Plans from the 1930s to Rehabilitate Both Mortgage Financing and the Banks at the State or National Level

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This article provides the outline of a plan by which the State of Ohio could refinance mortgages in response to the current debacle of subprime mortgage lending. It is important to bear in mind that the nature of the mortgage problem in Heartland states like Ohio differs radically from the nature of the problem in Southwestern and Coastal states: The Heartland did not experience the speculative bubble in housing prices after 1999 that the Southwestern and Coastal states experienced.

The article was drafted, beginning in December 2007, pursuant to discussions in Ohio about the nature and possible means of resolution of the current subprime mortgage debacle. The problem is national in scope, but several states already are moving ahead with state or regional solutions because it appears that federal action will be both long in coming and inadequate to deal with the reasonably foreseeable magnitude of the debacle. The state solutions proposed thus far, however, have proved inadequate to provide a floor under housing prices or to provide long-term relief to mortgage borrowers.

General Nature of the Problem

Senior national and state leaders are receiving mainstream economic advice to the effect that the essential idea of modeling likely behavior of mortgage borrowers as the basis for an ongoing resolution of the problems of subprime lending is all that needs to be done. The essence of this advice is that economic actors are rational and that they will modify the behaviors that caused and exacerbated the current problem without further government action once they understand where their models were defective.

The principal economic actors, however, have strong incentives to deny, delay, and obfuscate. That is how we reached the current situation. A recent paper by economists at the Federal Reserve Bank of New York (FRBNY) pointed out explicitly where the standard economic models of mortgage-backed securities issuance involving non-conventional mortgage loans are weak or defective.[1] It is reasonable to predict that the

[*] Disclaimer: The views expressed in this article are entirely those of the writer and do not necessarily reflect the official views of AIER. This article is derived from a presentation to officials of the State of Ohio in Columbus on March 17, 2008. Please address queries to Walker F. Todd at AIER at (413) 528-1216 or walker@aier.org. Recent publications and postings by AIER staff on the mortgage crisis can be viewed at www.aier.org.

publication of this paper will have little or no effect on the behavior of the principal actors in the drama: mortgage brokers, mortgage lenders, servicers of mortgage loans, underwriters of mortgage-backed securities, rating agencies, and purchasers or investors of the securities. We now know that many of the investors are foreign, which is a novel development: The ultimate funders of a significant part of United States mortgage loans have not been foreign since the early part of the 20th century. The reason for expecting the release of the FRBNY paper to have little or no effect on market participants' behavior is that existing circumstances make it worth their while to ignore the points made in that paper. Everyone in this chain of events made mistakes, but no one wishes to pay for them.

Mortgage borrowers caught up in the present debacle also fall into two general categories: speculators, flippers, and utterly unqualified borrowers (for example, those with no income, no visible assets, no money down, and the like), on one hand, and well-intentioned homeowners who qualified for conventional or other lower-rate mortgage loans but who decided that they wanted to reduce their current payments by chasing low initial teaser rates, for example, on the other hand. Borrowers of the former type might even constitute the majority of mortgage borrowers since January 2005 in Sunbelt states and the Greater New York area, places that experienced a bubble in housing prices; borrowers of the latter type predominate in the Great Lakes states and other Midwestern locales with high concentrations of subprime mortgage lending and, more recently, foreclosures.

A host of innocent bystanders have been swept into the subprime mortgage debacle, also: neighboring homeowners whose housing values are dragged down by concentrations of increasing foreclosures, municipal finance officials whose tax receipts are reduced by falling housing values, credit card holders whose interest rates are being increased because lenders are raising threshold credit scores for prime credit in the aftermath of the subprime mortgage debacle, and the like. A quick, efficient, and effective resolution of the debacle would assist the general public by relieving both the aggregate and the specific burdens on the innocent.

Many public policy writers and public officials have suggested that renegotiations of individual mortgage loans between lenders and servicers on one hand and borrowers on the other hand will suffice to resolve the current problem. But the number of vulnerable subprime mortgage borrowers in recent years was so great (estimates vary between 1.8 million and 2 million), and the number of renegotiations was so small (estimated at between 1 and 2 percent of the eligible mortgages since January 2007) that the federal bank supervisory authorities, the U.S. Treasury, and the trade association for the mortgage servicers negotiated and announced a common plan for restructuring subprime mortgages issued between January 1, 2005, and July 31, 2007.[2] Because of various qualifications required for the program, it is estimated that only about 250,000 mortgages would be covered. Thus, the vast majority of subprime mortgages still have no resolution in sight, and there are constitutional questions about whether investors still might be able to sue to protest renegotiations of mortgages covered by the Treasury's program.[3]

