INTERIM TECHNICAL REPORT

PENSION FUND INVESTMENT FOR HOME OWNERSHIP

THE DEPARTMENT OF HOUSING AND
URBAN DEVELOPMENT
APRIL 14, 1972

TASK 5, CONTRACT H1314

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

INTERIM TECHNICAL REPORT ON THE FINDINGS FROM THE PROTOTYPE TEST AND RECOMMENDED REVISION

November 15, 1971

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Nicholas Siropolis, management consultant

Sidney Spector, vice president, The Leader Mortgage Company

INTRODUCTION

The goal was to develop a system that enables employees to buy houses otherwise denied them by their inability to meet downpayment requirements--in short, a system that enables them to finance up to 100 percent of a house's purchase price. That goal was accomplished.

This report focuses on that accomplishment, particularly the development of a house-ownership concept and system applicable to participants in all profit-sharing plans and pension funds. Accordingly, this report is organized into three parts:

- PART I documents the pilot program underway at Forest City Enterprises (FCE) to test the workability and acceptance of the house-ownership concept in the field.

- PART II documents the development of a process that would handle all down-payment-loan applications with negligible paperwork and overhead to profit-sharing plans or pension funds.

- PART III documents the experiences of the first FCE employee to buy a house under the pilot program.

Before reporting on these accomplishments, let us pause at this point to define four terms: (1) House, (2) Downpayment, (3) Pension Fund, and (4) Equity. We have used the term "house" to include remodeling and room addition; the term "downpayment" to include point requirements and origination fees; the term "pension fund" to include deferred compensation profit-sharing plans; and the term "equity" to mean <u>vested</u> equity.

I--RESULTS OF PILOT PROGRAM UNDERWAY AT FCE TO TEST HOUSE-OWNERSHIP CONCEPT

In effect at FCE since May, 1971, this program has yielded one downpayment-loan applicant who has been processed through all steps, including the final step of actual house-ownership.

More were expected. And, as it turns out, unreasonably so. For, too few FCE employees have both:

- A current desire to buy a house, and--
- Enough equity in FCE's pension fund to borrow from to satisfy that desire.

In fact, at FCE, just one employee--the loan applicant mentioned above--has the equity. Her experience with the pilot program is reported later, in PART III. And also later, in APPENDIX A, appears an analysis of why just one FCE employee participated in the pilot program.

We will first describe the need for financing up to 100 percent of a house's purchase price; how the house-ownership plan can meet that need; its introduction at FCE; its system of policies, standards, and procedures; its workability; its flaws and how they may be avoided; and last, the reaction of officials of union pension funds.

NEED FOR 100 PERCENT FINANCING OF A HOUSE'S PURCHASE PRICE

In a typical year, 4.5 million families buy a house--or roughly one every 10 seconds.[1] At the same time, millions more aspire to house ownership. It is to many of these families that the house-ownership plan is addressed.

Thanks largely to the Federal government, mortgage financing has come a long way toward enabling families to buy a house mainly on credit. Until the 1930s, the reverse was true, At that time, a person was required to put up at least 50 percent of a house's purchase price, taking a mortgage on the other 50 percent. But today, with such government-backed mortgage programs as:

- The Home Mortgage Insurance Program administered by the Federal Housing Administration (FHA), and--
- The Home Mortgage Guarantee Program administered by the Veterans Administration (VA)

...many families can buy a house with a downpayment of less than 10 percent. These two programs, together, accounted for a third of the more than $265-billion in oustanding house-mortgage loans in 1969, with conventional loans accounting for the rest.[2]

TYPE OF HOUSE-MORTGAGE LOAN	PERCENT OF HOUSE-MORTGAGE LOANS OUTSTANDING IN 1969
Conventional	67
FHA-Insured	20
VA-Guaranteed	13
	100

In contrast, conventional mortgage loans made by savings and loan associations (S&L's) and commercial banks normally carry downpayment requirements ranging as high as 30 percent. S&L's, by statute, may require as little as 10 percent down, but they do so only when they are flush with cash they want to get rid of. Commercial banks, on the other hand, normally require 20 percent to 30 percent down. The average among all lending institutions appears to be about 20 percent.

The advantages of FHA's Home Mortgage Insurance Program stand out in Exhibit 1, which compares downpayment requirements under the FHA program with conventional, non-FHA requirements.

Although mortgage financing has made giant strides since the 1930s, millions of families still are denied house ownership because of their inability to accumulate even

(text continues after exhibit)

Exhibit 1

COMPARISON OF DOWNPAYMENT REQUIREMENTS

ON FHA-INSURED & NON-FHA-INSURED FIRST MORTGAGES[3]

APPRAISED VALUE OF HOUSE	DOWNPAYMENT REQUIRED BY-- NON-FHA*	FHA	"SAVINGS" WITH FHA
$15,000	$3,000	$ 450	$2,550
20,000	4,000	950	3,050
25,000	5,000	1,450	3,550
30,000	6,000	2,450	3,550
35,000	7,000	3,450	3,550

NOTE: Unlike the FHA program, the VA Home Mortgage Guarantee Program does not set downpayment requirements.

Rather, the VA simply guarantees the lender against loss up to 60% of the mortgage loan, not to exceed $12,500.

*Assumes conventional 20 percent downpayment requirement modest downpayments. This HUD project was undertaken to help them become house-owners.

HOW HOUSE-OWNERSHIP PLAN WOULD MEET THAT NEED

The keystone piece of the house-ownership plan as installed at FCE is the fact that a loan applicant borrows from his own equity in the pension fund--and repays it, with interest, to himself. As such, this downpayment loan:

- Meets FHA regulations governing the insurability of first mortgages,[4] and--

- Qualifies as a non-taxable transaction in the eyes of the U.S. Internal Revenue Service.[5]

Simply stated, the plan works like this at FCE:

- To be eligible for a downpayment loan from FCE's pension fund, an employee must first be vested in the fund.

  Vesting is a non-forfeitable right to a share of a pension fund that can be collected later even if an employee quits or is fired--although at FCE an employee's right can be cancelled if he commits such wrongdoings as fraud or crime against the company.

  To be vested at FCE, an employee must first work five years and seven months.

- The employee, himself, seeks and oversees purchase of a house. He also takes the initiative to establish his credit-worthiness with a lending institution.

- The employee may borrow up to, but not more than 50 percent of his equity in the pension fund to help him make such a purchase.

An up-to-date and complete description of FCE's pension fund appears in APPENDIX B.

The effect of this concept is that it enables a vested employee to finance up to 100 percent of a house's purchase price, depending on the amount of his equity in the pension fund. Let us now go through an example to show roughly how this concept works at FCE.

- An employee--let us call him Robert Williams--has worked 15 years for FCE and has $6,300 equity in the company's pension fund.

- Mr. Williams has been renting a house in Cleveland, but would now like to buy a new three-bedroom house in suburban Mayfield Heights.

- He finds just the house he wants, talks to a real estate broker, and finds that it would cost him $30,000.

- He then goes to an FHA-approved lending institution to arrange financing.*

- The lending institution checks his credit history and his financial ability to meet monthly mortgage payments.

- They also help him apply to the local FHA office for mortgage insurance.*

- The FHA approves his application, enabling him to make a small downpayment of $2,450 and to get a mortgage loan for the rest of the $30,000 purchase price.

- Mr. Williams does not have the $2,450 in his pocket, so he goes to the administrator of FCE's pension fund for help.

*Th ough part of this example, FHA participation is <u>not</u> a necessary part of the house-ownership concept.

- The administrator then arranges for Mr. Williams to borrow $2,450 from his own equity in the pension fund. Note that the $2,450 meets FCE's requirement that it be no more than half his total equity in the fund ($\$2{,}450 < \frac{\$6{,}300}{2}$).

- Now armed with 100 percent financing, Mr. Williams buys the new house, moves in, and begins making monthly mortgage payments to the lending institution and repaying the downpayment loan to the pension fund.

But how does he repay the downpayment loan? Repayment comes out of his take-home pay. Meanwhile, FCE continues to make contributions to the pension fund in his account.

Did Mr. Williams lose any equity? No. His account in the fund now contains his interest-bearing note for $2,450, the amount he borrowed. As such, the note becomes part of the fund's investment portfolio--and his account in the fund <u>still</u> reads $6,300. So the effect on his equity is <u>as if</u> he never borrowed.

In the long run, of course, he ends up with more equity, because he purchased a $30,000 house with $2,450 of his equity in the pension fund. Bear in mind, it was the $2,450 that triggered his purchase of the house--a purchase that otherwise might never have been made or might have been postponed for years.

INTRODUCTION OF CONCEPT AT FCE

A campaign was worked out with the help of FCE executives to acquaint all FCE employees with the concept. This campaign included the preparation of:

- A press release to all local communications media.

- A letter to each of the 160 pension fund participants.

- A second letter to just the 60 vested employees who had at least $3,000 equity in the pension fund.

- A presentation by Nathan Shafran to a meeting of pension fund participants.

Exposure was excellent, thanks in large part to a local newspaper, which gave the concept front-page coverage with an eight-column banner headline just below the paper's title. The story as published by the Cleveland Plain Dealer, Ohio's biggest newspaper, appears in its entirety in Exhibit 2. Copies of the two follow-up letters appear in PART III.

In addition, an office was set up at FCE to administer installation of the concept. FCE's personnel director was put in charge of the office with instructions to:

- Handle all questions related to the concept.

- Process all downpayment-loan applications.

- Oversee the preparation of standard practice instructions covering policies, standards, and procedures.

- Document pertinent data on all applicants.

- Prepare an annual report on the status and direction of the FCE program.

POLICIES, STANDARDS, AND PROCEDURES

Preparation of standard practice instructions covering FCE's policies, standards, and procedures is essential if the concept is to work smoothly. FCE has not prepared

(text continues after exhibit)

Exhibit 2

STORY ON HOUSE-OWNERSHIP CONCEPT IN THE CLEVELAND PLAIN DEALER

Workers Can Tap Pension Fund to Buy Homes

By Donald Sabath

The federal government has approved a pilot program here which would allow employes to borrow up to half of their vested interest in pension funds for home-purchase down payments.

This is the first such approval in the nation.

The test project will be at Forest City Enterprises Inc., which has amended its employe profit-sharing plan to allow its employes to tap the pension funds.

ANNOUNCEMENT OF THE proposal was made by Nathan Shafran, executive vice president of Forest City, who said the plan would open home ownership to more families in the $10,000 to $15,000 income group.

The plan could pave the way for use of the giant union pension funds around the nation for housing.

About 450 middle-management employes at the home-building, manufacturing and building-supply concern are covered by the pension plan.

At this time, about 60 qualify for the test program.

"WE ARE AT A POINT where an average American is thinking twice about buying a home," said Shafran. "Interest rates are going up again and construction costs keep going up.

"There is no better wedge against inflation than home ownership," he said. "But there is no way at present for the middle-income individual to scrape up enough money

Continued on Page 6, Col. 1

★ From First Page

for a down payment on a house. We think we may have the answer with this plan."

The Internal Revenue Service and the U.S. Department of Housing and Urban Development (HUD) had to approve the plan because of the question of taxability of the loan and FHA regulations on secondary loans.

IRS SAID THE pension funds can be loaned for home down payments and are a nontaxable transaction, since each covered employe is actually borrowing the necessary cash and repaying it with interest.

Shafran noted, however, that since each employe is actually borrowing his own money and repaying it — with interest — to himself, it does not constitute secondary financing within the FHA regulations governing the insurability of primary mortgagees.

Basically, the plan for labor union pension funds is that employer contributions to the pension fund for a participating unionized employe would be used to repay a secondary loan which covers that employe's down payment.

Although no actual loans have been made yet, approval by HUD and IRS clears the way for the actual test here. It is hoped that the proposal will be presented to other corporations and unions this fall.

HUD has awarded a grant of $85,000 for two years to look into the proposal. Planning and analysis of the testing is being done by Gitlan & Franye Inc., here.

such instructions and cannot do so until such time as the concept has been fully tested. Meanwhile, FCE will process all loan applications in accordance with the system described by:

- The policies and standards set forth in Exhibit 3.
- The procedures traced in Exhibit 4.

How long would it normally take to process a downpayment-loan request from the time an applicant completes the loan request form until the time loan money is released? Just one month. But in emergencies, exceptions will be made and elapsed time reduced to less than a week. The loan request form now is use at FCE appears in PART III.

WORKABILITY OF FCE SYSTEM

In effect, Exhibits 3 and 4 describe a system applicable to any pension fund that provides vested equity to participants. To be sure, there would be modifications to fit the unique personality of each pension fund. Regardless, this system should attract many supporters because it:

- Enables employees to buy houses otherwise denied them by their inability to meet downpayment requirements, by:

  Giving them the right to borrow from their own equity in pension funds.

- Protects pension funds from any losses if loans default, by limiting loans to half an employee's equity.
- Enables employees to draw a benefit now, without loss of equity.

(text continues after exhibits)

Exhibit 3

POLICIES AND STANDARDS GOVERNING HOUSE-OWNERSHIP CONCEPT AT FCE

- Each FCE employee vested in the company's pension fund may borrow from only his own equity to help him buy a house.

  A vested employee shall be entitled to one or more loans so long as the total loan amount does not exceed half his equity in the pension fund.

  To be vested, an employee must be salaried and must have worked at FCE at least five years and seven months.

- All loans shall bear interest at the rate of not less than three percent nor more than six percent a year on the unpaid balance.

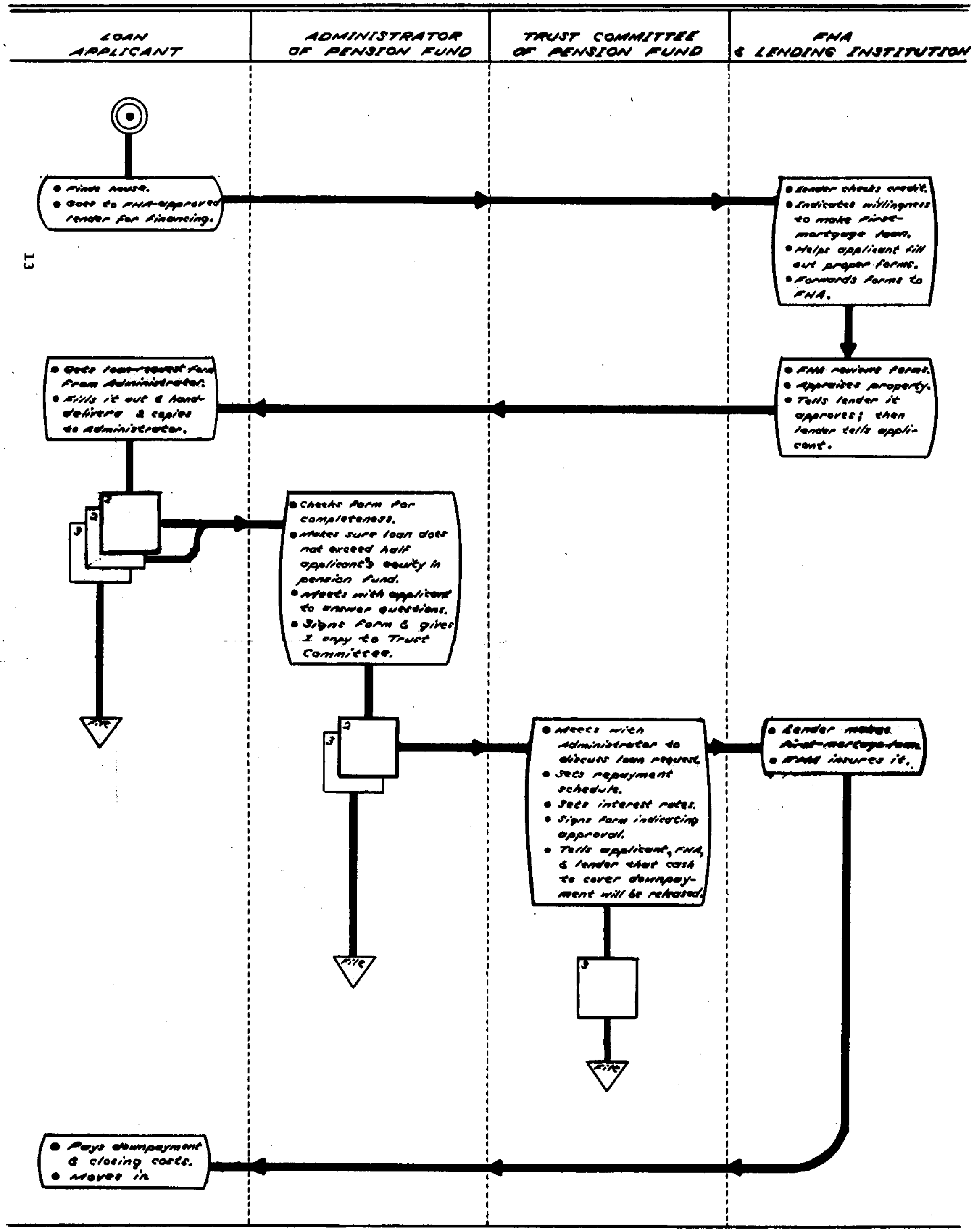
- Repayment shall be made by the employee directly to the pension fund, out of his take-home pay.

- In case of default, upon notice to the employee, the unpaid balance of the loan plus any interest due, shall be charged against his account in the pension fund.

- If an employee retires or dies with his loan still outstanding, the amount distributed to him or his beneficiary shall be reduced by the sum of the unpaid balance and any interest due.

Exhibit 4

FLOW DIAGRAM SHOWING STEPS REQUIRED
TO PROCESS APPLICANT'S DOWNPAYMENT LOAN REQUEST AT FCE



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This assumes, of course, that employees repay their loans at an interest rate equal to that earned by their fund's investment portfolio; and that their loans would otherwise have been invested by the fund in bonds and notes rather than stocks.

- Enables the U.S. Internal Revenue Service to treat such transactions as loans rather than income--and as such they are tax-free.

- Enables employees to qualify for an FHA-insured first mortgage.*

  FHA regulations disallow secondary financing and require proof that an employee can meet downpayment requirements out of his own pocket.

  Employees who borrow from their <u>own</u> equity rather than from a lending institution satisfy that requirement.

- Enables employees to repay their downpayment loans with a small reduction in take-home pay.

  To illustrate, let us assume that Mr. Williams, described earlier, borrows the $2,450 he needs and promises to repay it over a 15-year period at five percent interest on the unpaid balance.

  His monthly payments on that loan are $18.57. If his monthly take-home pay is $1,000, the reduction in pay then comes to less than two percent.

*Or any other first mortgage.

FLAWS IN FCE SYSTEM

These features of the system tell of its workability. But this system is not flawless.

For one, the twin requirement that an employee must work five years and seven months at FCE to be vested, and that an employee can borrow no more than 50 percent of his equity, may force him to wait 10 or more years before his equity is big enough to borrow from.

For another, unions are now reluctant to use pension fund cash for downpayment loans--even though such use, as explained earlier, would not harm a borrower's equity in his pension fund. The reason for this attitude is that pension funds are currently under fire. They are facing what may be the stormiest time in their history, with government officials pressing for sweeping reforms. As a result, unions have indicated a reluctance to test a system such as the one at FCE--although, as will be reported later, they strongly endorse it.

A way must therefore be found to avoid these flaws, one that avoids use of pension fund cash and one that also shortens the time it takes to build up enough equity in a pension fund to cover a downpayment loan.

AN ALTERNATE SYSTEM THAT AVOIDS FLAWS IN FCE SYSTEM

Such a system has already been designed. It is like the one installed at FCE, except for these key differences:

- Lending institutions such as commercial banks, S&L's, and mortgage bankers--rather than pension funds--supply the cash to cover an employee's downpayment.
- An employee may borrow from such institutions an amount up to 100 percent of his equity in the pension fund--rather than just up to 50 percent.

His equity is held in escrow at the lending institution, to be tapped by the lender only in event of default.

Thus, his equity serves as a guarantee that repayment will be made.

In all other respects, the two systems are alike. A quick comparison of the two appears in Exhibit 5. Note that two variations on the FCE system are shown--named "A" and "B". They differ only in that repayment with Variation B comes, not out of an employee's take-home pay, but rather from future contributions an employer makes to its pension fund in the employee's account.

Unlike Variation A, Variation B produces current taxable income to the participant-user. Thus, as the employer makes annual contributions which are used to repay the loan, such contributions, in the years they are applied to reduce the outstanding loan balance, increase the participant-user's taxable income for those years. However, such increases in taxable income will be more than offset by the almost total deductibility of mortgage payments during those years.

How an employee's equity build-up differs under each system is shown graphically in Exhibit 6. Note that at retirement, arbitrarily shown at 30 years of vesting, an employee is better off with the FCE system and with Variation A than with Variation B.

How an employee's equity build-up suffers if his down-payment loan defaults is shown graphically in Exhibit 7, which offers the extreme example of his not meeting a single payment. This graph applies, of course, only to the FCE system and Variation A.

(text continues after exhibits)

Exhibit 5

COMPARISON OF SYSTEMS

QUESTIONS	FCE SYSTEM	ALTERNATIVE SYSTEM VARIATION A	ALTERNATIVE SYSTEM VARIATION B
o Where does cash come from to cover downpayment?	From employee's own equity in pension fund	From such lenders as commercial banks, S&L's and mortgage bankers	✓
o Does cash leave pension fund at time downpayment loan is made?	No	✓	✓
o Is employee's equity in pension fund reduced at time loan is made?	No	✓	✓
o Does repayment of loan reduce employee's take-home pay?	Yes	✓	No
o How is loan repaid?	By employee, out of his take-home pay	✓	By employer's future contributions to pension fund
o How is pension fund protected against loss?	By limiting loan amount to employee's equity in pension fund (50%)	By limiting loan amount to employee's equity in pension fund (100%)	✓
o How are losses from default recovered?	By charging unpaid balance of loan plus any interest due against his account in pension fund	✓	✓
o Is loan tax-free?	Yes	✓	Loan payments made by employer are taxable income for the years in which they are made
o Does loan satisfy FHA regulations governing insurability of first mortgages?	Yes	✓	(Ruling Needed)

NOTE: Check mark (✓) indicates no change from entry in column to the left.

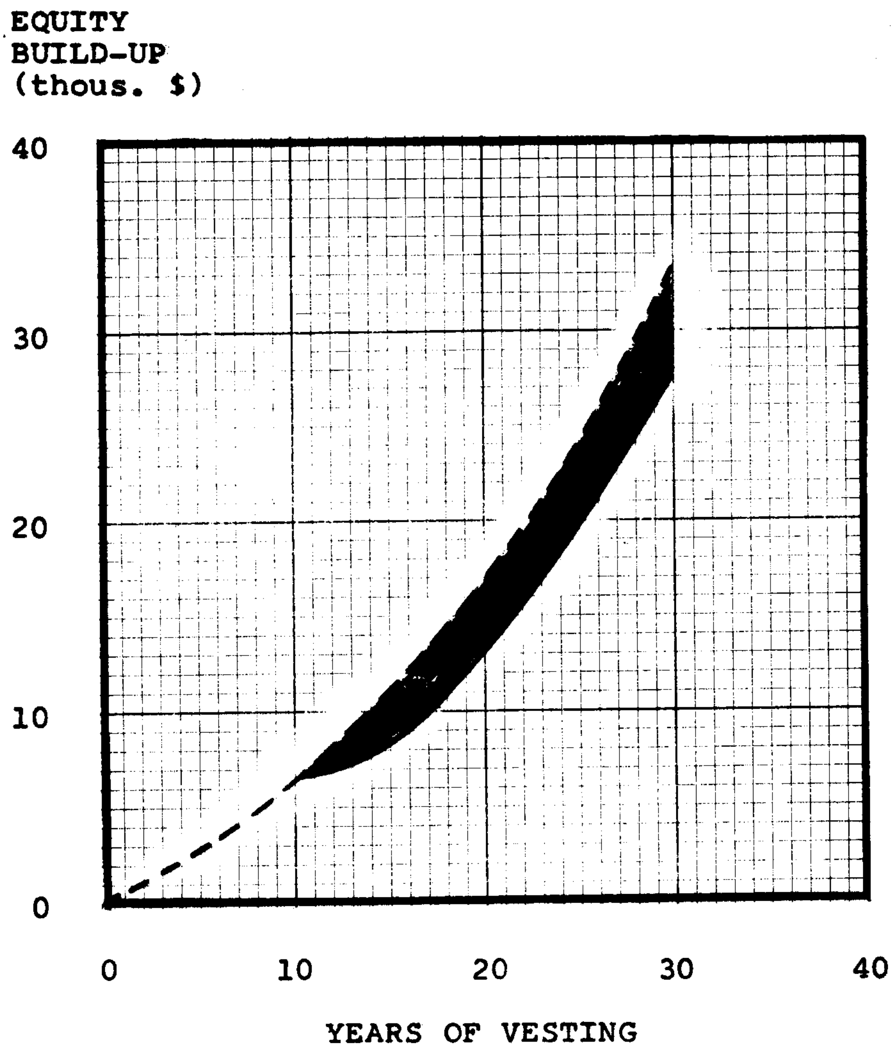
Exhibit 6

ILLUSTRATION OF HOW EMPLOYEE's EQUITY BUILD-UP DIFFERS UNDER FCE SYSTEM & ALTERNATIVE SYSTEM

ASSUMPTIONS: (1) Employer contributes $500 a year at end of year.

(2) Pension fund earns about 5% a year.

(3) After 10 years of vesting, employee borrows $3,200 to cover downpayment, at 5% interest for term of 20 years.



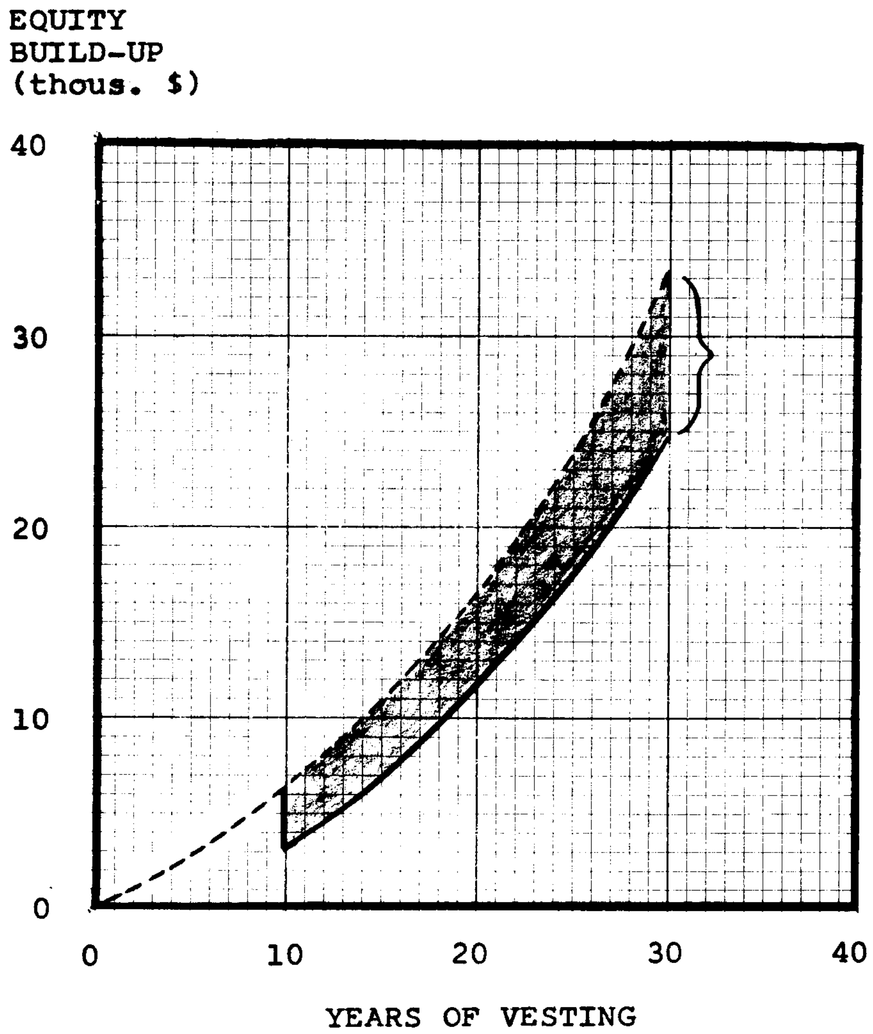
------ Equity build-up under FCE system and Variation A of alternative system.

——— Equity build-up under Variation B.

Exhibit 7

ILLUSTRATION OF HOW EMPLOYEE's EQUITY BUILD-UP WOULD BE AFFECTED IF HIS LOAN DEFAULTS

ASSUMPTIONS:
(1) Employer contributes $500 a year at end of year.
(2) Pension fund earns about 5% a year.
(3) After 10 years of vesting, employee borrows $3,200 to cover downpayment, at 5% interest for term of 20 years.



------ Build-up if downpayment loan does not default.
―――― " " " " defaults.

INSTABILITY OF PRIVATE PENSION FUNDS*

There is yet another flaw, one common to both systems but one that is unavoidable. Suppose a pension fund collapses because a company either goes out of business or liquidates a division? Clearly, if that happens, the employee must continue to bear the burden of repayment--and that would be hard to do, unless, of course, he immediately landed another job at equal pay.

Is this a serious problem? Very much so. An estimated 1,000 pension funds collapse every year, leaving many thousands without pension benefits.[6] Since there are about 34,000 private pension funds in the country, the failure ratio is high. That is one of the main reasons why a Senate labor subcommittee is now probing private pension funds.

Perhaps the most dramatic collapse was that of the Studebaker Division of the Studebaker-Packard Corporation, where 4,080 employees ranging in age from 40 to 60 got only 15 percent of their benefits and many others got nothing.[7]

These 34,000 pension funds cover 30-million employees and have more than $130-billion--a sum which Senator Harrison Williams (D.-N.J.), head of the above-mentioned subcommittee, has called the "most unwatched and unregulated reservoir of money" in the country.[8] He has found that only a fraction of employees covered by pension funds can expect to collect anything when they leave work.

With so many futures at stake, Senator Jacob Javits (R.-N.Y.) has proposed legislation that will make sure that all employees get the pensions they expect. His bill would provide:

*This section of the report applies only to pension funds, and not to profit-sharing plans. All preceding sections apply to both.

- Minimum funding to ensure actuarially sound reserves.

- Federal insurance to cover benefits in case a company fails.

- Pension portability, enabling transfer from one job to another.

If such legislation passes, the effect would be to strengthen the case for using the house-ownership plan at major unions, since the rank-and-file union member would be put at ease--secure in the knowledge that his equity is secure.

REACTION OF UNION PENSION FUND OFFICIALS TO HOUSE-OWNERSHIP CONCEPT

Without exception, officials of union pension funds expressed enthusiasm for the concept, among them:

- William Calfee, Attorney
Baker, Hostetler & Patterson
Union Commerce Building
Cleveland, Ohio 44115

- Mary Faulds, Director
Ohio Conference of Teamsters Pension Fund
1870 East 19th Street
Cleveland, Ohio 44114

- Ralph Helstein, International Vice President
Amalgamated Meat Cutters of America
5806 South Blackstone Avenue
Chicago, Illinois 60637

- Thomas Welo, Secretary
Carpenters District Council AFL-CIO
3615 Chester Avenue
Cleveland, Ohio 44114

Though taken out of context, the quotes that follow offer further testimony that the home-ownership concept is sound, workable, and easy to follow. Mr. Calfee, attorney for both the Carpenters' and the Teamsters' pension funds, made these comments:

> "If I'm sitting on the other side of the table and I'm representing the union, I'll go to the union membership and say: 'Look, boys, I've really got something for you now.'"
>
> "No problems."
>
> "I would sell it to all of the building trades pension funds on the theory that this results in more home ownership, which in turn results in more construction, which in turn results in more work for their men, which in turn makes everything roll."
>
> "Let me say this to you. If I represented FCE's pension fund and FCE was talking to me about this program, I don't think I would have any problem with it. What I would do would be to put a loan provision in the pension fund, which I've done in many company pension funds, to allow the individual to borrow from the pension fund, based upon his vested interest in the fund, and at the going rate of interest."
>
> "I say certainly it's worth exploring. Let me ask you this. Have you ever heard of its being done anywhere with any pension elsewhere?" [10]

Equally enthusiastic about the home-ownership concept were the other three union officials named above. Their comments follow:

> MISS FAULDS: "I think it's a darn good idea. I really go for it. I like it but I didn't understand it up until today."

"We have a lot of younger drivers that won't think of buying a home because they say they can't afford it. However, if it's there in front of them, they say: 'Gee, my children are growing, we can't live in an apartment or rented home, let's buy a home.'"[11]

MR. HELSTEIN: "I don't know why a plan like this, specifically designed to help provide a downpayment loan for the building of a home, the buying of a home, wouldn't be possible."[12]

MR. WELO: "We're always interested in something that helps our members. I can't really find any objection to it."[13]

See also Exhibit 8, which shows a copy of a recent letter from Mr. Welo offering further comment.

CONTRIBUTIONS MADE BY FCE AND FOREST CITY COMMISSION

This report would be incomplete without some word about FCE, whose cooperation enabled initial testing of the house-ownership concept and system; and about the Forest City Commission, whose advice enabled accomplishment of project goals.

Consequently, thanks are due both FCE and the Commission for their contributions. A profile of FCE appears in Exhibit 9 and a listing of Commission members appears in Exhibit 10.

LETTER FROM CARPENTERS
DISTRICT COUNCIL

FRANK J. McNAMARA
PRESIDENT

THOMAS J. WELO
SECRETARY

CUYAHOGA, LAKE, GEAUGA AND ASHTABULA COUNTIES

Carpenters' District Council

OFFICE PHONE
391-2828

CARPENTERS' BUILDING
3615 CHESTER AVENUE - CLEVELAND, OHIO 44114

DISTRICT COUNCIL
MEETS EVERY 2ND AND 4TH
THURSDAY EVENING

September 13, 1971

Mr. Thomas Frayne
Forest City Commission
1545 Leader Building
Cleveland, Ohio 44114

Dear Tom:

First let me apologize for not having answered your request to summarize our reactions to the proposal to use our members' pension monies for down payments on home purchases.

We have not, incidentally, ruled out the possibility of becoming involved in the above proposal and we have asked the actuary of our pension fund to look into the matter. As you know, our inability to get together has stemmed mostly from the fact that this problem is not the only problem faced by us and finding the time to meet and talk is as difficult for us and our actuary as it has been for your office and our office.

Without some statement of the possibility of large enough sums of monies available by persons interested in buying a home, we cannot give a positive yes or no answer. Further, we have brought this subject up at meetings of business representatives as well as membership meetings with very limited response. This causes us to wonder just how much demand there would be even if we were to embark on such a program.

In addition, there is the possibility that if the membership discover that loans are available through their assets in the pension fund for home purchases, they may then say that they want to use that money for automobile loans, etc. We hesitate, therefore, to become involved in the small loan business and even though this is a remote possibility, everyone tries to avoid unnecessary pressures which insistent members can create.

Mr. Thomas Frayne
Page 2
September 13, 1971

These are some of the negative thinkings, but if our pension actuary ever comes up with some favorable figures, we will certainly not be in opposition to the proposals. We could only be considered fools to pass up an opportunity aid our members and aid the industry.

Sincerely,

Thomas J. Welo

Thomas J. Welo
Pension Fund Trustee
Secretary, Carpenters' District Council

Exhibit 9

PROFILE
OF FOREST CITY ENTERPRISES

FCE's beginnings go back nearly 50 years, to 1922, when Leonard Ratner and members of his family formed a partnership to sell lumber. During the 50-year span, Mr. Ratner, still active as board chairman, saw his business:

- Mushroom from a small lumber yard on Cleveland's east side to a sprawling empire with nearly $100-million in sales revenues.

- Jump from just three employees to more than 2,100.

FCE's capabilities cover the whole spectrum of shelter related activity. It sells lumber at wholesale; engages in construction contracting; buys and develops land for sale to house-owners and industrial users; builds single-family houses, low-income high-rise apartments and office buildings; operates retail stores selling mainly building and house-improvement items and appliances, garden supplies, tools, and related items; and acquires and manages commercial properties.

In 1969, HUD awarded an FCE-led consortium a coveted "Operation Breakthrough" contract. FCE is now participating in a $15-million project in which its prototype system will go into production as part of a national HUD demonstration program.

Exhibit 10

LISTING OF MEMBERS OF FOREST CITY COMMISSION

Gerald K. Carlisle, Attorney
Ohio Bar Title Insurance Company

George Chapman, Jr.
Pension Plan Consultant

Thomas Clutterbuck, Executive Vice President
The Cleveland Trust Company

Thomas Frayne, Partner
Gitlin & Frayne, Inc.

Suggs Garber, Attorney
FCE Profit-Sharing Plan

Irving Gitlin, Partner
Gitlin & Frayne, Inc.

Norman Gutfeld, Attorney
FCE Profit-Sharing Plan

Ralph Helstein, International Vice President
Amalgamated Meat Cutters of America

Nathan Shafran, Executive Vice President
Forest City Enterprises

Nicholas Siropolis
Consultant

Sidney Spector, Vice President
The Leader Mortgage Company

William Warren
Corporate Counsel, FCE

Thomas Welo, Secretary
Carpenters District Council AFL-CIO

FOOTNOTES

1. How To Buy Real Estate, U.S. World & News Report, (Toronto: The Macmillan Company, Ltd., 1970), Page 121.
2. Ibid., Page 177.
3. Home Mortgage Insurance, U.S. Department of Housing and Urban Development, (March, 1970), Page 9.
4. Ruling made by FHA on April 15, 1971.
5. Ruling made by Internal Revenue Service on May 6, 1971.
6. "Protecting Pension Plans," Babson's Reports, (June 21, 1971), Page 1.
7. Michael C. Jensen, "Pensions Under Fire," The New York Times, (June 27, 1971), Page 1 of Section 3.
8. "Protecting Pension Plans," Babson's Reports, (June 21, 1971), Page 1.
9. "The Pressure on Pension Funds to Perform," Business Week, (September 11, 1971), Page 96.
10. Gitlin & Frayne, Inc., "Transcript of Calfee and Faulds Interview on Home-ownership Concept;" (February 3, 1971); Pages 3, 7, and 17.
11. Ibid., Page 18.
12. Gitlin & Frayne, Inc., "Transcript of Helstein Interview on Home-ownership Concept," (December 17, 1970), Page 4.
13. Gitlin & Frayne, Inc., "Transcript of Welo Interview on Home-ownership Concept," (December 28, 1970), Page 7.

II--DEVELOPMENT OF PROCESS TO HANDLE DOWNPAYMENT APPLICATIONS WITH NEGLIGIBLE PAPERWORK AND OVERHEAD

In interviews with officials of union pension funds, a recurring theme was cost. How costly would it be to install and debug a house-ownership system? And once properly installed, how costly would it be to run it routinely? Estimates of such costs are, of course, lacking, since FCE's pilot program is in its infancy.

However, even if such estimates were available, it is likely that union pension funds would have to add overhead if all paperwork were done in-house, as it now is done at FCE. That in itself could discourage unions from testing the system, since they object when proposals call for added overhead.

To meet that objection, a process was worked out with the help of a mortgage banker, The Leader Mortgage Company, that would all but eliminate such paperwork at the offices of union pension funds. Before describing how it would work, let us first describe what Leader Mortgage does:

- Although Leader Mortgage is a mortgage banker, they actually have very little to do with banking.

  What they do is act as middleman between Cleveland real estate brokers and investors.

- By keeping in close touch with brokers, Leader Mortgage originates mortgages--that is, they lend people money to buy houses.

- They then warehouse the paper until they have a bundle big enough--say $2-million worth--for sale to such institutional investors as S&L's and insurance companies.

- As a rule, Leader Mortgage takes one percent of the face amount of the mortgage as a so-called origination fee.

With this as background, it becomes apparent how mortgage bankers like Leader Mortgage could play a pivotal part in reducing a pension fund's paperwork and overhead to levels acceptable to union officials.

The process worked out with Leader Mortgage and their attorney is described in Exhibit 11. The collateral pledge agreement that would be part of this process is also included. With this process, the only costs to a pension fund would be those associated with:

- Preparing downpayment loan application forms.

- Referring applicants to a mortgage banker.

- Keeping records.

Each of these costs could be absorbed by existing overhead. Thus, the added out-of-pocket cost to unions is likely to be negligible.

Exhibit 11

PROCESS FOR HANDLING DOWNPAYMENT APPLICATIONS AT MORTGAGE BANKERS

September 10, 1971

Mortgage loan application would be processed at The Leader Mortgage Company with report to borrower and pension trust as to amount of down payment funds required from pension trust.

Pension Trust would make loan to employee-member with loan agreement of their own choosing providing for deposit or pledge of the funds with the mortgage lender.

Mortgage loan would be closed in an amount sufficient to cover allowable loan plus pledged pension trust funds upon receipt of collateral pledge agreement and funds from pension trust.

Pledged funds would be released to pension trust upon reduction of mortgage loan balance to allowable loan limit. (Estimated at five to six years on a twenty year mortgage loan.)

During term of pledge, interest would be paid to pension trust on pledged funds at estimated average rate of 6%.

Pledged funds could be one large deposit covering several mortgage loans that several employee-members may obtain through The Leader Mortgage Company funded at one particular lender suitable to both the pension trust and The Leader Mortgage Company.

This pledged funds method of supplement to employee-member mortgage financing would relieve the pension trust of collection responsibility as to principal and interest on their loan agreements.

The Leader Mortgage Company maintains mortgage loan warehousing and funding connections with major commercial banking institutions who would be happy to have the residential mortgage loan specialist (The Leader Mortgage Company) administer the above program.

THE LEADER MORTGAGE COMPANY
The Leader Building
Cleveland, Ohio

By Sidney Spector
SIDNEY SPECTOR

COLLATERAL PLEDGE AGREEMENT

THIS AGREEMENT by and between a federally chartered corporation, with its home office at hereinafter sometimes called "the Lender":

For and in consideration of the lending to hereinafter called "Mortgagor", the sum of upon the security of a mortgage deed on property located at 123 West Avenue, Cleveland, Ohio, further known as Sublot 8 in West Avenue Allotment, Cuyahoga County, Ohio, and more fully described in said mortgage deed: The Pledgor agrees and does hereby pledge, deliver and assign to the Lender as and for additional security to and as an inducement for said loan to the Mortgagor, the Pledgor's Savings Passbook Account or Savings Certificate or so much thereof to amount to the principal amount of and numbered No. 12345 to be held by the Lender upon the following terms and conditions:

1. Provided said mortgage note, deed and loan agreement between the Lender and the Mortgagor be not at any time in default, the Lender will release from operation of this pledge agreement when the principal balance and all charges thereto of the Mortgagor's contract is reduced to

2. Upon default by the Mortgagor of such nature that the Lender deems corrective action must be taken, it will:

    a) Notify the Pledgor of such default and give the Pledgor the option of either purchasing without recourse, the loan account, mortgage deed, note, contract and loan agreement from the Lender at the Mortgagor's balance at which time the pledged funds shall be released to the Pledgor, or forfeiting to the Lender the pledged funds in the following manner:

        (1) If foreclosure is instituted and sale of the mortgaged premises is had to one other than the Lender, the Lender shall apply the net cash proceeds of sale to discharge the Mortgagor's balance and should such sale proceeds be insufficient to satisfy the Mortgagor's balance aforesaid, then the Lender may withdraw from the pledged funds the whole, or so much of the withdrawable value, including dividends added, as may be required to meet the deficiency in the proceeds coming from such sale and the balance in the account, if any, shall be returned to the Pledgor.

        (2) If the foreclosure is instituted and sale of the mortgaged premises is had and the Lender is the highest bidder and acquires title to the mortgaged premises, the Pledgor shall be notified of this fact

and the Pledgor may redeem, and the Lender shall convey title to the mortgaged premises by limited warranty deed to the Pledgor when there is paid to the Lender the entire balance of the Mortgagor's account, at which time this agreement and the pledged funds shall be released to the Pledgor and marked cancelled. Upon the Pledgor's failure to redeem as aforesaid, the entire amount pledged, including dividends added shall be retained by the Lender as its liquidated damages.

(3) If the Lender should otherwise acquire title to the mortgaged premises or consent to a compromise of the default of the Mortgagor including an extension of or an increase in the amount of the debt of the Mortgagor, the Pledgor shall be notified of such fact and shall either purchase the Mortgagor's account from the Lender, at which time this agreement and the pledged funds shall be returned to the Pledgor or upon Pledgor's failure to redeem, the Pledgor shall be deemed to have agreed to pay to the Lender as liquidated damages the balance of such passbook account together with dividends added.

Whenever notice is required to be given to the Pledgor by the Lender, it shall be given by registered or certified mail sent to the last known address of the Pledgor as shown on the books of the Lender and once notice is given, the Pledgor shall have 15 days from the date of such notice to act. Whenever the term "Mortgagor's account" is used herein, it shall refer to the principal balance owed by the Mortgagor on account of the mortgage note executed by him, interest due to date at the default rate, advances, charges, fees and costs incurred by the Lender and as permitted by the mortgage deed, or by loan contract or by law and shall include the Lender's attorneys' fees, all of which shall be brought down to the date that the Pledgor is to act. Whenever the Lender shall have the power to deal with the pledged funds and for that purpose, any officer of the Lender is hereby irrevocably appointed the attorney in fact of the Pledgor to act in his place and stead to the extent of this agreement and the Pledgor hereby ratifies and confirms the acts of his attorney and the withdrawals made thereto.

This agreement and any extensions thereof made pursuant hereto shall be binding on the Lender, its successors and assigns, and the Pledgor, his heirs, successors and assigns.

IN WITNESS WHEREOF, this Collateral Pledge Agreement has been signed and delivered in duplicate this _____ day of ___________, 19 ___.

ATTEST: LENDER - PLEDGEE

_______________________ By _______________________

WITNESSES: (To Pledgor)

____________________ ____________________ (Pledgor)

____________________ ____________________ (Pledgor)

III--CASE HISTORY OF A HOUSE PURCHASE BY MISS BESSIE SHORT (Fictitious Name)

A year-long search ended for Miss Short on August 30, 1971. On that day she moved into a sparkling new, 7-room townhouse condominium in Parma, Cleveland's most populous suburb. Traced below is the train of events leading up to her purchase of the townhouse--including her downpayment loan from FCE's pension fund.

For the preceding four years, Miss Short had been renting a three-room apartment in suburban Brooklyn. Her monthly payments came to $165. What led her to give up apartment life for that of a house owner?

"I was sick and tired of living in an apartment," said Miss Short. "My rent rose yearly with no improvements by the landlord. Repairs were few and far between. I was often without hot water. Hippies and motorcyclists began moving in. My life style clashed with that of my neighbors. So I decided to do something about it--a year ago."

The first person she turned to for help was her boss. On his advice, Miss Short began her search for a house by first looking at suburban neighborhoods, then considering each one in a larger context--the community. A key question, her boss advised, is the community picture. Is it one of upswing or downswing? Keeping this advice in mind, Miss Short, in January, 1971, narrowed her choices to those areas lying within a 15-minute drive of FCE's main offices, where she works as an executive secretary.

Having done that, Miss Short began studying the real estate pages of Cleveland's two newspapers, <u>The Cleveland Plain Dealer</u> and <u>The Cleveland Press</u>, until one March evening an advertisement heralding the virtues of condominium living caught her eye. It read as follows:

> "Picture a life that's styled to
> offer the ease and sophistication
> of the California concept of living.
>
> "Picture a whole new lifestyle to
> which you will become accustomed

> without any trouble at all...the pride and security of house-ownership without the worries and responsibility of maintenance.
>
> "No snow shoveling, no lawn care, no repairs."

To see for herself, Miss Short drove out that very evening to the site of the condominiums, to an area called Concord Square Village in suburban Parma, located just a 10-minute drive from work. "It was love at first sight," said Miss Short. The townhouses blended with the sylvan surroundings. On one side of the development was a heavily wooded park and on another side a municipal golf course. "It was precisely what I wanted," added Miss Short. "It was attractive, was close to shopping centers, and had privacy."

The next day, she called the agent for the developers to arrange to see the model townhouse and to inquire about the purchase price and about operating costs.

Not trusting her impulses, she visited the development with her boss--a man expert at matching value with price in the house-building industry. The purchase price was $31,000, with 20 percent down. After he and Miss Short toured the development and inspected the model townhouse, his capsule judgment was: "It's a good buy."

Fortified, Miss Short then went to The Broadview Savings and Loan Association for a mortgage loan. She asked the branch manager for an estimate of what her monthly payments would be for a loan amortized over either 25 or 29 years and with either 20 percent or $10,000 down. The branch manager's estimates follow:

EXPENSE ITEM (Interest)	25 YEARS 20% DOWN (7%)	25 YEARS $10,000 DOWN (6-3/4%)	29 YEARS 20% DOWN (7%)	29 YEARS $10,000 DOWN (6-3/4%)
Mortgage payments	$175	$146	$167	$138
Real estate taxes	45	45	45	45
Maintenance	26	26	26	26
Insurance	5	5	5	5
	$251	$222	$243	$214

After comparing these Miss Short decided to seek a mortgage loan amortized over 29 years with a 6.75 percent interest rate and $10,000 down. The $214 monthly payment, reasoned Miss Short, was an amount "I could live with." Her monthly take-home pay is about $800.

But at the time, Miss Short lacked enough cash in her savings account to meet her $10,000 downpayment requirement. Disappointment set in--but only momentarily. For, a month later, in May, she was given a letter to type. The subject was:

- An announcement to all vested FCE employees that the company's pension fund had been amended to allow them to borrow from their own equity in the fund in order to make a downpayment on a house purchase.

  (See Exhibit 12 for a copy of the letter; see also Exhibit 13 for a copy of the follow-up letter mailed to all vested employees with $2,000 or more equity in the pension fund.)

As soon as Miss Short finished typing the letter, she talked to her boss about the amendment. "It's a great thing for employees," she told him. "How can I take advantage of this opportunity?"

Her boss encouraged her to meet with FCE's personnel director, who doubles as administrator of the pension fund. She met with him that day. His records showed that Miss Short had an equity of $8,600 in the fund. She needed to borrow just $4,300 of that amount, since she already had enough in her savings account to cover the rest of the $10,000 downpayment. Note that the $4,300 meets FCE's requirement that vested employees may borrow only up to half their equity.

Next, the personnel director asked Miss Short to fill out FCE's downpayment loan request form. A copy appears in Exhibit 14. He then sought--and got--the approval of the fund's administrative committee. Soon after, he called Miss Short to tell her the good news.

It was still June when Miss Short again met with the bank to tell them that she could indeed pay $10,000 down. At about the same time, she also picked out the townhouse she wanted and upon doing so, she gave the developers a note for $1,000. A copy of the note appears in Exhibit 15.

Then, after consulting with FCE's legal counsel, Miss Short gave the pension fund's trustee bank, The Cleveland Trust Company, a note promising to repay in 15 years, with five percent interest on the unpaid balance, the $4,300 she borrowed from the fund. See Exhibit 16 for a copy of the note. Her monthly payments would now total $247, broken down as follows:

Mortgage loan payments	$138
Real estate taxes	45
Downpayment loan payments	33*
Maintenance	26
Insurance	5
	$247

*Though shown here on a monthly basis, Miss Short actually chose to repay her downpayment loan on a yearly basis.

Note that her average monthly payment of $247 approximates the payments she would have made had she elected to pay just 20 percent down ($6,200) rather than $10,000 down:

<u>20 Percent Down ($6,200), Over</u>:

25 years	$251
29 years	$243

<u>$10,000 Down, Over</u>:

29 years	$247

Next, Miss Short gave a note to Broadview Savings & Loan promising to repay in 29 years, with 6.75 percent interest on the unpaid balance, the $21,000 mortgage loan. See Exhibit 17 for a copy of the note.

After adding closing costs--including those for a credit report on Miss Short, for preparation of the title document, and for property appraisal--her house's total purchase price came to $31,444. An item-by-item breakdown appears in Exhibit 18.

The entire process took three months--from the time Miss Short first learned she could borrow from her own equity in the pension fund (May 26th) until she moved in (August 30th).

Exhibit 12

FIRST LETTER
TO ALL VESTED FCE EMPLOYEES

FOREST CITY EN

10800 BROOKPARK ROAD
CLEVELAND, OHIO 44130
PHONE: 216-267-1200

May 26, 1971

Dear Fellow Employee:

In May, 1971, the Forest City Enterprises Employees' Profit Sharing Plan was amended to allow a Participant to request the loan of a limited amount of money from the Trust Fund for certain purposes.

The Participant may request a loan from the Fund if he needs the money to make a down payment on a home, or for another necessity, such as a child's education or to meet an emergency resulting from sickness. Such a loan, if approved by the Administrative Committee, is limited to a portion of the Participant's interest in the Fund. Interest charges and repayment arrangements will be determined when the loan request is approved.

You may contact Mr. Sam Krentzman, Personnel Director, for further information on these new loan provisions.

Yours truly,

Max Ratner
President

MR:al

Exhibit 13

SECOND LETTER TO FCE EMPLOYEES
WITH $3,000 OR MORE VESTED EQUITY

FOREST CITY E

CLEVELAND, OHIO 44130

PHONE: 267-1200

August , 1971

Dear

The Company has obtained approval from the United States Internal Revenue Service for a plan which permits you to borrow up to one-half of the funds currently credited to your account in the Employees' Profit Sharing Trust to help you buy a home.

You may apply for this benefit to cover (or help cover) a down payment on a home or condominium of your choice. The home you select need not be new and it doesn't matter who built it.

If you use this benefit during your employment you will continue to be a member of the Profit Sharing Plan family and your account will continue to share in its benefits.

The amount that you receive from the Trust will be in the form of a loan, with reasonable repayment terms and bearing a reasonable rate of interest. The money thus loaned to you will not be taxed as current personal income.

On the other hand, since your account in the Employees' Trust is maintained for your benefit in accordance with the terms of the Plan, you should inform your real estate agent and the bank that grants you a mortgage, that the loan granted to you by the Trustee is not the type of loan that will impair your buying power or credit or the F.H.A. insurability of your mortgage loan.

When you are ready to use this benefit, please call or write to Mr. Sam Krentzman. He will review your needs and prepare the necessary papers in connection with an application for a loan from the Employees' Trust.

Sincerely,

M. Ratner

Max Ratner
President

Exhibit 14

DOWNPAYMENT LOAN REQUEST FORM
FOR FCE APPLICANTS

Cleveland, Ohio

Date____________

The Administrative Committee
of the Forest City Enterprises, Inc.
Employees' Profit Sharing Trust

Gentlemen:

The undersigned hereby applies for a loan from the Forest City Enterprises, Inc. Employees' Profit Sharing Trust in the sum of $__________. Such loan is needed by me to finance my purchase of a home for my use, and will be used by me exclusively for that purpose. Upon the granting of this request, the Trustee's check for the loan amount should be made payable to the order of the undersigned and __________________________________ (insert name of bank or escrow agent) in connection with the financing of the home being purchased by me.

Further information respecting the home I am purchasing and my financing requirements are being separately submitted.

I understand and agree that, if such loan is made to me, I shall be obligated to repay the amount loaned to me with interest and in installments established by the Committee, and that I will sign a promissory note evidencing such obligation on my part.

Very truly yours,

____
(Participant in the afore-mentioned Trust)

Exhibit 15

MISS SHORT's DEPOSIT NOTE TO MULTIPLEX, INC.

PROMISSORY COGNOVIT NOTE

AMOUNT $ 1,000.00

DATE June 15, 1971
City of Cleveland,
Cuyahoga County, Ohio

FOR VALUE RECEIVED, the undersigned maker or makers promise to pay to ~~ZEPKIN & CRISAFI REALTY INC.~~ MULTIPLEX, INC. or order, the sum of One Thousand and no/1000 Dollars ($ 1,000.00) with the interest at the rate of six (6) percent per annum. Said sum shall be due and payable immediately upon demand.

Any holder hereof may declare the entire amount due at any time after date hereof. Upon such declaration the entire sum shall be immediately due and payable.

Any attorney-at-law may appear in an action on the debt hereby evidenced after said note becomes due, in any Court of Record situated in the County where the maker or makers reside or in the County where the maker or makers executed this warrant, and waive the issuing and service of process and confess judgment against the maker or makers, jointly and severally, in favor of the holder, for the amount then owing hereon with interest, together with the costs of suit, and thereupon, release all errors and waive all rights of appeal from the judgment rendered.

Exhibit 16

MISS SHORT'S
DOWNPAYMENT NOTE

NOTE

$4,300.00 Cleveland, Ohio, August 17, 1971

The undersigned, Bessie Short, promises to pay to the order of THE CLEVELAND TRUST COMPANY, Trustee of the Forest City Enterprises, Inc. Employees' Profit Sharing Trust (herein called TRUSTEE) the sum of FOUR THOUSAND THREE HUNDRED DOLLARS ($4,300.00) plus interest on the unpaid principal at the rate of five percent (5%) per annum until paid.

Principal shall be due and payable in consecutive annual installments on or before the 17th day of each August following the date of this note, each such installment to be in the minimum amount of $286.67, until the entire principal shall be paid. Interest accrued on this note shall be due and paid on each date on which a principal installment is due and payable.

Payments hereon shall be applied first to accrued interest and then to principal.

In the event the undersigned, as a participant in the Forest City Enterprises, Inc. Employees' Profit Sharing Plan and Trust, or the undersigned's beneficiary shall become entitled to a distribution under that Plan, the unpaid balance of this note, whether or not then due, together with unpaid accrued interest thereon, shall be charged against and paid from the undersigned's distributable interest before any distribution shall be payable or paid.

If any installment of principal or interest is not paid when due, if any voluntary petition by or any involuntary petition against the undersigned shall be filed pursuant to any chapter of the Federal Bankruptcy act, if the undersigned shall make a general assignment for the benefit of creditors or if undersigned should die before this note be paid in full, then the entire unpaid balance of this note, with unpaid accrued interest, shall immediately become due and payable.

In the event that any installment payable on this note is not paid on or before its due date and this note is not renewed, upon 30 days written notice sent to the undersigned at the last address known to the Committee of said Trust, the amount allocated to the account of the undersigned as a participant in said Trust, shall be reduced by the amount of the unpaid balance due hereon, together with 5% interest thereon. Thereupon the undersigned shall be ineligible to share in the contribution by Forest City Enterprises, Inc. to the Trust or in forfeitures of the Trust for the year in which such default occurs.

This Note and the loan evidenced hereby is subject to all of the applicable terms and conditions contained in the Forest City Enterprises, Inc. Employee's Profit Sharing Plan and the amendments thereto.

BESSIE SHORT

Address: 157 Park Lane Drive
Parma, Ohio 44134

Form 6 Rev. - Nov. 1970 DUPLICATE

Exhibit 17

<u>BESSIE SHORT'S MORTGAGE NOTE</u>

Loan No. 14-1-46648-9

THE BROADVIEW SAVINGS AND LOAN COMPANY

CLEVELAND, OHIO

Parma, Ohio, August 18, 19 71

FOR VALUE RECEIVED the undersigned jointly and severally, promise(s) to pay to the order of THE BROADVIEW SAVINGS AND LOAN COMPANY, at any of its offices or at such other place as the holder hereof may designate, the principal sum of Twenty one thousand and no/100-------------------------------------- Dollars ($ 21,000.00) together with interest, from date hereof, at the rate of six and three quarters per cent (6.75%%) per annum, computed for the succeeding month, on the unpaid balance as of the twentieth day of each month, until said principal sum with interest thereon shall be fully paid.

1. Said principal sum and interest shall be payable in monthly installments of not more than One hundred thirty-seven and 68/100---------------- Dollars ($ 137.68) each, commencing on the first day of October , 1971 and consecutively, on the first day of each and every month thereafter, provided, the balance of said principal and interest shall be due and payable three hundred forty-eight (348) months after date hereof. Notwithstanding the provisions contained in this paragraph, the first principal and interest payment hereon may be deferred by The Broadview Savings and Loan Company to a date no later than the sixtieth day next succeeding the day that the mortgage securing the payment of this note is recorded in the records of Cuyahoga County, Ohio.
2. In addition to and at the same time and place said monthly payment is made, the undersigned promise(s) to pay to the order of THE BROADVIEW SAVINGS AND LOAN COMPANY, an amount of money equal to one-twelfth (1/12) of the annual taxes and assessments levied on the real property described in the mortgage securing this note and the improvements thereon, which amount shall be applied upon such taxes and assessments at each tax paying period, together with an amount of money equal to one-twelfth (1/12) of the yearly premium of every insurance policy necessary to insure the buildings, now or hereafter situated upon the premises described in said mortgage, against loss or damage by fire and other hazards as the holder hereof requires.
3. This Note is secured by a Real Estate Mortgage Deed of even date herewith executed by the maker(s) hereof wherein the Grantee is THE BROADVIEW SAVINGS AND LOAN COMPANY. The terms, covenants, conditions, stipulations and agreements contained in such Mortgage Deed, are made a part hereof to the same extent and effect as if the same were fully rewritten herein. Upon the non-performance of any of the provisions of this Note or said Mortgage Deed securing same, or upon the non-payment of any installment provided in this Note when due or within one calendar month thereafter, then the entire remaining amount of unpaid principal of this Note together with advances made by the holder hereof, as provided in this Note or said Mortgage Deed, shall become due and payable, at once, with interest at Eight and three quarters (8.75%) per annum, without notice, at the option of the holder hereof, notice of the exercise of such option being hereby expressly waived. Failure to exercise this option shall not constitute a waiver of the right to exercise the same in the event of any subsequent default.
4. The undersigned, and if there be more than one, each maker hereof, authorize(s) any attorney-at-law to appear for each such maker, in any Court of record in the State of Ohio or in any other State or Territory of the United States, after the indebtedness or obligation herein described becomes due, and waive the issuance and service of process and confess judgment against such maker or makers and against any one or more of the parties liable on this note, including but not limited to guarantors or endorsers hereof in favor of THE BROADVIEW SAVINGS AND LOAN COMPANY or any holder of this Note, for the amount then appearing due, together with costs of suit, and thereupon to release all errors and waive every right of appeal and stay of execution. The undersigned, where more than one, are jointly and severally liable hereon, including the corporate maker hereof, and this warrant of attorney to confess judgment is a joint and several warrant of attorney. Presentment, protest and notice are hereby waived.

____________________ A CORPORATION

____________________ (Bessie Short)

WARNING - - - by signing this paper you give up your right to notice and court trial. If you do not pay on time a court judgment may be taken against you without your prior knowledge and the powers of a court can be used to collect from you or your employer regardless of any claims you may have against the creditor whether for returned goods, faulty goods, failure on his part to comply with the agreement, or any other cause.

By____________________ ____________________

Its____________________ ____________________

WARNING - - - by signing this paper you give up your right to notice and court trial. If you do not pay on time a court judgment may be taken against you without your prior knowledge and the powers of a court can be used to collect from you or your employer regardless of any claims you may have against the creditor whether for returned goods, faulty goods, failure on his part to comply with the agreement, or any other cause.

By____________________ ____________________

Its____________________

Exhibit 18

BREAKDOWN OF WHAT MISS SHORT PAID FOR HER TOWNHOUSE

BUYER STATEMENT

THE BROADVIEW SAVINGS AND LOAN COMPANY
8031 West Ridgewood Drive Parma, Ohio 44129
September 2, 1971

Proration Date 8-30-71
Transfer Date 9-01-71

Miss Bessie Short

Property: 157 Park Lane Drive
Parma, Ohio 44134

Loan No. 14-1-46648-9

Seller: Multiplex, Inc.

	Charges		Credits	
Sale Price	$ 31,000	00	$	
Deposit With Seller			1,000	00
Deposited in Escrow			8,550	00
Per Letter			875	00
Loan Approved			21,000	00
Property Ident	40	00		
Title Document	63	00		
Recording Fees	13	35		
Insurance 8-30-71 - 6-29-72	35	31		
Tax Proration 1-1-71 - 8-30-71			19	35
Mortgage				
Rent Proration				
Interest 9-1-71 - 10-1-71	118	12		
Service Fees				
Escrow Fees ½ each	50	00		
Additional Fees				
Appraisal Fee	50	00		
Credit Report, Tax Search & Drawing Papers	50	00		
THE FOLLOWING ITEMS HAVE BEEN CREDITED TO YOUR ESCROW RESERVE ACCOUNT:				
Tax				
Insurance				
Balance due Miss Short	24	57		
	$ 31,444	35	$ 31,444	35

KEEP FOR YOUR PERMANENT RECORDS

APPENDIX A

WHY SO FEW EMPLOYEES HAVE PARTICIPATED IN PILOT PROGRAM AT FCE

As noted earlier, this program has yielded just one downpayment-loan applicant who has been processed through all steps, including the final step of actual house-ownership. To find out why, these steps were taken:

- An up-to-date listing was developed of all FCE employees who are participating in the company's pension fund, showing for each participant:

  His equity in the pension fund,

  His vested equity, and also--

  His year of employment with the company.

- A questionnaire was prepared and mailed to all participants with a vested equity of $3,000 or more, to find out how many already own a house and how many rent.

ANALYSIS

The underlying reason why so few employees came forward at FCE is the company's twin restraints that an employee must work at least 5 years and 7 months to be vested and that the employee can borrow no more than 50 percent of his vested equity. As this analysis shows, the effect of these restrictions is to force the average employee to wait more than 10 years before his vested equity is big enough to borrow from. This analysis also shows that the processing of just one downpayment loan applicant really represents a high ratio--roughly 10 percent--of the total potential number of applicants.

As shown in Exhibit 19, FCE's pension fund has 160 participants with a total vested equity of $870,000. The average--or more precisely, the arithmetic mean--is $5,600 per participant. This average, however, is strongly influenced by extreme values that range as high as $43,600 for each of five participants.

Hence, a more meaningful kind of average would be the median vested equity, which comes to just $800 per participant. And since participants may borrow only up to 50 percent of their vested equity, the median borrowing power comes to only:

$400

This means that 50 percent of the participants have less than $400 to borrow from--hardly enough to meet any downpayment need. The distribution pattern among participants is shown in Exhibits 20 and 21. Note in both exhibits the high concentration of participants with a vested equity of less than $5,000.

How the average borrowing power varies with "years of employment" and "years of vesting", is shown in Exhibit 22. Note that the average participant must be employed at least 11 years before his vested equity is big enough to borrow from. By then, of course, he is less likely to be interested in buying a house.

Of added significance is Exhibit 23, which shows that participants with 15 or more years of employment have 81 percent of the total borrowing power, while those with less than 10 years of service have only 3 percent. Clearly, FCE's pension fund is not designed to help employees with little longevity. For instance, they must wait 4 years and 7 months before they become participants. Then their vesting takes place progressively at 10 percent a year, becoming complete only after ten years of participation--or after 15 years of employment.

Add to the foregoing analysis the estimate that the total potential number of downpayment loan applicants is really only:

...and one can only conclude it is not surprising that just one vested employee has participated in FCE's house-ownership program. How the "10" was arrived at is described in Exhibit 24.

Thus far, the analysis has focused on the capacity of participants to borrow from their own vested equity. Equally important is whether participants also desire to buy a house now. To find out, a questionnaire was mailed to all participants with a vested equity of $3,000 or more. Of the 60 who received it, 50 responded. Of the latter number:

- 94 percent (47) said they own a house, and--
- 6 percent (3) said they rent either a house or an apartment

None indicated they were seeking to buy a house. These questionnaire results further re-enforce the conclusion that too few FCE employees have both a current desire to buy a house and enough equity in FCE's pension fund to borrow from to satisfy that desire.

Exhibit 19

SELECTED STATISTICS
ON VESTED FCE EMPLOYEES
(As of December 31, 1970)

No. of participants = 160

	YEARS OF EMPLOYMENT	YEARS OF VESTING	VESTED EQUITY	BORROWING POWER
Median	8	3	$800	$400*
Arithmetic Mean	11	6	$5,600	$2,800
Range	5 to 25	0 to 25	$0 to $43,600	$0 to $21,800

Total vested equity = $879,000

Total borrowing power = $440,000

*Borrowing power is 50% of vested equity.

Exhibit 20

DISTRIBUTION OF VESTED EQUITY AMONG PARTICIPANTS

VESTED EQUITY OF--	NO. OF PARTICIPANTS	
Less than $1,000	81	
$1,000 to $1,999	14	
$2,000 to $2,999	5	
$3,000 to $3,999	5	
$4,000 to $4,999	7	112
$5,000 to $5,999	4	
$6,000 to $6,999	3	
$7,000 to $7,999	2	
$8,000 to $8,999	5	
$9,000 to $9,999	1	15
$10,000 to $10,999	3	
$11,000 to $11,999	3	
$12,000 to $12,999	1	
$13,000 to $13,999	1	
$14,000 to $14,999	2	10
$15,000 to $15,999	5	
$16,000 to $16,999	4	
$17,000 to $17,999	0	
$18,000 to $18,999	1	
$19,000 to $19,999	4	14
$20,000 or more	9	9 *
		160

*Five of whom have a vested equity of $43,600 each.

Exhibit 21

PERCENTAGE OF FCE EMPLOYEES
WITH LESS THAN SPECIFIED AMOUNT
OF VESTED EQUITY & BORROWING POWER

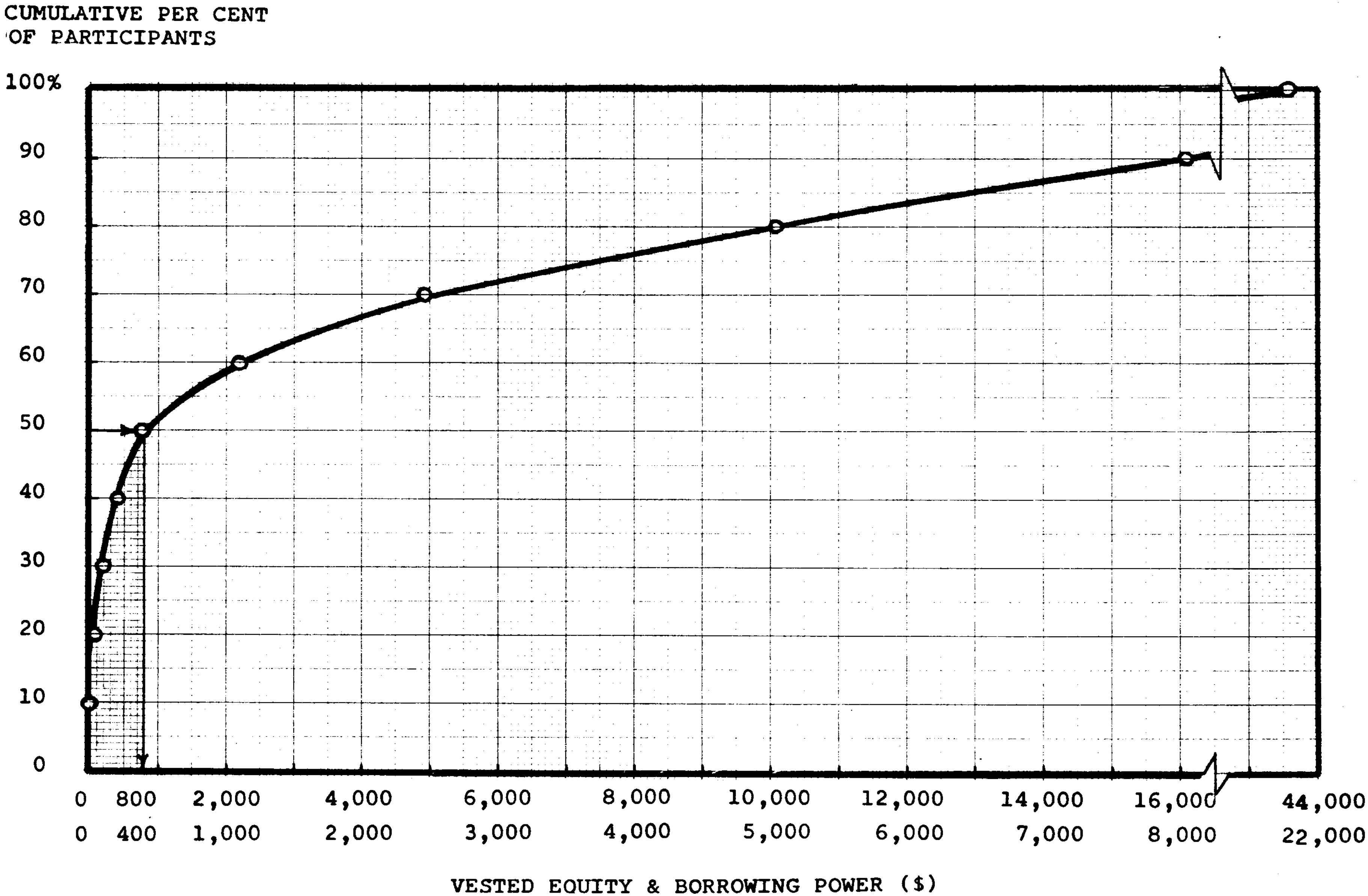


Exhibit 22

HOW AVERAGE BORROWING POWER
VARIES WITH YEARS OF EMPLOYMENT & VESTING

YEARS OF--		NO. OF PARTICIPANTS	PARTICIPANTS' AVERAGE BORROWING POWER
EMPLOYMENT	VESTING		
15 or more	10 or more	37	$9,570
14	9	6	$3,140
13	8	3	2,810
12	7	6	1,980
11	6	6	2,830
10	5	10	1,300
9	4	11	$ 630
8	3	20	340
7	2	12	170
6	1	20	60
5	0	29	-0-
		160	

Exhibit 23

HOW VESTED EQUITY & BORROWING POWER VARY WITH 'YEARS OF EMPLOYMENT'

YEARS OF EMPLOYMENT	TOTAL VESTED EQUITY	TOTAL BORROWING POWER	PARTICIPANTS' SHARE
15 or more	$708,000	$354,000	81%
14	$ 37,000	$ 18,000	16%
13	17,000	9,000	
12	24,000	12,000	
11	34,000	17,000	
10	26,000	13,000	
9	$ 14,000	$ 7,000	3%
8	13,000	7,000	
7	4,000	2,000	
6	2,000	1,000	
5	-0-	-0-	
	$879,000	$440,000	100%

{Errors in column showing TOTAL BORROWING POWER are due to rounding}

Exhibit 24

POTENTIAL NUMBER
OF DOWNPAYMENT-LOAN APPLICANTS

YEARS OF EMPLOYMENT	NO. OF PARTICIPANTS WITH MORE THAN $2,500 OF BORROWING POWER
15 or more	37
14	5
13	1
12	0
11	4
10	0
9	0
8	↓
7	↓
6	↓
5	↓
	47*

*Realistically, the potential number of downpayment-loan applicants is not 47, but 10--if the 37 participants with 15 or more years of employment are discounted as potential applicants. Such an assumption is reasonable given the maturity and discretionary income of almost all 37 participants.

APPENDIX B

DESCRIPTION OF FCE's PROFIT-SHARING PLAN*

Since 1955, FCE has maintained a profit-sharing plan for the benefit of its salaried employees. The plan provides for the accumulation of contributions made by the company in a trust fund for the exclusive benefit of the company's salaried employees who become eligible for benefits under the terms of the plan.

The following describes the main features of FCE's profit-sharing plan. The full and controlling terms of the plan appear in appropriate,lengthy legal documents.

WHO PUTS MONEY INTO THE PLAN?

Contributions may be made to the trust fund by the company from its earnings. These contributions are paid to The Cleveland Trust Company as trustee of the fund. The trustee invests these funds and makes distributions to employees who retire or otherwise become entitled to payments according to provisions of the plan.

No contributions or payments are made to the fund by any employee.

WHO IS ELIGIBLE TO PARTICIPATE?

A permanent, continuously employed, salaried employee with more than 4 years and 7 months of continuous service with the company as of the last day of the calendar year (December 31st) is eligible to participate in the company's contribution to the trust for that year.

*Identified on all earlier pages as a "pension fund."

Interruption of employment by illness, disability or other similar valid cause, for a period not exceeding a total of 5 months, or by service in the armed forces, provided such employee returns to work for the company within 90 days after honorable discharge, is not considered a break in continuous employment.

HOW IS AMOUNT OF EMPLOYEE'S SHARE DETERMINED?

The company's contribution for any calendar year is credited to the account of each eligible participant in proportion to the amount of his credited compensation for such year.

In addition, any amount forfeited by a former participant in the plan--because his employment ceased after he was a participant for less than 10 years or as a result of violation of terms of the plan by such participant--will be credited for such year to the accounts of the remaining eligible participants, in the same manner and proportion as the company's contribution under the plan.

Income, gains, or losses resulting from investments of the trust fund and expenses of the trust will be allocated to the accounts of the participants in proportion to the amounts of their respective accounts.

WHEN ARE FUNDS PAID TO PARTICIPANTS?

Retirement. The participant's entire interest in the trust will be paid to him if his employment with the company ends after his 65th birthday, or after his 55th birthday but after 15 years of continuous employment by the company. Such interest is paid, pursuant to the directions of the administrative committee:

- In a lump sum, or--
- In monthly, quarterly, or annual installments, or--

- With the consent of the participant through purchase of an annuity contract.

Disability. If the participating employee is disabled and the administrative committee concludes that his disability will continue for a year or more following the termination of his employment, or if the employee is laid off by the company due to lack of available work for him and is not recalled within 24 months, then his interest in the trust will be paid to him. Methods of payment are the same as in the case of retirement, as explained above.

Beneficiaries. In the event of his death, the participant's interest in the trust will be distributed to the beneficiary designated by him in a lump sum or in installments; and if no beneficiary is designated by him, then to his legal representatives.

Loans. The participant may request a loan from the plan if he needs the money to make a downpayment on a house, or for another necessity, such as a child's education or to meet an emergency resulting from sickness. Such loan, if approved by the administrative committee, is limited to a portion of the participant's interest in the plan.

Interest charges and repayment arrangements will be determined when the loan request is approved.

Resignations. If his employment is ended under circumstances other than those referred to above, the participant becomes vested with a percentage of his account, namely 10 percent of the amount credited to his trust account for each full year of employment after the commencement of his participation in the plan. For example:

- 0%, the first year of employment, while a participant
- 10%, the second year of employment, while a participant
- 20%, the third year of employment, while a participant

...and so on, until, after 10 full years of continuous employment following the year of eligibility, the participant becomes vested 100 percent. After that amount is computed, it is paid to that participant at a time or times determined by the administrative committee under the provisions of the plan.

Wrongdoing. Irrespective of the age or length of service of a participant, the administrative committee may at any time cancel his interest in the trust fund if it determines that the participant has participated in any fraud or dishonesty towards the company, intentionally or wrongfully damaged the company's property, committed a crime against the company, or without the written permission of an executive officer of the company disclosed trade secrets, has engaged in similar reprehensible conduct, or has entered another business activity competitive with the company.

HOW IS THE PLAN ADMINISTERED?

The plan is administered by an administrative committee consisting of not less than three nor more than nine members. These committee members may be, but are not required to be, employees of the company or participants under the plan.

The company appoints the members of this committee. The members serve without special compensation for their services. The committee arranges for the investment of the trust funds through the trustee. The committee may, if it so decides, invest a portion of any participant's share in annuities or insurance on the life of the participant.

The company reserves the right to amend or terminate the plan. However, such action may not in any way cut off the interest of any participant or the requirement that the accumulated trust fund shall eventually be distributed to participants and their beneficiaries.

FEDERAL INCOME TAXES

Until the participant begins to receive payments from the trust fund there is no federal income tax due or payable by the participant because of contributions to, or earnings of, the fund.

Amounts actually received by the participant from the fund are taxable. If life insurance is purchased for the participant, a small portion of the premium paid by the trustee is taxable as income to such participant.

The investment earnings of the trust fund are not subject to federal income tax.

MAY TRUST BENEFITS BE ATTACHED?

The plan provides that the benefits or proceeds accruing or available to any participant under this plan are not subject to the claim of any creditor of the participant or of his beneficiaries.

TRUSTEE

The Cleveland Trust Company of Cleveland, Ohio, is the trustee, and holds all of the assets and funds of the trust. It invests funds of the trust and makes distributions to the participants in accordance with the provisions of the plan and the direction of the administrative committee. All of the assets of the fund are administered by the trustee for the sole benefit of the participants and their respective beneficiaries.

HOW ARE RECORDS KEPT?

A separate account record is maintained by the trustee for each participant. Every year the company's contribution is allocated among the participants' accounts on the trustee's records in proportion to their respective earnings exclusive of commissions and bonuses that year, under $25,000.

Also annually the trustee allocates among those accounts the amounts forfeited by former employees who left before 10 years of participation, and makes allocation of the trust fund's earnings and changes in market value of investments.

WILL CONTRIBUTIONS EVER GO BACK TO FCE?

In no case can the company's contributions or any part of them, or any of the earnings of the trust, ever be returned to the company. They must all be used exclusively for the benefit of the participating employees or their beneficiaries.

Forest City Enterprises, inc.
Pension fund investment for home ownership. Interim technical report.