

## *The Delaware Bay Company*

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Chairman and CEO

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Mr. Harrison Young, Director  
Division of Resolutions  
Federal Deposit Insurance Corporation  
950 Seventeenth Street N.W.  
Washington, D.C. 20429

Dear Harrison:

As you are aware from our meeting with Wilbur Ross in the spring of 1991, the FDIC some time ago entered into a binding contract with Meritor Savings Bank under which the bank is allowed to include supervisory goodwill in its calculation of regulatory capital. I am also certain that you are aware of various court rulings under which the FDIC has been ordered to pay damages when similar contracts have been breached.

The bondholder group which Wilbur and I were representing when we met with you undertook great sacrifices in order to help assist the bank in its efforts to return to health. If you recall, we forgave \$108 million in debt owed to us in exchange for a small amount of cash and about 38 percent of the bank's stock. Now, as a result of the change between the staff's initial draft regulations and the final version approved by the Board, we are told that there is a very real possibility that the bank may be seized by the Corporation and our stock rendered worthless.

I am sure that you are aware that the stockholders of the bank still have tangible equity of \$31 million and total equity of \$90 million. As your examiners only recently went through all loans (and the bank as a result are carrying those loans at regulatory approved levels) and since the Philadelphia real estate market has not undergone any substantial change since your regulators examined the bank's loans, I would caution the Board from forcing the bank into taking any further write-downs in order to eliminate the existing tangible shareholder equity and thus seize the bank. Indeed, I am putting the Board on notice that any attempt to "manufacture" an insolvency will not go unchallenged. (It is ironic that as I write this letter, the Board is proposing a final settlement of litigation brought against it for its "manufactured" insolvency of MCorp.)

There are also rumors circulating that there are other banks which are attempting to take advantage of this situation at the expense of the existing shareholders. It is not hard to see why

that might be so, for it is no secret that this particular bank has a couple of intangible assets which have tangible value: First, at 176 years old, it is the oldest savings bank in the United States. Second, an only three percent deposit runoff in spite of all of its recent front-page "seizure" publicity is proof that Meritor has a low-cost, loyal deposit base which would be an incredible bonanza to any institution which acquired it. Accordingly, you should inform any potential acquirors that if they participate in any FDIC assisted transaction in which Meritor's no longer being able to calculate supervisory goodwill in its regulatory capital is used as a pretext to seize the bank, we will not only bring an action against the Board for breach of contract; we will also commence litigation against the acquiring institution for tortious interference with that contract.

At this point, I would suggest that the wisest course of action for the Board would be to make clear to the marketplace that it intends to fully honor its contractual obligations to Meritor so Roger Hillas and his staff can complete the excellent job they have done so far on your behalf.

Yours very sincerely,



Gary E. Hindes

GEH/rtf