All things considered, only governmental action could undo the Gordian Knot of competing interests described above in a short time frame, say two years or less. But federal action is unlikely in 2008 due to the presidential and congressional elections, generally leaving only the states as likely actors. Alternatively, it was not until April 2008 that the presumptive Republican Presidential candidate, U.S. Senator John McCain of Arizona, seemed to understand that any borrowers other than the speculator-flipper-multiple homeowner types had been swept into this debacle. Whatever limited intervention might be acceptable to all parties, it is likely to be too little and too late to do any good for homeowners. Banks and investment banks, however, are another story.[4]

What Was Done in the 1930s

Occasionally since the 1930s, fitful attempts have been made to recreate the thoroughgoing, internally consistent, coherent approach to resolution of insolvency problems that emerged in the early and middle years of the 1930s. For example, the federal loan guarantee programs for the Lockheed Aircraft Corporation (1971) and the Chrysler Corporation (1979) and the Resolution Trust Corporation (RTC, 1991), a device for holding and disposing of assets of thrift institutions that failed in the late 1980s, were loosely modeled on the original Reconstruction Finance Corporation (RFC, created in 1932).

The head of the RFC, 1933-1945, was Jesse H. Jones, a Tennessee-born Texas newspaper owner and business tycoon who had the confidence of leaders of both major political parties, the Hoover and Roosevelt administrations, and Congress. Jones was an important figure in American financial history. He tended to treat the public funds at his disposal as prudently as though they were his own investment funds, and while he was not above accommodating reasonable political requests, he had a great deal of the common sense of someone born in the country and was not afraid to draw a line beyond which he deemed it imprudent to risk public funds. Ignoring inflation, which is always a dangerous thing to do, the RFC's investments during Jones's tenure returned a profit to the Treasury.[5]

It is difficult, but not impossible, to identify someone who could fill Jones's shoes today. During the Chrysler bailout, Treasury assistant secretary Roger Altman nicely protected the public's long-term financial interest in Chrysler, over the objections of management, while limiting the role of organized labor in Chrysler's management after the rescue. When the RTC was formed to deal with savings and loan asset dispositions, Bill Taylor, the former head of bank supervision and regulation at the Board of Governors of the Federal Reserve System, was the consensus choice as the RTC's chairman because of his prior experience, his bulldog personality, and his unquestioned integrity—he was as close to Jesse Jones as we were likely to come in the circumstances.

Jones was unafraid to tangle with the leading figures of his day in finance and industry. He rescued but then replaced the managements of many leading companies, most of which were household names for members of the older generation today. If he thought management was competent, he formally requested letters of resignation in return for a

rescue but left the letters unacted upon. In the 1930s, moral hazard and public indignation about public assistance to banks were reduced by practices like allowing the RFC to replace senior managements of borrowing institutions

The general device for Jones's rescues was RFC purchases of convertible preferred shares, with interest rates priced above the RFC's own cost of funds. Typically, he would inject funds into a corporation for either 5 or 10 years. If the company recovered, the RFC's warrants for common voting equity would increase in value. In any case, if the borrowing company failed to repay the RFC within the specified time, the RFC would own the company. In those cases, Jones saw that it was better (more efficient and, in most cases, more equitable) to leave industry in private hands and, if the RFC acquired control of a company, to return that company to private ownership as soon as possible, usually within a year or two. As an old newspaperman, he had a special fondness for rescuing newspapers, sometimes moving new editors or publishers in from out of town and, if need be, giving them a new RFC grubstake of 10-year convertible preferred stock. An amusing exercise in Ohio would be to identify the modern newspapers whose ancestors did *not* take money from the RFC in the 1930s.

Jones used, as a general rule of thumb, the idea that a corporation worthy of being rescued (instead of liquidated) should have appraised assets equal to at least 90 percent of its liabilities. Essentially, he was betting that well-run companies could raise capital from retained earnings equal to at least one percent of assets each year for ten years, at which time the 10-year preferred stock could be paid off. He also insisted that the RFC's advances be secured, not just by the convertibility feature of the preferred stock but also by the assets of each borrower. In that way, taxpayer risks were minimized. Also, to avoid appearing to reward bad management, he insisted on the receipt of letters of resignation from the top three officers of each rescued company and the right to appoint the chairman and other directors (typically two more) for each company board. He did not always act on those letters or that right of appointment, but often he did.[6]

The RFC created a host of subsidiary lending corporations, several of which are still with us in one guise or another, to address the problems of particular industries. The Export-Import Bank, the Federal National Mortgage Association (Fannie Mae), and the Commodity Credit Corporation all are RFC spinoffs, for example. Those subsidiaries dealt with individual borrowers. The RFC also provided the funding for the Home Owners Loan Corporation (HOLC), an emergency mortgage rescue device created in 1933 (new loans stopped in 1936). Between 800,000 and 1 million non-farm homeowners refinanced their mortgages with the HOLC and avoided foreclosure.[7] A parallel entity, the Farmers Home Corporation, provided analogous assistance to farmers.

While waiting for a federal rescue on the mortgage front, many states in the 1930s acted on their own to head off foreclosures. Several passed mortgage foreclosure moratoria, which on their face unconstitutionally impaired the obligations of contracts. But the U.S. Supreme Court eventually upheld the Minnesota mortgage foreclosure moratorium as a valid exercise of the state's police power in *Home Building and Loan Association v. Blaisdell*, 290 U.S. 398 (1934).

One might conclude rationally from all this that the states would find federal leadership, rules-writing, and refinancing assistance helpful in the present subprime mortgage debacle (predictably to be followed by credit card, credit reporting, credit scoring, debt collection, and other related crises growing out of the same poisoned soil of federal monetary, rules-writing, and bank supervisory mistakes and failures in the early 2000s).[8] However, the states need not wait for federal policy to come around to rational solutions that benefit the general public as much as the solutions benefit the financial services industry.[9] The states both can and should act on their own, and it is foreseeable that successful state experiments would lead to imitation in other states and, eventually, federal action.[10]

What States like Ohio Could and Should Do Today about the Mortgage Debacle

It would be advisable to work with interested professors and graduate students in the state's universities in hammering out an action plan for the state. Litigation against the lending side of the participants in the subprime mortgage debacle ideally should be coordinated through or led by the state's Office of the Attorney General (OAG). Defenses against foreclosures of individual homes can and should be left to the state's bar associations, legal aid societies, and law school clinics. But any class-action defense against foreclosures also should be coordinated or led by the OAG because the plaintiffs in those actions will assert claims that have common public policy elements across the state.[11]

The Federal Reserve Bank of Cleveland (FRBC) also should be consulted on an ongoing basis because it is a potentially valuable source of essential information at little or no cost to the state. The economists at FRBC have begun to monitor the Ohio and regional mortgage debacle closely and expect to have a reasonable base of data on which to begin to frame policy recommendations within the next month or two. Informal consultations between the OAG's staff and consultants engaged by the OAG on the one hand and the FRBC staff on the other hand should be encouraged. A formal consultation at the level of the deputy attorney general or his or her appointee and the first vice president, general counsel, and director of research of FRBC or their appointee probably should occur at least once per month until both sides agree that the crisis phase of this problem is past in Ohio. [Note: Other states could apply this same procedure regarding the relevant Federal Reserve Banks.]

Litigation to resist foreclosures is far from enough to resolve the present problem. For one thing, it is unclear that court decisions adverse to mortgage lenders or servicers can be enforced against remote investors, especially foreign investors over whom the courts of Ohio might lack personal jurisdiction. Politically painful as it might be to do so, history suggests that the most effective approach would be to implement a state-level RFC restructuring of affected mortgage loans.

Covered mortgages could be defined either broadly (like, all floating-rate mortgage loans scheduled to be reset at higher rates, or all fixed-rate mortgage loans with rates greater

than 3 percent above the Treasury's 5-year note financing rate, currently 2.81 percent, regardless of date of issue of such mortgages) or narrowly (like, all floating-rate mortgage loans scheduled to be reset at higher rates for homeowner-occupied housing with positive equity where the mortgage was issued between January 1, 2005, and July 1, 2007, and all fixed-rate mortgage loans like those described above and issued during the same period). A broad definition might attract an unsustainable amount of mortgage refinancing requests, say $5 or $10 billion. A narrow definition, while still politically and fiscally painful, might prove manageable, say $2 to $4 billion.[12]

The state would have to issue bonds in the remaining principal amount of mortgages to be refinanced. Let us assume that $2 billion would be the working total. The state should create an entity or board to issue the bonds (say, for 5-year or 10-year terms, depending on the consensus assessment of how soon the crisis will end).[13] The Home State Savings Bank of Cincinnati rescue for approximately $300 million was funded by the state in a similar manner in 1985.[14] An advantage of issuing refinancing bonds now is that the presence of state financing should place a cap on the rate and concentrations of foreclosures and a floor under housing prices.

The state entity should announce and stand ready to purchase from investors, whether domestic or foreign and including the state's own pension funds, all mortgages or mortgage-backed securities fitting the parameters described above for up to one year after the announcement date. The offered purchase price should be the same price that the lenders and investors advanced or paid, ignoring fees and penalties but taking into account accrued interest already received. