUTE, THE APPROPRIATE BOARD APPROVAL WAS GIVEN.

The Board of Directors of State Security Savings Co. approved William Wright's involvement with American Investment Group at the April 19, 1983, board meeting. This was prior to the date by which he legally became a partner of American Investment Group. The amendment to the partnership admitting new partners was not fully executed by all of the parties until April 25, 1983. Dean Rasmussen signed the document on April 20, 1983. Fred Kiechel signed the document on April 25, 1983. The requisite filing of a certificate of admission of additional partners and publication thereof were also not completed until after the April 19, 1983, board meeting. Corporate minutes reflecting the board approval were voluntarily supplied upon the request of the Department of Banking prior to any complaint of any insider loan violation or the publication of the videotape.

CONCLUSION

In summary, there is no violation of Neb. Rev. Stat. §8-409.01 or any reasonable cause to believe that a violation of that statute has occurred for the following reasons:

- 1) the statute does not apply to loans to a partnership as to which a director is a partner;
- 2) there was no borrowing of any funds of State Security Savings Co. by American Investment Group;
- 3) the Board of State Security Savings Co. approved Wright's involvement with American Investment Group prior to the time that he legally became a partner.

It is respectfully submitted that the Department of Banking and Finance make a finding that there was no violation of Neb. Rev. Stat. §8-409.01, insider loan laws or any other banking statutes.

DATED this 9th day of April, 1984.

Respectfully submitted:



Charles D. Humble
For: GINSBURG, ROSENBERG, GINSBURG,
CATHCART, CURRY & GORDON
820 Stuart Building
Lincoln, NE 68508
(402) 476-1010

MINUTES OF BOARD OF DIRECTORS MEETINGOFSTATE SECURITY SAVINGS CO.

A special meeting of the Board of Directors of State Security Savings Co. was held on the 2nd day of March, 1984 at 10:30 a.m. in the main conference room of Suite 968, NBC Center, City of Lincoln, State of Nebraska, pursuant to a notice to all the directors of the Company, which Notice fixed said time and place.

The following, representing Directors of the Company, were present in person:

Kenlon H. Hake
Wm. F. Wright
Michael L. Fosdick

Leon A. Olson, a Director of the Company, participated in the meeting by telephone. Also present was David A. Ludtke, attorney for the Company.

Upon motion duly made and carried, Kenlon H. Hake was chosen Chairman of the meeting and Wm. F. Wright was chosen Secretary of the meeting. The Secretary presented and read the prior Board of Directors minutes and they were approved as read.

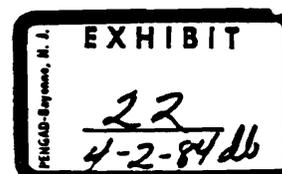
RATIFICATION OF LOANS

President Hake stated that the purpose of the meeting was to ratify certain loans which the Company had previously made. President Hake noted that all directors were aware and had previously approved the loans. However, directors minutes relating to the meetings where such loans were approved failed to make special mention of these loans as required by Nebraska statute.

Section 8-409.01 of the Nebraska Revised Statutes provide that if a director, officer, or employee of an industrial loan and investment company borrows funds, such borrowing must be approved by the Board of Directors and that a record of such approval must be made and kept as a part of the records of the Company.

On April 14, 1982 the Company lent funds to Young, Kerrey, Stuart and Kiechel. The amount of the loan was \$500,000 of which \$400,000 was sold to Commerce Savings. On January 5, 1983 an additional \$200,000 was lent to the aforementioned individuals. Both loans were secured by Quail Valley Partnership assets. Wm. F. Wright, a Director of the Company, was a partner in Quail Valley Partnership.

DAL:ltII
031384



On approximately March 31, 1983 the Company made a loan of \$750,000 to American Investment Group. This property was secured by the property known as Shopper's Fair. Wm. F. Wright, a Director of the Company, was not a partner when the loan was made and did not sign on the loan. Mr. Wright is now a partner in American Investment Group.

ON MARCH 31,
~~In the summer of~~ 1983, the Company entered into a conditional sales contract with TransAmerican Investment Co. relating to Pioneer Plaza. TransAmerican Investment Co. is a general partnership consisting of Stuart and Wm. F. Wright, a Director of the Company.

On February 3, 1983 the Company acquired from Marmat Corporation a Gemini debenture in the face amount of \$100,000 bearing an interest rate of 10%. The Company surrendered to Marmat Corporation an NBC Co. bond in the same face amount bearing interest at 7.8%. Wm. F. Wright, a Director of the Company, is a related party to Marmat Corporation.

President Hake noted that all of the aforementioned transactions were made with the approval of the Board of Directors with full knowledge of the interest in the transaction of a Director of the Company. President Hake observed that in each instance Mr. Wright was not directly involved in the loan and, in addition, the conditional sales contract and the debenture trade were not considered as loans. Upon motion duly made and carried, the following resolution was unanimously adopted:

RESOLVED, that the Directors had previously approved and hereby ratify for the written record the aforementioned loans involving the Quail Valley Partnership, American Investment Group, TransAmerican Investment Co., and the Gemini/NBC Debenture Trade.

There being no further business to come before the meeting, the meeting was, upon motion duly made and seconded, adjourned.

Accepted & Agreed:

Alfred H. Adams
Alfred H. Adams

Clyde F. Beard
Clyde F. Beard

Wm. F. Wright
Wm. F. Wright Secretary

APPROVED:

Kenion H. Hake
Kenion H. Hake

Michael L. Fosdick
Michael L. Fosdick

Leon A. Olson
Leon A. Olson

James L. Essay
James L. Essay (Signing as an officer of the Company at the time of the transactions, and as a Director subsequently)

8-409.01. Industrial loan and investment company; loan to director, officer, or employee; requirements. No director, officer, or employee of an industrial loan and investment company, no corporation in which an officer of the industrial loan and investment company is the owner of a controlling interest, and no partnership in which an officer of the industrial loan and investment company is a member, shall borrow any of the funds of the industrial loan and investment company, directly or indirectly, without first having secured the approval of the board of directors of such industrial loan and investment company. The approval shall be made at a meeting of the board and a record of such approval shall be made and kept as part of the records of such company. The amount of any loan shall be limited as provided in sections 8-409 and 8-409.02.

Source: Laws 1979, LB 334, § 7.

AMENDMENT TO
GENERAL PARTNERSHIP AGREEMENT
OF
AMERICAN INVESTMENT GROUP

THIS AGREEMENT is made as of _____, 1983, by and between JAMES STUART, JR., an individual residing in Lincoln, Nebraska ("Stuart"), FRED KIECHEL, an individual residing in Lincoln, Nebraska ("Kiechel") (Stuart and Kiechel being hereinafter collectively referred to as the "Original Partners") and WM. F. WRIGHT, an individual residing in Lincoln Nebraska ("Wright"), J. ROBERT KERREY, an individual residing in Lincoln, Nebraska ("Kerrey"), and DEAN F. RASMUSSEN, an individual residing in Omaha, Nebraska ("Rasmussen") (Wright, Kerrey and Rasmussen being hereinafter collectively referred to as the "Additional Partners").

W I T N E S S E T H:

WHEREAS, on the 31st day of March, 1983, the Original Partners entered into that certain Agreement of General Partnership (the "Partnership Agreement") of American Investment Group (the "Partnership");

WHEREAS, the Additional Partners wish to join the Original Partners as partners of the Partnership on the same terms and conditions as the Original Partners and be bound by all terms and conditions of the Partnership Agreement;

WHEREAS, the Original Partners desire to admit the Additional Partners to the Partnership.

NOW, THEREFORE, IT IS AGREED as follows:

1. Admission of Additional Partners. The Original Partners and the Additional Partners hereby agree that the Additional Partners shall be admitted to the Partnership, effective immediately.
2. Interest of Partners. From and after the date hereof, the partners shall have the following interests in the Partnership:

<u>Partner</u>	<u>Interest</u>
Stuart	25%
Kiechel	25%

RLN:cmcII
040683



Wright	25%
Kerrey	12.5%
Rasmussen	12.5%

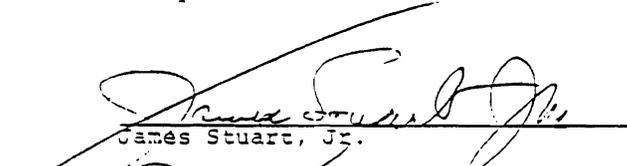
3. Agreement to be Bound. The Additional Partners hereby agree to be bound by all terms and conditions of the Partnership Agreement.

4. Miscellaneous.

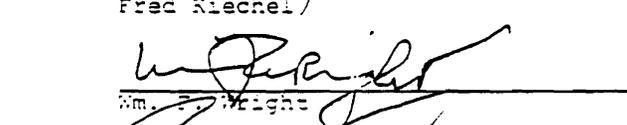
(a) Ratification. Except as amended hereby, for the purpose of admitting the Additional Partners to the Partnership and adjusting the partnership interests of all partners, the Partnership Agreement is hereby ratified and declared to be in full force and effect and binding upon all parties hereto.

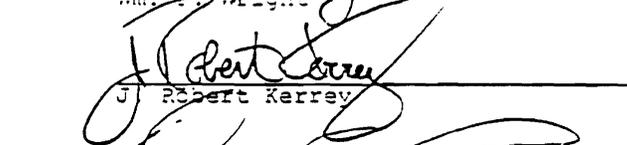
(b) Binding Effect. This Agreement shall be binding upon and shall inure to the benefit of the partners and their respective heirs, personal representatives, successors and assigns.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date and year first above written.


James Stuart, Jr.


Fred Kiechel


Wm. F. Wright

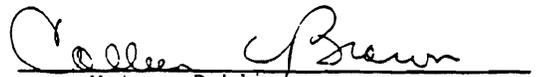

J. Robert Kerrey


Dean F. Rasmussen

STATE OF NEBRASKA)
) ss:
COUNTY OF LANCASTER)

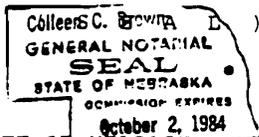
The foregoing instrument was acknowledged before me on 4-19-83, 1983 by JAMES STUART, JR.

(S E A L)
Colleen C. Brown
GENERAL NOTARIAL
SEAL
STATE OF NEBRASKA
October 2, 1984


Notary Public

STATE OF NEBRASKA)
) ss:
COUNTY OF LANCASTER)

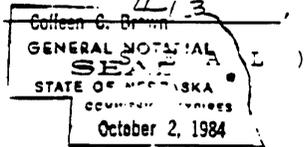
The foregoing instrument was acknowledged before me on
April 25, 1983 by FRED KIECHEL.



Colleen C. Brown
Notary Public

STATE OF NEBRASKA)
) ss:
COUNTY OF LANCASTER)

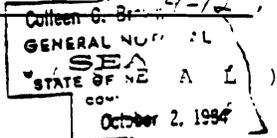
The foregoing instrument was acknowledged before me on
4/13, 1983 by WM. F. WRIGHT.



Colleen C. Brown
Notary Public

STATE OF NEBRASKA)
) ss:
COUNTY OF LANCASTER)

The foregoing instrument was acknowledged before me on
4-12, 1983 by J. ROBERT KERREY.

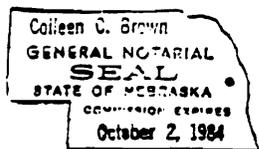


Colleen C. Brown
Notary Public

STATE OF NEBRASKA)
) ss:
COUNTY OF Lancaster)

The foregoing instrument was acknowledged before me on
April 20, 1983 by DEAN RASMUSSEN.

(S E A L)



Colleen C. Brown
Notary Public

Name: American Investment Group Date: 3-11-83

Address: 6800 P' St. Loan Officer: MLE

Lot #: Condition:

Area: Acres: Sides: Feet: Width: Depth:

Frontage: Area: Sides: Feet: Width: Depth:

Frontage: Area: Sides: Feet: Width: Depth:

Remarks: Approx. 68,000 sq ft lot @ 482.755

Airplan % Rents 77,625

Walkway 10,301

330,681

Mgmt Fee 3% of Rev 8,483

NOT 322,198

Building Value

Average Value 2,952,500

Land Value:

Total Value 2,655,000 to 3,250,000 M.L. Furdok

* With the great potential income that will probably be derived from this project (airplan; walkway) I would say that the borrower could get the 12% financing the property should be worth 3,250,000

Assume 20% investment by purchaser, financing 80% for 25 yrs @ 12% with a debt coverage of 1.2, the income indicates the property to be worth 2,655,000.-

SEE Attached Shoppers Fair Property Profile



May 11, 1983

R. J. W. Partnership
Thomas White, Partner
Golds Galleria
1033 "O" Street
Lincoln, Nebraska 68508

Dear Tom:

Please consider this as our letter of offer to purchase a shopping center of approximately 70,000 square feet, commonly known as The Shopper's Fair, which is located in Lincoln, Nebraska. The Shopper's Fair Associates, a limited partnership to be formed (not a contract contingency) upon Seller's agreement to this proposal would purchase from the Seller a fee simple interest in The Shopper's Fair shopping center, including but not limited to all real and personal property used in the operation of Shopper's Fair and the rents, profits, and proceeds therefrom for a purchase price of \$2,950,000. The purchase price would be broken down as follows:

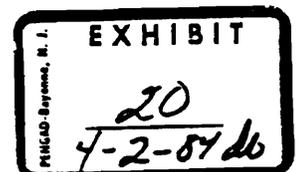
CASH AT CLOSING	\$2,710,000
12 Months	60,000
24 Months	60,000
36 Months	60,000
48 Months	60,000

Seller will subordinate \$240,000 to underlying financing.

Concurrently with the closing of the transaction, the Seller would agree to certain incentive fees, management fees, and covenants all of which to be determined.

Buyer and seller agree to cooperate in the writing and signing of a contract in 15 days or sooner from the time buyer is provided all necessary documentation from seller for completion of said contract.

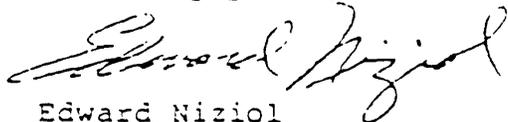
Buyer agrees to twenty five thousand (\$25,000) earnest money at the time of the signing of the contract.



Buyer agrees to a closing date on or before July 30, 1983.

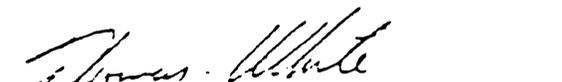
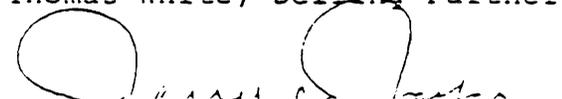
If this proposal meets with your approval in concept, please acknowledge below and return a copy to me. As soon as we have received your acknowledgement, we will proceed promptly with the various verifications procedures and the preparation of the necessary legal documentation.

Sincerely yours,



Edward Niziol
Senior Partner

Acknowledged and agreed to in concept this 12th day of May, 1983 on behalf of


Thomas White, Selling Partner
Robert Rantuffo, Selling Partner
Jerry Joyce, Selling Partner

State Title Services
David Hunter, Escrow Agent


Harold Sears, Selling Partner

Ron Brester, Selling Partner

Don Brester, Selling Partner
EN/dmk

I. TRANSACTION SUMMARIES OF ROBERT KERREY
AND STATE SECURITIES SAVINGS.

A. General Introduction and Background.

Robert Kerrey's ("Kerrey") involvement in State Security Savings Co. ("State Security") began in 1972. Kerrey first opened a checking account and savings account with State Securities in that year. During 1972, Kerrey also established a business lending relationship with State Security when he received a loan to purchase the first Grandmother's restaurant in Lincoln. This loan was paid off in 1975. On June 1, 1979, State Security made an unsecured loan of \$8,100 at 12-1/2% to Kerrey-Rasmussen Enterprises, payable on August 1, 1979 (Loan No. 75433). This loan was renewed on August 9, 1979 at the same interest rate (Loan No. 75580) and was paid off by Robert Development Co. on June 10, 1980.

After the November 1982 election, Governor-elect Kerrey assigned all management responsibilities for his business interests to Dean Rasmussen. Subsequently, after he took office, Kerrey placed all of his real estate assets in a separate trust. The trustee of the trust was Jesse Rasmussen. Accordingly, Kerrey has had no management responsibilities or active participation in his business interests subsequent to his election.

Kerrey was involved in two other financial transactions with State Security, one relating to real property located at 70th and "A" Streets in Lincoln, Nebraska and one relating to real property known as the Quail Valley Apartments in Lincoln. But before those transactions are summarized and then explained in greater detail, it would be helpful to define the partnership entities that were involved.

Kerrey-Rasmussen Enterprises, Inc. is a Nebraska corporation formed by Kerrey and Dean Rasmussen ("Rasmussen") in 1973 for the purpose of acquiring real estate at 4712 South 82nd Street in Omaha which was developed into a Grandmother's restaurant. In 1976, Kerrey-Rasmussen acquired real property located at 201 Sun Valley Boulevard in Lincoln which was developed into another Grandmother's restaurant. Kerrey and Rasmussen were equal stockholders in Kerrey-Rasmussen Enterprises.

Robert Development Company is a Nebraska limited partnership formed by Kerrey, Rasmussen, David Putensen and Steven W. Carveth (the "General Partners") on or about February 15, 1980 for the purpose of acquiring and developing real property located at South 70th and "A" Streets in Lincoln. Kerrey was the original managing partner of Robert Development Co. but turned over that role to Rasmussen in 1982 when he assigned his interest in the company to Rasmussen.

Valley Investment Company is a Nebraska general partnership formed by TransAmerican Investment Company, a Nebraska general partnership, P, S & Y, a Nebraska general partnership, Fred Kiechel and Kerrey on or about June 1, 1981 for the purpose of acquiring an interest as a partner in managing real property known as the Quail Valley Apartments in Lincoln, Nebraska. At the time Valley Investment Company was formed, William F. Wright ("Wright") was a partner of TransAmerican Investment Company and Richard Young and James Stuart, Jr. were partners of P, S & Y. The Quail Valley Apartments were later managed by Real Property Services, Inc., a company formed by Young, Kerrey, Stuart and Kiechel.

With these facts as a general background, the following is a more specific summary of Kerrey's two financial transactions with State Security as disclosed by documents obtained from State Security.

B. South 70th & "A" Street Property.

On or about September 26, 1978, Kerrey-Rasmussen Enterprises bought the real property located at South 70th & "A" Streets in Lincoln from Jeannoutot Farm. The Agreement for Sale of Real Estate was recorded December 1, 1978 as Instrument No. 78-31934. Kerrey-Rasmussen Enterprises made a collateral assignment of the land contract to State Security, recorded as Instrument No. 78-32051, in return for a \$70,000 loan (Loan No. 75024) at 12%. This collateral assignment was

later turned into a first real estate mortgage of \$254,890.73 on June 1, 1979 (Loan No. 75432) at 12-1/2% (recorded as Instrument No. 79-13613). In addition, State Security received a second mortgage on the real property located at 201 Sun Valley Boulevard in Lincoln. The June 1, 1979 loan and mortgage was later refinanced and extended on December 3, 1979 (Loan No. 75947) for a mortgage of \$273,882.12 at 16-1/2% (recorded as Instrument No. 80-1405).

On or about February 15, 1980, Robert Development Company was formed and it purchased the real estate at 70th & "A" Streets from Kerrey-Rasmussen Enterprises. In connection with this purchase the December 3, 1979 loan and mortgage was refinanced and extended on June 10, 1980 (Loan No. 76162) for a mortgage of \$275,000 at 15-3/4% (recorded as Instrument No. 80-10548). Interest was paid up to this date in the amount of \$1,117.88. The June 10, 1980 loan and mortgage was refinanced and extended on December 10, 1980 (Loan No. 76533) at 18-3/4%. Principal and interest totalling \$45,037.22 had previously been paid up to this date and this amount was credited to the new loan to bring it up to \$275,000.

The December 10, 1980 loan was refinanced and extended on June 12, 1981 (Loan No. 76811) at 18-3/4%. Principal and interest totalling \$31,861.01 had previously been paid up to this date and this amount was credited to the new loan to bring it up to \$275,000. The June 12, 1981 loan was

refinanced and extended on December 14, 1981 (Loan No. 77060) at 17-1/2%. Principal and interest totalling \$10,378.76 had previously been paid up to this date the amount was again credited to the new loan to bring it up to \$275,000. On June 24, 1982, a new loan was put in place (Loan No. 77323) at 18-1/2% to refinance and extend the December 14, 1981 loan. Principal and interest totalling \$11,560.73 had previously been paid up to this date and that amount was credited to the new loan to bring it up to \$275,000.

The June 24, 1982 loan was refinanced and extended on December 24, 1982 (Loan No. 77565) at 17%. Interest in the amount of \$24,657.85 had been previously paid and this was added along with \$308.50 in finance charges and fees to the loan amount of \$270,609.80 as of December 24, 1982 to bring the current loan amount up to \$295,576.15. In connection with this refinancing, State Security received a first deed of trust in the property at 70th & "A" Streets (recorded as Instrument No. 82-20507).

The December 24, 1982 loan was refinanced and extended on or about March 2, 1983 (Loan No. 77655) at a rate of interest of 16-1/2%. Principal and interest in the amount of \$4,390.20 had been paid up to that time and this amount was credited to bring the loan amount up to \$275,000.

The entire loan, including principal and interest was paid on or about April 27, 1983 when Robert Development

Company sold the property at 70th & "A" Streets in Lincoln back to Kerrey-Rasmussen Enterprises. The mortgages and the trust deed were released. It should be noted that all of the loans from State Security to enterprises related to Kerrey were at prevailing market rates.

C. Quail Valley Apartments Property.

As stated in the General Introduction and Background section, Kerrey was a partner of Valley Investment Company when it first acquired an interest as a partner in and became the manager of the real property known as Quail Valley Apartments. This property included two separate pieces of real estate:

- (1) Lot 1, Block 4, Quail Valley First Addition, Lincoln, Lancaster County, Nebraska ("Tract One"); and
- (2) Lot 2, Except the East 200 feet thereof, Block 4, Quail Valley First Addition, Lincoln, Lancaster County, Nebraska ("Tract Two").

The first part of this summary will deal with Tract One. Valley Investment Company first acquired the Quail Valley Apartments from Leonard R. Rogoff, Earl H. Peters and Herbert M. Brugh, general partners of Quail Valley Apartments Limited, a California partnership, on or about June 8, 1981. According to the Assignment of Partnership Interests and Agreement, Valley Investment Company paid \$306,000 for the Tract One property and loaned the Quail Valley Apartments, Ltd. for \$175,000 for six months. In return, Valley

Investment Company received a mortgage on the property (recorded as Instrument No. 81-10874). The property was already subject to mortgages of not more than \$1,669,870, plus accrued interest in favor of American Charter Savings and Loan Association in Lincoln (recorded as Instrument Nos. 76-25014 and 77-34332), and a mortgage of not more than \$400,000 with no accrued interest in favor of Duane Larson Construction Company.

Regular payments of principal and interest were made on the American Charter mortgages. Valley Investment Company's mortgage provided for future advances.

On or about January 22, 1982, Quail Valley Apartments, Ltd. executed a \$40,000 mortgage (recorded as Instrument No. 82-1015) and accompanying promissory note in favor of Valley Investment Company. The mortgage provided for future advances within ten years up to \$200,000 and was subject to the previous mortgages of American Charter and Duane Larson.

On or about April 14, 1982, Young, Kerrey, Stuart and Kiechel borrowed \$412,137.75 from State Security (Loan No. 77214) at 19% (variable quarterly rate) and State Security received a guaranty agreement signed by these individuals, plus a mortgage on Tract One in Quail Valley (recorded as Instrument No. 82-5773). Valley Investment Company executed a subordination of mortgage on or about April 26, 1982 (recorded as Instrument No. 82-5774)

subordinating its two prior mortgages of June 11, 1981 and January 22, 1982 to State Security.

On or about April 14, 1982, Quail Valley Apartments, Ltd. executed a Notice to American Charter (recorded as Instrument No. 82-5825) notifying American Charter that future advances made under their mortgages would be junior to State Security's mortgage of April 29, 1982.

On or about April 14, 1982, Young, Kerrey, Stuart and Kiechel borrowed \$103,093.75 from State Security (Loan No. 77215) at 19% (variable quarterly rate), and State Security received a guaranty agreement signed by these individuals, plus a mortgage on Tract Two in Quail Valley in the amount of \$103,093.75 (recorded as Instrument No. 82-5451). At this time, Tract Two was encumbered by two previous mortgages, one executed on or about July 26, 1972 by Duane Larson Construction Company to State Federal Savings & Loan Association (which later became American Charter) in the amount of \$705,750 (recorded as Instrument No. 72-13468) and another mortgage executed on or about July 2, 1980 by Duane Larson Construction Company to Lincoln State Bank in the amount of \$85,000 (recorded as Instrument No. 80-12482).

On or about May 28, 1982, a number of loan participation certificates were signed in regard to State Security's mortgages on Tract One and Tract Two. Commerce Savings Columbus executed a loan participation certificate in the

amount of \$140,000 at 19% (variable quarterly rate) secured by State Security's mortgage of \$412,137.75 on Tract One. Similarly, on or about May 28, 1982, Commerce Savings Lincoln executed a loan participation certificate in the amount of \$180,000 at 19% (variable quarterly rate) secured by the same mortgage of State Security. Finally, Commerce Savings Lincoln executed a loan participation certificate on or about May 28, 1982 in the amount of \$80,000 at 19% (variable quarterly rate) secured by State Security's mortgage of \$103,093.75 on Tract Two.

On or about January 6, 1983, the April 14, 1982 loan and mortgage on Tract One were refinanced and extended (Loan No. 77582) at 16-3/4% for a mortgage of \$200,592 (recorded as Instrument No. 83-637). The previous mortgages to State Security were subordinated by a subordination of mortgage executed by Wright of TransAmerican Investment Company on or about January 13, 1983. Once again, a Notice was executed by Quail Valley Apartments, Ltd. to American Charter that their previous mortgages were limited to the amount actually advanced by the date of the Notice (recorded as Instrument No. 83-939).

The January 6, 1983 loan and mortgage were refinanced and extended on March 7, 1983 (Loan No. 77667) at 16-1/4%. Interest was paid up to this date in the amount of \$5,523.14 and it was credited to the new loan to bring it up to

\$200,592. The March 7, 1983 loan and mortgage were refinanced and extended on June 6, 1983 (Loan No. 77801). A payment of \$50,000 in principal and \$1,931.57 in interest had previously been paid up to this date and the interest alone was credited to the new loan to bring it up to \$150,592.

The June 6, 1983 loan and mortgage were refinanced and extended on October 6, 1983 (Loan No. 78031) at 13%. Interest was paid up to this date in the amount of \$8,179 and this amount was credited to the new loan to bring it up to \$150,592. Finally, the October 6, 1983 loan was refinanced and extended on February 8, 1984 (Loan No. 78182) at 13%.

In addition to the interest payments mentioned above, according to a February 17, 1984 letter from State Security to Wally Brown of Real Property Services, the manager of Quail Valley Apartments, the principal balance of Loan No. 77214 (originally \$412,137.75) had been paid down to \$330,461.29 as of December 31, 1983 and \$64,543.51 in interest had been paid on that loan during 1983. The principal balance of Loan No. 77215 (originally \$103,093.75) had been paid down to \$82,727.32 and \$16,101.22 in interest had been paid on that loan during 1983.

State Security's loans to Young, Kerrey, Stuart and Kiechel were all paid off by Commerce Savings according to a July 19, 1984 letter sent from State Security to Young, Kerrey, Stuart and Kiechel, c/o Real Property Services, Inc.

Accordingly, releases to the mortgages were mailed to
Commerce Savings.

In short, Kerrey and the other partners were loaned
money at prevailing market rates of interest. The loans were
amply secured by real property and participation with other
lenders.

AGREEMENT

AGREEMENT made the 9th day of January, 1984, between

SECURITY FINANCIAL CORPORATION,

SELLER

and

THOMAS L. ALVEY,

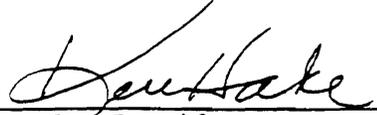
BUYER

Buyer and Seller acknowledge and agree that the Agreement dated January 6, 1984, has been modified so as to provide for installment payment of the \$2,000,000 option price. Seller acknowledges receipt of \$675,000. Buyer agrees to remit the additional \$1,325,000 on or before 1:00 p.m. on January 16, 1984. Buyer agrees that failure to make said payment on January 16, 1984, shall result in an absolute forfeiture of the initial payment as liquidated damages. None of the warranties and representations of the Agreement dated January 6, 1984, shall apply to any such forfeiture. The parties agree that all other times for performance under the contract shall run from January 6, 1984.

David A. Ludtke, as agent for Buyer and Seller, shall hold the Agreement dated January 6, 1984, and letter to David L. Patrick of same date until January 16, 1984. Upon payment of the second installment the executed Agreement and letter shall be distributed to the parties. Upon any failure to make the second installment, all copies of the Agreement and letter shall be delivered to Seller.

THIS AGREEMENT shall extend to and be binding upon the heirs,
executors, administrators, devisees, trustees, successors and assigns of
the parties hereto.

SECURITY FINANCIAL CORPORATION

By: 
Its President


Thomas L. Alvey, Buyer

AGREED AND ACCEPTED


BANKING COMMERCE & INSURANCE COMMITTEE

ACCOUNTANTS REPORT



**Baird,
Kurtz &
Dobson**

Banking, Commerce & Insurance Committee
Nebraska State Legislature

Certified
Public
Accountants

We have applied certain agreed-upon procedures, as summarized in this report, to accounting records of State Security Savings Co. & Related Entities, solely to assist you in connection with your review of certain transactions of the above entities. It is understood that this report is solely for your information. The procedures employed are in accordance with arrangements set forth in our letter to you of November 10, 1986.

Because the above procedures do not constitute an examination made in accordance with generally accepted auditing standards, we do not express an opinion on any of the accounts or items referred to above. Had we performed additional procedures or had we made an examination of the financial statements in accordance with generally accepted auditing standards, matters might have come to our attention that would have been reported to you. This report relates only to the items specified and does not extend to any financial statements of State Security Savings Co. and Related Entities taken as a whole.

Baird Kurtz & Dobson

Lincoln, Nebraska
December 26, 1986

1400 American
Charter Center
Lincoln,
Nebraska 68508
402.474.5000

With Offices In:
Arkansas
Kansas
Missouri
Nebraska
Oklahoma
Texas

Amounts Received By Security Financial Corporation From Transamerica
Investment Corporation and American Investment Group

Question and Instructions. How were the amounts received by Security Financial Corporation from Transamerica Investment Corporation and American Investment Group recorded on the records of Security Financial Corporation? We were instructed to review the books and records of the company to determine how Security Financial Corporation classified these amounts on their books.

Report. We reviewed the deposit and check register of the company which indicated that on June 8, 1983, the amount of \$200,000 was deposited in the bank account of Security Financial Corporation and was titled "Fees Income, Transamerica and American Investment Group". We examined the deposit slip for June 8, 1983 which indicated the following breakdown: American Investment Group--\$150,000; Transamerica Investment Group--\$50,000; for a total of \$200,000. There was no additional description on the deposit slip.

We reviewed the workpapers, financial statements, and income tax returns of Security Financial Corporation for calendar year 1983 and found that the above amount was reported as fee income, less a payable to American Investment Group for \$15,564 for a net of \$184,436. We examined the check paid to American Investment Group on January 30, 1984 in the amount of \$15,564 which Mr. Hake informed us was the payment of percentage rents prorated against the seller on closing.

Mr. Hake informed us that the amounts received represented fees for services performed and not a loan buy-down, and that he had previously testified before the Committee on this matter and recommended that if additional information was needed, we refer to his testimony.

Computation of Purchase Price Multiple

Questions and Instructions. What was the purchase price multiple of State Security Savings Co. and Subsidiaries as of the date of purchase, based upon the books and records of the company?

Report. We obtained a copy of the balance sheet of State Securities Savings Co. and its subsidiaries as of June 6, 1978 which was included in the income tax return filed for the period January 1, 1978 to June 6, 1978. The balance sheet indicated the following:

Capital Stock	\$ 310,000
Surplus	2,025,000
Undivided Profits	<u>950,522</u>
Total	<u>\$3,285,522</u>
Purchase Price	<u>\$5,750,000</u>
Multiple (\$5,750,000: \$3,285,522) = 1.75	

The balance sheet included in the 1978 income tax return was prepared on the cash basis. If accrual adjustments had been recorded, net worth would change and thereby change the multiple.

Gemini Corporation Debentures

Question and Instructions. Determine how State Security Savings Co. acquired the Gemini Corporation debentures by inquiring of Mr. Hake as to the transaction and review supporting documents.

Report. Mr. Hake informed us that State Security Savings Co. owned NBC Co. bonds notes in the amount of \$100,000 bearing an interest rate of 7.80% and which were due September 1, 1984.

Mr. Hake stated that State Security Savings Co. was interested in improving their yield on securities and contacted NBC Co. to determine if NBC Co. would redeem the notes early. Mr. Hake indicated that NBC Co. responded that they would purchase the bonds for \$85,000 or a discount of \$15,000.

Mr. Hake informed us that he discussed the matter with the Board of Directors and that he did not recommend selling the notes at a \$15,000 discount. Mr. Hake indicated that Mr. Wright informed the Board of Directors that Marmat Corporation owned debentures in Gemini Corporation in the amount of \$100,000 bearing interest at 10% due September 30, 1987. Mr. Wright indicated that Marmat Corporation would be interested in exchanging the NBC Co. debentures for their Gemini Corporation debentures.

Mr. Hake indicated that the Board of Directors evaluated the transaction and determined that they would exchange debentures since they would increase their yield from 7.8% to 10.0% and they were satisfied that the risk of ownership of the debentures were similar. Therefore, they exchanged the NBC Co. bonds with Marmat Corporation for the Gemini Corporation debentures.

Mr. Hake indicated that the entire transaction was discussed by the Board of Directors at the time it was in process and approved by the Board of Directors; however, it was inadvertently omitted from the February, 1983 minutes of the Board of Directors and subsequently was documented in the Board of Directors minutes dated March 2, 1984.

Mr. Hake informed us that State Security Savings Co. continues to own the Gemini Corporation debentures and have received interest on a current basis.

We obtained copies of the Gemini Corporation debenture agreement, selected pages of an audited financial statement of Gemini Corporation, and copies of the Board of Directors' minutes dated March 2, 1984 in which the transaction was documented as follows:

"On February 3, 1983, the company acquired from Marmat Corporation, a Gemini debenture in the face amount of \$100,000 bearing an interest rate of 10%. The company surrendered to Marmat Corporation an NBC Co. bond in the same face amount bearing interest at 7.8%. William F. Wright, a director of the company, is a related party to Marmat Corporation."

Spin Off of State Security Building Corporation

Question and Instructions. What did State Security Savings Co. receive for the building? A second question was why did State Security Savings Co. reduce its undivided profits by approximately \$843,000 at the time of the spin off? We were instructed to review the documents supporting this transaction and to determine the reason that the \$843,000 was charged to undivided profits.

Report. State Security Building Corporation was organized in 1973 as a wholly owned subsidiary of State Security Savings Co.

The corporation was capitalized by an exchange of stock for leasehold improvements (building on leased ground and furniture and fixtures). The building had been built by State Security Savings Co. and was carried on its books at a net depreciated value of approximately \$303,000 prior to the transfer to the subsidiary. The furniture and fixture book value was approximately \$3,500. The tax basis at this time was approximately \$241,000.

The building was appraised by Western Realty Co. on October 9, 1973 in the amount of \$840,000.

The appraised value of the building, \$840,000 plus the depreciated value of the furniture and fixtures of \$3,508, was recorded on the books of State Security Savings Co. at the time of the transfer to State Security Building Corporation. The Board of Directors minutes in December, 1973, indicate that State Security Savings Co. received approval of the State Banking Department on November 15, 1973 to carry the building on the books of State Security Savings Co. at \$843,000.

The \$843,000 appraised value was charged to undivided profits at the time of the spin off of the stock of State Security Building Corporation to Security Financial Corporation.

In regard to the question of what State Security Savings Co. received or gave up at the time of the spin off, it is necessary to know what the fair market value of the property was at the time of the spin off and what the effect of State Security Savings Co. selling the property versus the spin off to Security Financial Corporation. If, we assume, the fair market value of the property was \$950,000, which is the same amount that Security Financial Corporation sold the building for, the computation of net value is illustrated as follows:

Selling price of building	\$950,000	\$950,000
Less, tax cost of property, net of accumulated depreciation	<u>221,000</u>	
Gain	<u>\$729,000</u>	
Less, estimated Federal and State taxes		<u>233,000</u>
Net proceeds, after tax		717,000
Less cash contributed to State Security Savings by Security Financial Company		<u>350,000</u>
Net dividend equivalent on spin off		<u>\$367,000</u>

Our computation resulted in approximately the same amount of net dividend as that prepared by Mr. Hake in his analysis of State Security Savings Co. capital transaction which had been previously provided to the Committee.

Interest Capitalization

Question and Instructions. What was the policy of State Security Savings Co. in regard to capitalizing of interest on loans and how does this compare with generally accepted accounting principles? The work was to be limited to inquiry of Mr. Hake and review of applicable generally accepted accounting principles.

Report. Mr. Hake informed us that State Security Savings Co. began accruing interest on the books in 1978. Interest was accrued on specific loans until it was deemed that interest on specific loans could not be collected. As notes were renewed, it was the policy to capitalize interest if the collateral was sufficient to cover the principal and accrued interest. This practice allowed the company to collect interest on interest.

Generally accepted accounting principles define accrual accounting as "the effects of transactions and other events on the assets and liabilities of a business enterprise are recognized and reported in the time periods to which they relate rather than only when cash is received or paid. Revenue is conventionally recognized at a specific point in the earning process of a business enterprise, usually when assets are sold or services are rendered. This conventional recognition is the basis of the pervasive measurement principle known as realization. The realization principle requires that revenue be earned before it is recorded."

In the case of a financial institution, a bank's right to receive interest income becomes fixed ratably over the period of a loan as long as all events have accrued to fix the right to receive income and the amount thereof can be fixed with a reasonable accuracy. Notwithstanding this general rule, however, a fixed right to a determinable amount does not require accrual or allow accrual if the income item is uncollectible when the right to receive it arises.

Recognizing the complexity and uncertainty of economic activity seldom permit exact measurement, estimates and informed judgment must often be used to assign dollar amounts to the effects of transactions and other events that affects a business enterprise. A financial institution should maintain a reasonable allowance for loan losses applicable to all categories of loans and, in addition, the allowance should also be sufficient to cover estimated losses of accrued interest receivable. A partial list of the items to be considered in determining the amount of the allowance for losses is as follows:

1. Evaluation of lending policies, practices and internal control.
2. Current trend of delinquencies.
3. Listing of loans, aged past due loans, loans on which interest is not being collected in accordance with the terms of the loan, and loans whose terms have been modified by reducing the interest rates or deferring interest. Such listing should include borrowers' current financial conditions, collateral value, and any third party reliance.
4. Excessive loan renewals and extensions.
5. General or local economic conditions that might have a bearing upon the collectibility of loans such as a pronounced business depression.
6. Available outside information of comparable nature regarding financial institutions of similar loan portfolio size, composition, and quality.
7. Historical data relating to the excess or deficiency of the allowance for possible loan losses over actual amount of such losses for the past several years.
8. Loan loss experience, charge off, and recoveries in the past several years in total and by major categories of loans.
9. Ratio of net charge offs to average loans for several years.
10. Ratio of allowance for loan and lease loss to average loans for several years.

Since our procedures were limited to inquiry of the practices followed by State Security Savings Co., we are unable to evaluate their application of generally accepted accounting principles.

In reading a copy of the audited financial statements of State Security Savings Co. for the year ended December 31, 1982, the Company's auditors qualified their opinion on the financial statements with respect to the adequacy of the allowance for loan losses.

The Company's auditors issued an unqualified opinion on the financial statements for the year ended December 31, 1981.

During our review of information at the Nebraska Department of Banking, we noted the following comment in the FHLB examination dated March 6, 1984:

"A Reserve for uncollected interest on loans more than 90 days delinquent is not maintained on the statement of condition (Ins. Reg. 563(c).11).

"This caused an overstatement of income and/or net worth of approximately \$700,000 as of April 30, 1984".

The above comment was noted on the eligibility examination at which time SSS was not subject to FSLIC regulations.

(1.) Allocation of Income Taxes Between State Security Savings Co. and Security Financial Corporation

Question and Instructions. What was the method of allocating income taxes between State Security Savings Co. and Security Financial Corporation? Was it consistently followed and how does this compare to generally accepted accounting principles? Review income tax returns, computation of income taxes and compare to generally accepted accounting principles.

Report. State Security Savings Co. and Security Financial Corporation filed consolidated income tax returns for the years ending December 31, 1978 through December 31, 1985. Mr. Hake informed me that the corporations computed their income tax as if they were filing a separate income tax return. The amounts due or refundable under this method were then paid to or received from the parent corporation, Security Financial Corporation.

We asked Mr. Hake if there was a written agreement between the corporations stating that this method was to be used. He informed me that there was not. We obtained the income tax returns for the years 1978 through 1985 and the related workpapers used in preparing the income tax returns and compared the computation of the separate income tax of State Security Savings Co. with the method described by Mr. Hake. For the years 1978 through 1982, it appears that the computation resulted in the method described by Mr. Hake and that it was consistently followed. In 1983, it appears that the manner of computing the separate return tax due or refundable was not consistent with the prior periods. This occurred due to the net operating loss of State Security Savings Co. exceeding the amount of refundable income taxes remaining in the prior consolidated return years. The unused portion of the net operating loss, the charitable contribution carryover and the investment tax credit carryovers of State Security Savings Co. were utilized to reduce State Security Savings Co.'s deferred income taxes rather than obtain a refund of income taxes previously paid to the parent.

We discussed our computation of the separate return income tax liability or benefit of State Security Savings Co. with Mr. Hake. He agreed in theory with the approach to the calculation of the benefit, however, he did not review the specific numbers or computations. Our computation indicated that under the separate return method for 1983, approximately \$249,000 of income taxes should have been refunded to State Security Savings Co. reducing deferred income taxes. It should be noted that the effect of this transaction did not reduce the net worth of State Security Savings Co. at the time of the transaction. The effect of reducing deferred income taxes rather than receiving a refund of the income taxes resulted in State Security Savings Co. having less cash available to be converted to income earning assets than if the refund had been made.

Mr. Hake reminded us that in 1983, Security Financial Corporation made a capital contribution to State Security Savings Co. in the amount of \$1,320,000 which was more than sufficient to cover the refundable income taxes of \$250,000.

In regard to generally accepted accounting principles, relative to the allocation of income taxes between a parent and a subsidiary, the accounting literature indicates that the method to be used is primarily a legal, not an accounting, question. When a group of companies have agreed to file a consolidated tax return, such companies must have agreed explicitly or implicitly, on how such tax should be paid.

There are two different methods currently used in practice. Under one method, those companies which show positive taxes would share the total tax to be paid in the ratio of their separate basis tax returns. In the other method, each subsidiary would be charged or credited by the parent with the tax or tax benefits to be shown in a separate return. The parent company would then enjoy the benefit or incur the loss resulting from a consolidated filing on the theory that the consolidated return resulted from the parent's investment in the subsidiaries. The accounting literature indicates that it is preferable to compute the income taxes using the second method as if the subsidiary had not been eligible to be included in this consolidated income tax return with its parent.

The Internal Revenue Code provides several methods which may be utilized to allocate the tax between the parent and its subsidiaries when a consolidated return is filed. If the group of corporations does not elect a method of allocated income tax liability in its first consolidated tax return, then it is required to use the following method:

The tax liability shall be apportioned among the members of the group in accordance with the ratio, which that portion of the consolidated taxable income attributable to each member of the group having taxable income bears to the consolidated taxable income.

We were unable to locate an election in the first consolidated tax return. Mr. Hake informed us that he was not aware of this election being made.

While the IRS method would have resulted in different tax allocation of the liability in the early years, it would also have resulted in different tax refunds when State Securities Savings Co. incurred a loss. We have not computed the difference, if any, between the Internal Revenue Code method and the method utilized by State Securities Savings Co.

Other regulatory bodies such as the Comptroller of Currency and the Federal Deposit Insurance Corporation generally require that in the case of a bank and a parent holding company filing a consolidated income tax return, transfers between the bank and the parent for income taxes shall not exceed the amount of tax the bank would have paid, had a tax return been filed on a separate return basis. Regulations also provide that in the event a bank incurs a taxable loss, it shall be reimbursed in cash by the holding company to the extent there is a tax benefit arising from these losses in the consolidated return as determined in a manner consistent with the allocation of taxes to profitable subsidiaries. Application of this procedure may result in the parent owing the bank for income taxes, which the parent may be unable to obtain current refunds from the taxing authorities.

(2.) Amount of Income Taxes Paid by State Security Savings Co. to Security Financial Corporation During 1978 to 1983

Question and Instructions. Review the deposit register of Security Financial Corporation to determine the amount of income taxes paid from State Security Savings Co. to Security Financial Corporation.

Report. We obtained the deposit register of Security Financial Corporation from Ken Hake. A summary of the amounts received from State Security Savings Co. for income taxes is as follows:

1978	138,500
1979	272,200
1980	342,700
1981	368,700
1982	378,000
1983	<u>69,057</u>
Total	<u>1,569,157</u>

Taylor Meadows - Contribution of Property by SFC to SSS

Question and Instructions. When the Taylor Meadows property was contributed in December, 1983, at SFC's tax basis of \$1,320,000, to State Security Savings Co./Security Investment Company it was valued by the management of State Security Savings Co. at approximately \$1,334,000. What did State Security Savings Co. ultimately receive upon disposition of the property?

The work was to be limited to inquiry of Ken Hake and obtain supporting documentation.

Report. On November 21, 1986, Mr. Hake informed us that the Taylor Meadows property was transferred in December, 1983 to SSS/SIC. The property was valued at approximately 1.3 million by the management of SSS/SIC based on current lot sales. Mr. Hake provided us with the following information relative to the values.

Taylor Meadows - Valuation December, 1983

Original Addition:

18 lots @ \$24,000	\$ 432,000	
3 lots @ \$28,000	84,000	
1 lot @ \$36,000	<u>36,000</u>	
	552,000	
Less 10% taxes and marketing	<u>55,000</u>	\$ 497,000

Taylor Meadows First and Third Additions:

13 lots @ \$36,000	468,000	
64 lots @ \$24,000	<u>1,536,000</u>	
	2,004,000	
Less marketing, taxes and paving assessment	<u>462,000</u>	1,542,000

Danville Circle - Net of improvements 125,000

Outlot B - 32 Units @ \$12,500 400,000

Taylor Meadows 5th Addition:

9 lots @ \$36,000	324,000	
3 SF lots @ \$24,000	<u>72,000</u>	
	396,000	
Less improvements not paid	<u>150,000</u>	246,000

Open Areas - Preliminary Plated:

13.34 Acres - 30 Units @ \$40,000	1,200,000	
Less paving and utilities	<u>125,000</u>	1,075,000
2.5 Acres - 20 Units @ \$12,500		250,000
16 Acres - 203 Apt./Condo Units @ \$8,000		<u>1,624,000</u>

TOTAL VALUE - TAYLOR MEADOWS \$5,759,000

Less Joint Venture Debt:

Randalwood II, Inc.	978,000	
Randalwood II, Inc. (LOC)	106,000	
Cheney Land Dev.	975,000	
Krueger Ind. Park	<u>133,000</u>	<u>2,192,000</u>

Equity to Partners \$3,567,000

50% to SSS/SIC \$1,784,000
Less NBC Debt 450,000

NET VALUE TO SSS/SIC \$1,334,000

NOTE: Recorded on SSS books in December, 1983 at \$1,320,000.

The following information was obtained from the Disclosure Statement prepared for the United States Bankruptcy Court for the District of Nebraska as of July 9, 1984.

Pages 11 and 12:

"Taylor Meadows. Taylor Meadows is a residential development located near 70th & A Streets, Lincoln, Nebraska. Development of the project was commenced in 1977 by prior ownership and management of SSS on a joint venture basis with Randalwood, Inc. and Randalwood II, Inc., who serve as the active joint venture partners on this project. Taylor Meadows consists of single family, townhouse, and apartment sites. Development of the project is completed and over 50% sold. Taylor Meadows is located in the vicinity of significant commercial and residential development and management believes that it is one of the most desirable local developments. It is anticipated that the sale of Taylor Meadows will be substantially completed within two years. The market value of SIC's direct interest in Taylor Meadows (net of SIC's first mortgage owed to National Bank of Commerce, Lincoln, Nebraska, in the approximate amount of \$235,000) is approximately \$1.3 million. The market value was determined by management of SSS based on current lot sales and was not determined by an independent appraisal."

EXHIBIT 2

SCHEDULE OF REAL ESTATE TO BE OWNED BY THE REORGANIZED SECURITY INVESTMENT COMPANY (In Thousands)

	<u>Appraised Present Value (1)</u>	<u>Appraised Net Retail Value (2)</u>
FOREST LAKE ESTATES		
A townhouse development near 70th & Pioneer Blvd.	2,500	3,802
VILLA TIERRA APARTMENTS		
72 completed units located at 27th & Tierra Drive	2,400	2,400
Less first mortgage debt	<u>1,700</u>	<u>1,700</u>
Net equity	700	700
236 additional density units	1,168	1,168
	<u>1,868</u>	<u>1,868</u>
SEVEN OAKS		
Single family and townhouse lots near 27th & Old Cheney	1,720	2,800
TAYLOR MEADOWS		
Single and multi-family lots near 70th & A Streets (* No appraisal, estimates)	1,250*	1,550*
Less first mortgage debt	<u>235</u>	<u>235</u>
Net equity	1,015	1,315
WEST O INDUSTRIAL TRACT		
Located at SW 27th & West O	765	1,258
INDUSTRIAL SITE		
17.6 acres located at NW 33rd & West O (zoned I-1)	200	200
INDUSTRIAL SITE		
6.6 acres located at SW 33rd & West O (zoned H-1)	260	260
RESIDENTIAL SITE		
5.8 acres located at 66th & Vine (zoned R-4)	535	535
COMMERCIAL SITE		
23,700 square feet located at 12th & K (zoned B-4)	380	380
RURAL ACREAGE SITES		
74 acres located at Rokeby Road and South 56th	162	183
OTHER REAL ESTATE	<u>850</u>	<u>878</u>
TOTAL	<u>10,255</u>	<u>13,479</u>

(1) Value appraised as if sold to a single buyer in the ordinary course of business.

(2) Value appraised as if sold by lots (where applicable) in the ordinary course of business, net of selling and improvement costs.

Ken Hake also provided us with a summary of the net proceeds received by Security Investment Company upon the sale of the Taylor Meadows property as follows:

<u>Year</u>	<u>Amount Received</u>
1984	\$299,785
1985	277,543
1986	<u>127,507</u> Final
Total received	704,835
Less payment of principal on NBC debt	<u>(450,000)</u>
Net proceeds received by SIC before interest on NBC debt	<u>\$ 254,835</u>

Ken Hake did not have readily available the amount of SIC interest expense on the NBC debt, or the specific amount of loans charged off by SSS which related to this property. He informed us that these two items combined would have been in excess of the \$254,835, above, which resulted in SSS (new institution) realizing a loss from the contribution of the Taylor Meadows property.

Ken Hake indicated the decline in value resulted from several factors as follows:

- 1) The subsequent active market did not sustain the price levels of the 1981 to 1983 market.
- 2) Because of substantial debt load on the project, management elected rather than continue to hold the property, to sell at prices buyers were willing to pay.

Thomas L. Alvey - Option \$675,000

Question and Instructions. What was the disposition of the \$675,000 option money received by Security Financial Corporation from Thomas L. Alvey? The work was limited to inquiry of Ken Hake and preparation of an analysis of the use of the funds.

Report. We discussed the transaction with Ken Hake and he also provided us with copies of the checkbook, deposit slips, and cancelled checks related to this transaction.

The transaction is summarized as follows:

RECEIPT OF OPTION		\$ 675,000.00
Liquidating Distributions Not Returned by Shareholders:		
Marmat	\$(29,520.00)	
Marken EQ	(29,520.00)	
L. Olson	(29,520.00)	
M. Fosdick	<u>(12,500.00)</u>	(101,060.00)
Interest Received on Loans to Shareholders:		
Marmat	\$ 9,370.00	
Marken EQ	1,208.00	
L. Olson	<u>1,233.00</u>	11,811.00
Other Distributions:		
NBC - Taylor Meadows debt	\$(63,550.00)	
SSS - Capital notes	(44,000.00)	
FNL - Payment in settlement of debt	(370,000.00)	
Wright Rembolt - Legal fees	(59,801.92)	
Nelson Harding - Settlement	(39,002.00)	
University of Nebraska Foundation	(15,002.00)	
Other - Settlements	<u>(5,950.00)</u>	<u>(597,305.92)</u>
Payments in excess of option proceeds		<u>\$(11,554.92)</u>

Ken Hake informed us that of the proceeds retained by the shareholders, that the \$12,500 paid to Fosdick was to be for redemption of his stock. The \$29,250.00 was retained by each of the remaining shareholders to cover future liability and legal fees, if any, in connection with the Alvey Option.

Ken Hake indicated that SFC was last contacted by the Alvey group in July, 1985. No amounts have been paid in relation to matter as of this date.

A worksheet presenting the detail of the above transactions is on the following page.

SECURITY FINANCIAL CORPORATION
 ANALYSIS OF USE OF PROCEEDS FROM ALVEY OPTION
 1/19/74 TO 7/23/85

PER #	DATE	NAME	DEPOSIT	DISBURSEMENTS	ALVEY OPTION PROCEEDS BALANCE	LIQUIDATING		DISTRIBUTION		LOANS			OTHER		EXPLANATION	
						MARMAT	POSICK	MARMAT	OLSON	MARMAT	MARMAT	OLSON	AMOUNT			
1	1/19/74	THOMAS ALVEY	475000													1
2	✓	MARMAT CORP		1000000			1000000									2
3	✓	MICHAEL FUSOICK		1250000												3
4	11/8/74	MARMAT EQUITIES		2000000				1000000				1000000				4
5	✓	LEON OLSON		1000000					1000000				1000000			5
6	✓	NATIONAL FANE OF COM		1055000									635500			6
7	2/17/74	OLSON	110123700										(10123700)			7
8	2/29/74	MARMAT EQ	10120600										(10120600)			8
9	2/21/74	WRIGHT REDBOLT		835872									125812			9
10	2/13/74	✓		44320									44320			10
11	2/27/74	STATE SECURITE SAVINGS		1500000									1500000			11
12	7/6/74	✓		2700000									2700000			12
13	7/6/74	WRIGHT REDBOLT		2500000									2500000			13
14	7/13/74	✓		2420000									2420000			14
15	10/2/75	K MAKE - PART MARMAT	305000				(3003000)		(500000)							15
16	✓	OLSON	504200						(504200)							16
17	✓	MARMAT	204500				(204500)									17
18	✓	✓	1033700						(1033700)							18
19	✓	FIRST NAT'L LINC		3200000									3200000			19
20	4/10/75	FIRST PRESBYTERIAN CHURCH		200000									200000			20
21	✓	MARMAT	500000				(500000)									21
22	✓	OLSON	200000						(200000)							22
23	4/13/75	HASTINGS COLLEGE		200000									200000			23
24	✓	WESLEYAN UNIVERSITY		200000									200000			24
25	✓	ALAN HAUGNER		350000									350000			25
26	✓	GRANT WHITNEY		500000									500000			26
27	6/17/75	K MAKE	500000				(500000)									27
28	✓	L OLSON	500000						(500000)							28
29	✓	MARMAT	200000				(200000)									29
30	✓	U OF N FOUNDATION		1500000									1500000			30
31	7/5/75	L OLSON	1000000						(1000000)							31
32	7/9/75	K MAKE	500000						(500000)							32
33	✓	MARMAT CORP	1000000				(1000000)									33
34	7/23/75	NELSON HARDING		3700000									3700000			34
35			11970500	12078592	11955492	12151100	1195000	1215000	1215000	1215000	1215000	1215000	1215000	1215000	1215000	35
36													1215000			36
37													1215000			37
38													1215000			38
39													1215000			39
40													1215000			40
41													1215000			41

10% Capital Requirement

Question and Instructions. Did State Security Savings Co. permit its certificates of indebtedness to exceed in aggregate ten times the amount of its paid-up capital and surplus and capital notes and debentures? This computation was to be made based upon the annual reports of condition and computed in accordance with Section 8-413.

Report. We obtained the annual reports of condition as of December 31, 1978 through 1984 and computed the required ratio of capital to certificates of indebtedness as follows:

(All information from Reports of Condition)

<u>Year</u>	<u>Certificates of Indebtedness</u>	<u>10% Ratio</u>	<u>Capital</u>	<u>Excess</u>
12/31/78	\$36,159,937	\$3,615,994	\$5,129,819	\$1,513,825
12/31/79	41,001,270	4,100,127	5,604,126	1,503,999
12/31/80	44,057,707	4,405,771	5,756,413	1,350,642
12/31/81	46,004,297	4,600,430	5,474,312	873,882
12/31/82	48,681,966	4,868,197	4,880,682	12,485
12/31/83	47,900,661	4,790,066	5,242,219	452,153
12/31/84	30,845,983	3,084,598	4,508,676	1,424,078

Based upon the reports of condition as filed, the ratio of capital to certificates of indebtedness was met in each of the years.

During the course of our work in reviewing documents at the Nebraska Department of Banking, we obtained a copy of an audited financial statement of State Security Savings Co. for the year ended December 31, 1982.

The auditors (Dana F. Cole & Company) qualified their opinion on the financial statements because "it appears that the allowance for losses may be inadequate to cover possible loan losses."

The auditors report stated -- "The status of delinquent loans and consideration of general economic factors, indicates that the allowance for loan losses should approximate 1% of the outstanding loans, or \$385,000."

As of December 31, 1982, State Security Savings Co. had a reserve for loan losses of \$101,180 or \$283,820 less than the amount indicated as necessary in the auditor's report.

Included in the audited financial statement was the following additional information:

"Reserve for Possible Loan Losses

Except as discussed in Note six (6) the reserve for possible loan losses is maintained at a level which, in management's judgment, is adequate to provide for potential loan losses. The reserve is increased by provisions charged to earnings and reduced by chargeoffs net of recoveries. The provision is based on past loss experience, management's study of the loan portfolio and other factors deserving recognition in estimating possible loan losses."

"6. ALLOWANCE FOR LOAN LOSSES

Management has elected to limit the allowance for loan losses at December 31, 1982 due to the necessity for maintenance of an adequate ratio of capital to deposits as required by law.

The changes in the reserve for possible loan losses for years 1982 and 1981 were as follows:

	1982	1981
Balance at beginning of year	\$ <u>201,756</u>	<u>\$237,966</u>
Loans charged off	1,255,092	303,029
Recoveries	<u>7,516</u>	<u>11,819</u>
Net chargeoffs	<u>1,247,576</u>	<u>291,210</u>
Provision charged to operating expense	<u>1,147,000</u>	<u>255,000</u>
Balance at end of year	\$ <u>101,180</u>	<u>\$201,756"</u>

Ken Hake informed us that the above comment by the auditors of State Security Savings Co. were not significant for the purpose of computing the required ratio of capital to certificates of indebtedness because:

1. There is no requirement in the Nebraska law that a reserve for bad debts be maintained.
2. Management had, prior to year end, evaluated the loans and charged off all uncollectible loans.
3. Since State Security Savings Co. had maintained a reserve for bad debts of \$101,180 that for purposes of computing the 10% ratio that the reserve for loan losses, net of the tax effect, should be added back to capital.

We discussed our work with Gary Rex and he informed us that the Nebraska Department of Banking added the reserve for bad debts to capital when computing the required ratio of capital to certificates of indebtedness.

Legal & Accounting Expense Analysis - SSS 1978 To 1984

Question and Instructions. What amounts were paid by State Security Savings Co. for legal and accounting expense for the period January 1, 1978 to December 31, 1984.

Our work was limited to analysis of the general ledger expense account titled "Legal & Accounting Expense" for all items in excess of \$2,000. The analysis was prepared based upon the description of the payee as indicated by State Security Savings Co. personnel. We discussed the analysis with Ken Hake to obtain a general description of the type of services performed by the payee. We were instructed not to examine the specific invoice supporting the disbursement.

Report. We obtained copies of the general ledger cards for the account titled "Legal and Accounting Expense" from Ken Hake for the period January 1, 1978 to December 31, 1984.

A summary of the analysis of this account by year and the general description of services performed is on the following page.

STATE SECURITY SAVINGS CO.
ANALYSIS OF LEGAL & ACCOUNTING EXPENSE
1-1-78 to 12-31-84

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>Total</u>
<u>Directors & Consulting Fees</u>								
Leon Olson	\$14,400.00	\$32,775.00	\$34,200.00	\$ 38,928.00	\$ 38,000.00	\$ 30,900.00	\$ 9,575.00	\$198,778.00
William Wright	6,000.00	25,775.00	44,200.00	40,928.00	38,000.00	30,900.00	9,575.00	195,378.00
American Consolidated Corp.	<u>8,400.00</u>	<u>7,000.00</u>						<u>15,400.00</u>
Subtotal	<u>28,800.00</u>	<u>65,550.00</u>	<u>78,400.00</u>	<u>79,856.00</u>	<u>76,000.00</u>	<u>61,800.00</u>	<u>19,150.00</u>	<u>409,556.00</u>
<u>Legal Services</u>								
Wright & Rembolt - General Corp. Matters	5,631.70			3,086.71	1,339.23		19,635.95	29,693.59
Ginsburg, Rosenberg - Loans	3,851.31	19,361.91	6,023.97	16,526.77	66,102.42	71,465.77	82,104.99	265,437.14
NBC - Share of Copple Loan						2,140.97		2,140.97
Cline, Williams - Bank Charter (SBC)						7,681.48		7,681.48
Mike Roster - FSLIC Application							5,000.00	5,000.00
M. Helms - Bankruptcy							<u>25,000.00</u>	<u>25,000.00</u>
Subtotal	<u>9,483.01</u>	<u>19,361.91</u>	<u>6,023.97</u>	<u>19,613.48</u>	<u>67,441.65</u>	<u>81,288.22</u>	<u>131,740.94</u>	<u>334,953.18</u>
<u>Audit, Accounting & Tax Returns</u>								
Dana Cole & Co.	<u>8,091.00</u>	<u>2,490.00</u>	-	<u>10,670.00</u>	<u>10,500.00</u>	<u>10,750.00</u>	-	<u>42,501.00</u>
Subtotal	<u>8,091.00</u>	<u>2,490.00</u>	-	<u>10,670.00</u>	<u>10,500.00</u>	<u>10,750.00</u>	-	<u>42,501.00</u>
<u>Miscellaneous</u>								
Items under \$2,000	3,455.97	5,423.11	3,932.05	2,673.49	(2,713.58)	6,205.12	6,760.57	25,736.73
T. B. Branzel - Term Employment Contract		3,000.00						3,000.00
A. Adams - Directors Fees			2,500.00					2,500.00
C. Card - Directors Fees			2,500.00					2,500.00
Various Capitalized Cost - Bank Charter						13,550.50		13,550.50
FHLB Exam							16,650.00	16,650.00
NDGIC 1st 6 Months 1984 Expense							6,159.84	6,159.84
Tews & Radcliffe							<u>10,500.00</u>	<u>10,500.00</u>
Subtotal	<u>3,455.97</u>	<u>8,423.11</u>	<u>8,932.05</u>	<u>2,673.49</u>	<u>(2,713.58)</u>	<u>19,755.62</u>	<u>40,070.41</u>	<u>80,597.07</u>
TOTAL FOR THE YEAR	<u>\$49,829.98</u>	<u>\$95,825.02</u>	<u>\$93,356.02</u>	<u>\$112,812.97</u>	<u>\$151,228.07</u>	<u>\$173,593.84</u>	<u>\$190,961.35</u>	<u>\$867,607.25</u>

Disbursements for Acquisition of State Security Savings

Question and Instructions. What amounts were paid by Security Financial Corporation in connection with the acquisition of State Security Savings Co.? The work was to be limited to an analysis of Security Financial Corporation disbursements per the check register for the period June, 1978 to December, 1984.

Report. We obtained the check register for the period. A summary of the disbursements is as follows:

Original Acquisition	\$5,708,644.42
Debentures	73,941.17
Stock	104,431.00
Interest on Acquisition Indebtedness	<u>1,102,051.21</u>
	<u>\$6,989,067.80</u>