

UNIVERSITY OF ROCHESTER

William E. Simon Graduate School of Business Administration

Finance 411
Investments

Professor G. William Schwert
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Quiz # 7: Take-home Assignment, Due in class on May 28, 1997

Write a brief answer to the following questions in the space provided below. ***This is an individual assignment. If you collaborate, you risk failing the entire course.***

1. (10 points)

The information below from *Dow Jones News Retrieval* describes ongoing litigation between many federally regulated thrift institutions and the U.S. government. An interesting by-product of that litigation is a unique security issued by California Federal Bank to its shareholders in March 1995 giving them a share in any settlement received by Cal Fed, if any, as a result of this litigation (ticker symbol CALGZ).

In late July 1996, First Nationwide made an offer to acquire Cal Fed. This deal was consummated in early 1997. At that time, Cal Fed shareholders received another security that represented an additional share of the proceeds, if any, from the litigation (ticker symbol CALGL).

The web page for this course contains two files in self-extracting ZIP format containing daily stock returns (price changes, omitting dividends) to Cal Fed (CAL), its two litigation related securities (CALGZ and CALGL), and the Standard & Poor's 500 index from February 14, 1996 through May 16, 1997. One file is in Excel format (f411calx.exe) and one file is in Eviews format (f411calw.exe). Use these data, and the information from *Dow Jones News Retrieval* to answer the following questions:

- (a) Estimate the risk of the CAL and CALGZ from 2/14/96 through 12/31/96. Comment on your findings and interpret the market's assessment of the litigation.
- (b) Estimate the risk of the CALGZ and CALGL from 1/7/97 through 5/16/97. Comment on your findings and interpret the market's assessment of the litigation.

Extra credit: Why do you think Cal Fed decided to issue these unusual securities to its shareholders? Why did First Nationwide agree to let the old Cal Fed shareholders participate in litigation proceeds as part of its acquisition?

HD Investors Who Bailed Out S&Ls Can Get Money Back, Court Rules
BY By Richard B. Schmitt
CR Staff Reporter of The Wall Street Journal
PD 06/24/94

SN The Wall Street Journal, PG B8
CY (Copyright (c) 1994, Dow Jones & Co., Inc.)

LP Investors who helped rescue a failing savings-and-loan association can get their money back in a breach-of-contract case against federal regulators, a federal appeals court in Denver has ruled.

The decision comes as investors are seeking billions of dollars in damages in similar suits. It also marks the latest in a recent string of stunning court defeats for the government as it struggles to finish cleaning up the thrift mess. Last week, the U.S. Supreme Court rebuffed regulators in a big case against the law firm O'Melveny & Myers.

TD The Denver case arose out of federal efforts in the mid-1980s to encourage investors to take over dead or dying thrifts that the government couldn't afford to liquidate. One big carrot was an accounting device that allowed investors to count certain unrealized losses as a form of capital known as "goodwill." Most of the deals soured after Congress enacted tough new capital standards for thrifts in 1989.

Investors in Security Federal Savings & Loan Association, Albuquerque, N.M., claimed in a suit that the government action, which effectively disallowed the goodwill provision, constituted a breach of contract. The 10th U.S. Circuit Court of Appeals agreed. Rejecting claims of government immunity to such a suit, the court held that the investors were entitled to rescind the transaction and be returned the \$6 million that they sank in the thrift as part of a U.S.-sponsored bailout in 1985.

The decision sets out the governing legal rule for cases in Colorado, Kansas, New Mexico, Oklahoma, Utah and Wyoming, the states under the jurisdiction of the 10th circuit. If adopted by courts in other federal circuits, it could have a dramatic economic impact.

The Denver ruling is at odds with a decision last year by the U.S. Court of Appeals for the Federal Circuit in a case involving Glendale Federal Bank and a number of other institutions. But the appeals court in that case has agreed to reconsider its position, and thrift attorneys said they viewed the latest ruling as a hopeful sign.

"Most of the principal issues involved in the Federal Circuit case were at issue in the 10th Circuit case and were resolved in favor of the thrift institutions," said Steven Rosenthal, a partner in the * Washington office of Morrison & Foerster, which represents California * Federal Bank in one such case. "It is very helpful to our position."

Last week, in the O'Melveny & Myers case, the U.S. Supreme Court gave attorneys and auditors of failed thrifts a major new shield in defending suits by the government. The decision has already been applied in an expansive way by one lower court. Meanwhile, a federal-appeals court in New Orleans issued a ruling this week that raises the degree of wrongdoing that the U.S. must show to hold officers and directors liable for the collapse of a thrift. That ruling potentially affects numerous government suits in Texas.

"There has been a disturbing spate of losses," concedes Jack Smith, deputy general counsel of the Federal Deposit Insurance Corp., adding that the agency is concerned about the Denver ruling, and is weighing an appeal. As the thrift crisis is being resolved and the issue fades from public view, courts may be losing some of their earlier zeal for making sure wrongdoers pay, Mr. Smith suggests.

Edward Felsenthal and Ellen Joan Pollock contributed to this article.

HD Shareholders to Get Goodwill Securities At California Federal
PD 03/16/95
SN The Wall Street Journal, PG C17
CY (Copyright (c) 1995, Dow Jones & Co., Inc.)
LP * LOS ANGELES -- California Federal Bank said it will issue a new security that will allow its investors to cash in big if the thrift wins a lawsuit pending against the federal government.
* California Federal said its current shareholders will receive one "goodwill participation security" for every 10 shares of common stock they now own.
TD The new security, which analysts said is unique and unprecedented, will allow holders to receive a portion of any proceeds the thrift might receive as a result of its lawsuit against the government over so-called goodwill, an intangible asset that used to count as capital for thrifts. Goodwill was an accounting entry related to the amount of liabilities acquired by companies, like California Federal, when they bought insolvent thrifts in the 1980s with government assistance.
* As a result of the thrift bailout law passed by Congress in 1992, goodwill no longer was allowed to count as capital; the change hurt company's like California Federal, for whom goodwill was a major component of capital. In California Federal's case, the goodwill stripped more than \$300 million from its capital base and pushed it perilously close to failure. California Federal has recovered and is profitable now, but it and several other thrifts have sued, saying that the wipeout of goodwill breached contracts the thrifts had with the government.
* California Federal's suit is pending before the U.S. Court of Claims. The issue is expected to wind up before the U.S. Supreme Court.
* Edward G. Harshfield, California Federal's chief executive, said the new securities will allow shareholders "to directly participate in a favorable outcome of our goodwill lawsuit." He said the company has filed a registration statement with the Securities and Exchange Commission covering the new securities and hopes that they'll trade on Nasdaq. Mr. Harshfield noted, however, that "due to the uniqueness of the security, no assurance can be given" as to where they might trade.
* The SEC declined comment on the matter. In trading on the New York Stock Exchange, California Federal closed at \$10.875, unchanged.

HD S&L Stocks, Glendale Victory -3-: Justice Mulling Appeal>CAL
PD 08/30/95, ET 16:24
SN Dow Jones News Service
CY (Copyright (c) 1995, Dow Jones & Company, Inc.)
LP Jerry Stouck, an attorney with Washington, D.C., law firm Spriggs & Hollingsworth who was lead counsel to Glendale Federal, called the 9-2 appeals court ruling a "good strong decision in the thrift's favor."
TD Glendale is seeking about \$1.5 billion in damages from the government. "This was a straightforward affirmation of basic contract law principles," Stouck said. "It says there were contracts, that they were breached and the government must be held accountable."
The lawyer estimated there are 90 to 100 other lawsuits filed by S&Ls pending against the U.S. government on similar grounds. About 60 were already outstanding when about 30 more suits were filed in August because the statute of limitations was expiring on the thrift law that changed the terms of "supervisory goodwill."
Whether other companies can score a resounding win like Glendale

remains to be seen.

"You've got to assume it's good news for everyone, but each case will have to be looked at on its own," Stouck said.

The U.S. Department of Justice is still reviewing the opinion handed down by the appeals court, spokesman Joseph Krovisky said, and hasn't made a decision on how to proceed yet

"Generally, the solicitor general is the one who approves or disapproves all appeals," he said. "That could take some time."

Wall Street, meanwhile, embraced the news sending dozens of thrift stocks flying, some to 52-week highs.

Even so, James Marks, an analyst with Hancock Institutional Equity Services in San Francisco, said he thinks the market still doesn't realize the potential windfall many thrifts stand to get if they're as successful as Glendale.

"My sense is that the market is underreacting to this decision," Marks said. He added that the opinion's clear wording and the near-unanimous decision raises the possibility that the U.S. Supreme Court won't hear the government's case if an appeal is made.

Thrifts with the strongest cases, he said, include Long Island Bancorp Inc. (LISB) and Coast Savings Financial Inc. (CSA).

Other banks with cases pending include, H.F. Ahmanson & Co. (AHM), Standard Federal Bank (SFB), TCF Financial Corp. (TCB) and California Federal Bank (CAL), which issued special securities to its shareholders last month entitling them to a portion of any award the company gets in its case against the government. The securities, trading under the * symbol (CALGZ), hit a high of 8 1/4 today, which meant investors were betting the bank could win damages totaling as much as \$168.3 million.

HD Thrift Industry Wins Big Round Tied to Bailouts

Court Rules U.S. Broke Contract With Glendale In Invalidating Goodwill

BY By Ralph T. King Jr. and Richard B. Schmitt

CR Staff Reporters of The Wall Street Journal

PD 08/31/95

SN The Wall Street Journal, PG A3

CY (Copyright (c) 1995, Dow Jones & Company, Inc.)

LP The savings and loan industry won a key round in a continuing high-stakes battle with the government over an arcane accounting issue that figured in the collapse of hundreds of thrifts.

The Federal Circuit Court of Appeals ruled that the government broke a contract with Glendale Federal Bank of California by invalidating an accounting entry known as goodwill in the aftermath of the thrift-industry bailout in 1989. The government's move had eaten into Glendale's capital and left it close to collapse. Glendale claims damages of \$1.5 billion.

TD The decision will reverberate far beyond Glendale, however, and could possibly expose the government to billions of dollars of losses.

Goodwill is a complex accounting concept that is supposed to represent the value of an acquired company's assets, above the amount paid by the acquirer. In the 1980s, regulators not only allowed thrifts to count goodwill as capital, but often used it to entice healthier thrifts to acquire ailing ones in hopes of bailing them out.

Glendale, for example, got \$734 million of goodwill as a result of buying -- at the government's request -- a failing Florida thrift in 1981. But counting goodwill as capital often made thrifts appear healthier than they were, and enabled them to stay open while actual losses grew.

In the bailout bill passed in 1989, Congress disallowed counting

goodwill as capital. That instantly tore gaping holes in the capital bases of hundreds of thrifts, including Glendale; many failed, and others have had to shed assets and take other measures that ate into earnings.

Glendale's \$1.5 billion damages claim reflects heavy losses it took on asset sales it was forced into to raise new capital, earnings the company asserts it would have had on those assets if it hadn't had to dump them and certain other costs.

Glendale's suit is only one of about 80 cases claiming breach of contract on the goodwill issue, involving a total of about \$15 billion in damages. Thus the decision, if it stands and is applied in other cases, could add billions to the estimated \$130 billion cost of the thrift bailout, and could complicate federal contracting procedures in general.

"It's a huge moral victory for thrifts," says Bruce Harting, an analyst with Salomon Bros. Though the financial benefit for Glendale and other thrift plaintiffs remains unclear because this and other cases could drag on for several more years, the stock prices of some of the thrifts involved soared yesterday.

In composite trading yesterday on the New York Stock Exchange,
* Glendale closed at \$16.625, up \$1.875; California Federal Bank, at \$15.875, up \$1.625; Coast Savings Financial Inc., at \$27, up \$3.25. On the Nasdaq market, Long Island Bancorp ended at \$26.375, up \$3.125. The latter two firms have cases that are believed to be among the strongest pending.

The 9-2 decision essentially holds that regulators granted the goodwill as part of a contract with thrifts that bought troubled thrifts at regulators' request. It reverses a May 1993 decision by a three-judge panel of the appeals court, and upholds a 1992 lower-court ruling in Glendale's favor. "We are extremely pleased with the decision. It's very powerfully written in our favor," said Richard Fink, senior executive vice president at Glendale, based in Glendale, Calif.

The Justice Department had argued that the U.S. was immune from the suit on sovereign-immunity grounds. It also denied that any firm contracts existed with the thrifts, and that in any event, they were always subject to subsequent acts of Congress and regulators.

The appeals court upheld the contracts, however, saying they were a major benefit to regulators looking to defer growing industry losses. It held that Congress could change the goodwill rules, but that it remained liable for damages to Glendale and others to whom it had made specific promises.

"There is nothing extraordinary about the contracts in these cases save for their subject matter and the potential liability to the government," the court held.

A Justice Department spokesman declined to comment on whether the agency will appeal the case to the Supreme Court. A spokesman for the Federal Deposit Insurance Corp., which assumed the liabilities of the former Federal Savings & Loan Insurance Corp., said it has no exposure on this case since it wasn't named as a defendant. It does face potential liabilities on some other goodwill cases pending, added the spokesman, Alan Whitney.

The FDIC told Congress in March that it may need millions of dollars in additional money to cover the costs of the goodwill suits. The court's decision comes just as the thrift-bailout agency, the Resolution Trust Corp., is set to go out of business on Dec. 31.

Several analysts said it was too soon to say how financially rewarding for Glendale and others the ruling could turn out to be. The exact amount of damages still has to be determined in court. "The big

question mark is in what form the awards might come," said Mr. Harting. Among the options are the reinstatement of goodwill, which could be amortized, reducing a thrift's tax bill and thus boosting earnings. Another option: Outright cash compensation reflecting foregone earnings on assets that were liquidated to plug the capital gap left by the nullification of goodwill.

Because of the goodwill exclusion and soured property loans, Glendale faced imminent government seizure in the early 1990s. During the past year, it has returned to profitability, though at a level considered mediocre by banking-industry standards. It recovered by shrinking its asset base to about \$15 billion from \$25 billion, liquidating much of its holdings at fire-sale prices and laying off hundreds of employees.

The appeals court decision also has government contractors in general breathing easier. Many of them had been concerned that a ruling against Glendale would have given the U.S. almost unlimited power in disputes against them. Several industry groups had filed briefs in the case supporting the thrift.

"It would have had an enormous impact on the government-contracting community," said Clarence T. Kipps, Jr., a lawyer at the Washington firm Miller & Chevalier who filed a brief on behalf of the Aerospace Industries Association. "This decision goes a long ways toward clarifying what the law really is, and I think it is clearly correct."

The decision is also a boost for investors who have been recently bidding up thrift stocks in anticipation of a favorable ruling. "We have a list of about 20 companies that stand to benefit from this case," said James Marks, an analyst at Hancock Institutional Equity Services in San Francisco. The firm recently sized up the investment potential of the lawsuit in a research report entitled the "Goodwill Jackpot."

* Among those with the most to gain are those who bought unusual securities issued recently by California Federal Bank, a Los Angeles thrift with a history similar to Glendale's that is a plaintiff in a related goodwill case. Those securities entitle holders to 25% of any eventual recovery in the case.

HD Thrift Rally Looming? -2-: FIRREA Haunting U.S. >GLN LISB
PD 06/10/96, ET 16:18
SN Dow Jones News Service
CY (Copyright (c) 1996, Dow Jones & Company, Inc.)
LP

Among the scores of thrifts suing the government, Long Island Bancorp Inc. (LISB) and Coast Savings Financial Inc. (CSA) are thought to have the strongest cases since the government put in writing contractual clauses regarding the goodwill. Most other thrifts are arguing, like Glendale, that the goodwill arrangement was implicit when they agreed to take over failing savings-and-loan companies. But not every thrift stands to receive an award, experts warn.

Many people on Wall Street think Long Island Bancorp's case is buttressed by its ability to point directly to the hardship created by the Financial Institutions Reform, Recovery and Enforcement Act, or FIRREA, the law that shortened the write-off schedule. The company took over two flagging thrifts in 1983 and 1986, putting on the balance sheet \$500 million in goodwill by 1989. After FIRREA, the company had to undo one of the mergers so it wouldn't taint the core banking unit, Long Island Savings Bank.

TD Keefe Bruyette's Theurkauf thinks Long Island could come forward with a claim for \$1 billion or more against the government. Although there are several variables - how the markets value it and a settlement for less - that translates into a potential upside of as much as \$40 a share. "That's quite a pot of gold down the road," he said. Today, the

stock is trading at 30. News of a Glendale victory could send the stock to around 35, he added.

Salomon Bros. thrift analyst Thomas J. Monaco - who recently penned a report titled "Supervisory Goodwill Litigation...And Justice For All" - says many thrift stocks already have some goodwill value imbedded in them but still stand to gain by putting the capital to use. He still expects the group to get a boost if Glendale wins, but thinks investors should be aware that a lengthy court of claims battle looms ahead.

"The stocks will take off, but I don't know how long they can sustain it" until the claims process is settled, Monaco said.

Any award could be several years away, since each company will have to pursue its case individually and then battle the government in a court of claims.

As for the all-important Glendale, Hancock Institutional Equity Services analyst James Marks sees the thrift's stock getting an initial boost of \$5 a share in a win, or dropping \$2 on a loss. Longer term, the company has a potential to put on extra \$11 a share. Coast Savings could gain an initial \$12 and up to \$30 over time, but lose \$8 given a loss.

A riskier way for investors to bet on the goodwill outcome is to buy CalFed Bancorp Inc.'s (CAL) goodwill participation certificates, which * trade on the Nasdaq small-cap market under the symbol CALGZ and entitle holders to 25% of any court award stemming from its case against the government. There are 5.1 million certificates outstanding. Earlier this month, the certificates hit a 52-week high of \$10, meaning investors were banking on an award of \$204 million.

One note of caution: Cal Fed's certificates only pay off in the event of a cash settlement. "If it's anything but a cash settlement investors may not get paid," said Monaco said. "The better play is Cal Fed itself."

CLM Heard on the Street

HD For These S&Ls, Ruling May Be Money in the Bank

BY By E.S. Browning and Stephen E. Frank

CR Staff Reporters of The Wall Street Journal

PD 07/03/96

SN The Wall Street Journal, PG C1

CY (Copyright (c) 1996, Dow Jones & Company, Inc.)

LP The spotlight has shone on Glendale Federal Bank of California following its impressive Supreme Court victory against the government Monday. But analysts say a number of savings-and-loan associations could gain from the decision, some even more than Glendale.

Among those often mentioned are Dime Bancorp of New York, Long Island Bancorp of Melville, N.Y., H.F. Ahmanson of Irwindale, Calif., and two * Los Angeles thrifts, California Federal and Coast Savings Financial.

TD "We think that there is plenty of opportunity" for investors who buy the thrifts now, says Thomas Theurkauf of New York brokerage firm Keefe, Bruyette & Woods, which specializes in the banking sector.

Following the Supreme Court decision, in which the court ruled that the federal government violated contracts with certain thrifts by changing accounting rules, some investors have sold out and taken their profits, with the result that some of the stocks fell back after hitting highs Monday. Several actually declined yesterday.

"We look at risks and we look at returns. The risk has abated and the return is intact," says Mr. Theurkauf.

The high-court decision that set off this swirl of excitement involves an accounting change mandated by Congress in 1989, which sent a number of S&Ls into bankruptcy and left others severely damaged.

The change hurt healthy S&Ls and other financial institutions that

had agreed to acquire sick thrifts during the S&L crisis. Federal authorities had tried to encourage the acquisitions by allowing the acquirers to account for the sick thrifts' liabilities as an intangible asset, called "supervisory goodwill." Congress took that accounting opportunity away in 1989.

The court, in a 7-2 ruling, held that the federal government violated contracts with the S&Ls by not making them whole after Congress's vote. Left to fend for themselves, the healthy thrifts saw their balance sheets damaged and their stocks walloped.

"We lost the opportunity to merge and to grow when capital was removed from our balance sheet," says a still angry Thomas Ricketts, chairman of Standard Federal Bank in Troy, Mich., which acquired seven ailing thrifts before Congress pulled the rug out. He calculates the balance-sheet damage at the time as \$120 million, and notes that banks typically are asking for 2.5 times that in compensation today.

The optimists calculate that some S&Ls could see their stock appreciate as much as 25% over the next year, if they are fully compensated when their claims are heard.

But others warn that buying S&Ls on that basis remains a speculative investment. It will be a year or more before most of the S&Ls receive any money, and there isn't any guarantee that the court of claims will give them what they think they deserve. In the meantime, the stocks could suffer for any number of other reasons, such as an interest-rate boost by the Federal Reserve.

"The way to play this is to find stocks that are cheap on a fundamental basis," suggests Thomas O'Donnell of Smith Barney, one of the more cautious analysts on the issue. "If you get some windfall profits from a damage judgment, that's icing on the cake. But if you look at this [court decision] as the cake, and not just the icing, you could get really whipsawed."

Mr. O'Donnell considers Glendale Federal and Coast, both of which have gotten heavy attention in the run-up to the court decision, as fully valued already; he has a neutral rating on both, based on their fundamentals. The Smith Barney analyst has a buy rating on Ahmanson, Dime and Charter One Financial of Cleveland, whose prices all are less than 10 times their projected 1997 earnings. He has a weak buy on Cal Fed and Standard Federal, which also have low price-earnings multiples.

David Dusenbury, an analyst with CS First Boston, says investors need to ask whether the potential benefit from a damage award is worth the wait and the uncertainty of the court's actual damage award. Based on fundamentals, he has for some time maintained buy ratings on Cal Fed and Ahmanson, and he says that "the impact of the lawsuit could be a kicker."

Claire Fleming, an analyst with Friedman, Billings, Ramsey in Arlington, Va., says that only Glendale has actually cited a figure -- \$1.5 billion, pretax -- for what it hopes to collect in damages from the government. But Ms. Fleming says that based on her own models, four others -- Long Island Bancorp, Dime, Coast and Cal Fed -- could each collect damages of anywhere from \$600 million to more than \$1 billion, after taxes.

She has buy ratings on all five, including Glendale, though she cautions that any final damage verdicts are at least two years off. If the decision had gone against the thrifts, she says, the only two that would merit buy ratings on purely fundamental grounds would be Dime and Cal Fed.

Mr. Theurkauf of Keefe Bruyette is especially bullish about the decision's impact on the thrifts. Yesterday, he raised his ratings of Long Island, Coast and Dime to buy from accumulate. He reiterated his

buy rating on Astoria Financial and raised Cal Fed to attractive from market performer. But he too has only a market performer, or hold, rating on Glendale.

"The Supreme Court's decision is strongly worded," he says. "It will empower the thrifts and add to the strength of their claims for damages."

Long Island, he says, could go to 40 within a year from yesterday's 32 7/8, Coast could go to 45 from 34 1/2 and Dime could go to 17 from 13 3/4. He calculates that Coast, for example, stands to gain \$18 a share if it gets the damages he expects it to receive. But based on his calculation of the stock's fundamental value, he figures that the market is only crediting it with an extra \$11 for the expected damages. In Glendale's case, he figures that most of the expected gain already is in the stock.

Jonathan E. Gray of Sanford C. Bernstein says thrifts stand to benefit from several positive developments over the next year or two, including this decision, potential acquisitions, and a possible federal decision to stop making them pay insurance premiums for deposits. But, less optimistic than Mr. Theurkauf, he figures a lot of these developments already are priced into the stocks. He says he isn't recommending any thrifts aggressively today.

Analysts say more than 100 thrifts and other institutions could benefit from the decision, but many are insolvent and no longer are publicly traded. So their recommendations tend to focus on a short list of about 15 large, widely traded institutions.

Campbell Chaney, who follows thrifts for Chicago-based brokerage firm Rodman & Renshaw/ABACO, is a bull. He says the court of claims has indicated that it will move quickly to award damages, and that in the past it has been favorably inclined towards financial institutions. Glendale could receive its money by early next year, he says.

He thinks that one of the institutions that could benefit most, for its size, is a small Spokane, Wash., thrift called Sterling Financial, whose claims are unusually high compared to its total market capitalization of less than \$90 million.

The Glendale Effect

Thrift stocks that could benefit from the Supreme Court's Glendale decision announced Monday

THRIFT	STOCK CHANGE SINCE 6/27 (percent)
H.F. Ahmanson (AHM)	+ 2.8%
Astoria Financial (ASFC)	+ 2.8
California Financial (CAL)	+ 2.8
Charter One (COFI)	+ 0.4
Coast Savings (CSA)	+ 8.7
Dime Bancorp (DME)	+ 7.8
Glendale Federal (GLN)	+ 9.2
Long Island Bancorp (LISB)	+11.2
Standard Federal (SFB)	+ 0.7
Sterling Financial (STSA)	+ 2.7

HD First Nationwide in Talks to Buy Cal Fed Bancorp
BY By Steven Lipin
CR Staff Reporter of The Wall Street Journal

PD 07/25/96

SN The Wall Street Journal, PG A3

CY (Copyright (c) 1996, Dow Jones & Company, Inc.)

LP First Nationwide Bank FSB, controlled by New York financier Ronald Perelman, is in talks to acquire Cal Fed Bancorp for between \$22 and \$24 a share, or roughly \$1.15 billion, say people familiar with the situation.

Talks are ongoing, but no definitive pact has been reached yet, these people say. Frank Moore, a Cal Fed spokesman, said yesterday he couldn't comment. A spokesman for First Nationwide also declined to comment.

TD The transaction would create the fifth biggest thrift in the U.S., with over 230 locations and \$31 billion in assets. First Nationwide is strong in Northern California, while Cal Fed's strength is in Southern California.

"It makes good business sense, it's complementary," said Campbell Chaney, an analyst at Rodman & Renshaw Inc.

The possibility of a sale comes as consolidation is picking up among West Coast thrifts. On Monday, Seattle-based Washington Mutual Inc. agreed to purchase Irvine, Calif.-based American Savings Bank in a transaction valued at \$1.36 billion, and many experts are predicting a pickup in takeover activity. The California economy has rebounded, and both in-state and out-of-state institutions want to build up their presence.

Stephen Trafton, chief executive of rival Glendale Federal Bank, told analysts in a conference call yesterday that he wouldn't be surprised to see another acquisition of a California thrift in a matter of days, though he wasn't specific.

Both before and after the announcement of the Washington/American Savings purchase, shares of Cal Fed were climbing on very heavy volume, a sign that word of the talks may have leaked out. Yesterday, 935,000 shares traded hands on no news, compared with average daily volume of about 223,656 shares. The stock hit a new 52-week high, changing hands at \$20.125, up 25 cents, in New York Stock Exchange composite trading yesterday, and is up over 15% since July 15.

The transaction under discussion is said by people familiar with the situation to be a cash acquisition, though it's unclear how First Nationwide, a unit of Mr. Perelman's MacAndrews & Forbes Holdings Inc., would finance the purchase. Mr. Perelman has had little difficulty raising money for previous transactions.

Also unclear is how Cal Fed shareholders will be compensated if federal regulators are required to pay cash back to thrifts as a result of a recent Supreme Court ruling. In early July, the high court ruled that the government had to pay thrifts for damages caused by Congress's decision to change accounting rules that induced them to take over failing savings and loans.

"That could be worth nothing, or \$10 a share," said Mr. Chaney.

* Cal Fed, the Los Angeles-based holding company for California Federal Bank FSB, is a \$14.3 billion-asset thrift with roughly 125 branches and offices. Once close to the brink of failure, the company's financial condition has turned around under Edward G. Harshfield, the company's chief executive. The stock is up 44% in the past 12 months, according to Baseline, a New York financial data concern.

First Nationwide, with about \$17 billion in assets and with 117 branches, is an acquisitive thrift based in San Francisco. Purchased by MacAndrews & Forbes in 1994 from Ford Motor Co. for \$1.1 billion, the company last year purchased SFFed Corp. for about \$250 million. Dallas-based banker Gerald J. Ford, chairman of First Nationwide, holds a roughly 20% stake in the thrift.

"They've said on numerous occasions that they want to buy thrift franchises in California," said Mr. Chaney. Alluding to Mr. Perelman's ability to raise financing on Wall Street, he said "they have the acquisition muscle and the desire."

That Cal Fed is worth \$1 billion or more could not have been predicted a few years ago. The bank was on the brink of collapse in the early 1990s, hurt by the rise in real-estate losses and the economic woes in California. In November 1992, the company's stock hit \$2 a share and the bank had a market value of about \$50 million. But the company averted government seizure and possible bankruptcy filing through a series of maneuvers. It exchanged \$159 million in bonds for a 79% equity stake in the company. It had about \$1.22 billion in nonperforming assets at the time.

In 1993, Jerry St. Dennis, Cal Fed's chairman, was ousted and Mr. Harshfield was brought in as chief executive. Soon after Cal Fed began a process to sell \$1.3 billion in mostly bad loans, raise equity and take other steps to strengthen the company's financial situation. In March 1994, it raised \$173 million in preferred shares, and another \$195 million through a rights offering. It sold \$3.9 billion in deposits in Florida and Georgia. The company has had two years of earnings growth.

Mr. Harshfield "saved the institution, and has been building the health of the organization back ever since," said Mr. Chaney. "And he owns 300,000 stock options."

California Consolidation

A Look at Cal Fed and First Nationwide

	CAL FED	FIRST NATIONWIDE
ASSETS:	\$14.3 billion	\$17 billion
BRANCHES:	118; 88 in Southern California, 24 in Northern California and six in Nevada	117; 90 in California, 24 in Florida and three in Texas
MARKET SHARE:	3.9% in L.A. County	N.A.
HEADQUARTERS:	Los Angeles	San Francisco

Sources: Baseline, company reports

HD Cal Fed, First Nationwide -2: Named California Fedl Bank>CAL
 PD 01/03/97, ET 18:36
 SN Dow Jones News Service
 CY (Copyright (c) 1997, Dow Jones & Company, Inc.)
 LP SAN FRANCISCO (Dow Jones)--First Nationwide Holdings Inc. completed its purchase of Cal Fed Bancorp Inc. (CAL) and its California Federal Bank unit.

TD The merged bank is called California Federal Bank.
 In a press release, California Federal Bank said First Nationwide Holdings' name will not change, nor will that of the bank's mortgage unit, First Nationwide Mortgage Corp.

California Federal Bank said the combined institution has about \$30 billion in assets.

While the merger is effective today, California Federal Bank said,

First Nationwide Bank branches won't adopt the Cal Fed name until the weekend of March 21, when all accounts from both institutions will be converted to one system. Effective March 24, the company said, customers of the old California Federal Bank and the old First Nationwide Bank will be able to conduct business at any of the new Cal Fed locations.

After the branch consolidations in March, the company said, the combined bank will have 229 retail branches.

As reported July 29, each Cal Fed Bancorp shareholder will receive a cash payment of \$23.50 a common share, for a total estimated cash consideration of \$1.2 billion, plus a new security representing a right to participate in the cash proceeds, if any, recovered in California Federal Bank's pending breach-of-contract lawsuit against the federal government.

Shareholders will receive one participation certificate for each 10 common shares of Cal Fed Bancorp held at the time of the closing. The company said it expects the new security to trade on the Nasdaq National * Market under the symbol "CALGL."

At Sept. 30, First Nationwide Holdings, parent company of First Nationwide Bank, had about \$17 billion in assets and \$9 billion in deposits. Cal Fed Bancorp, Los Angeles-based parent of California Federal Bank, had about \$14 billion in assets and \$9 billion in deposits.

HD First Nationwide Buys Cal Fed
PD 01/06/97
SN The Wall Street Journal, PG A7
CY (Copyright (c) 1997, Dow Jones & Company, Inc.)
LP SAN FRANCISCO -- First Nationwide Holdings Inc. said it has completed its previously announced \$1.2 billion acquisition of Cal Fed Bancorp Inc.

The merged thrift, which First Nationwide said is the nation's * fourth-largest, will be called California Federal Bank, or Cal Fed. Four First Nationwide branches and three Cal Fed branches will be closed in March, when the name change will take effect and all accounts will be converted to a single system.

HD First Thrift Regulatory Goodwill Case Set To Begin Monday
PD * 02/21/97, ET 14:48
SN Dow Jones News Service
CY (Copyright (c) 1997, Dow Jones & Company, Inc.)
LP * WASHINGTON (Dow Jones)--Glendale Federal Bank is set to open its case in federal court Monday, seeking to win back \$1.4 billion the thrift says it lost when the government in 1989 disallowed the use of "regulatory goodwill."

* The Glendale case is the first to go before U.S. Federal Claims Court Chief Judge Lauren Smith, and is expected to set the stage for future cases brought by similarly affected thrifts.

TD The goodwill cases date back to the early 1980s, when the Federal Savings and Loan Insurance Corp. encouraged healthy thrifts to take over insolvent ones by allowing the favorable goodwill accounting treatment. Under the plan, the strong thrifts were allowed to depreciate over 40 years the losses of the acquired institutions. But Congress in 1989 ended the practice, forcing the thrifts to write off the regulatory goodwill over five years. Some thrifts had enough cash to ride out the storm, but many others failed.

The issue was reopened in July when the Supreme Court ruled that the government breached its agreement with the industry and was liable for damages. The claims court was ordered to decide how much each

institution was owed.

- * At a pretrial hearing in December, Judge Smith ruled that Glendale and the other thrifts may employ the so-called "lost profits" theory in seeking restitution from the government.

Under the theory, the government would have to pay the institutions for all the profits they would have earned if the regulatory goodwill practice had never been halted.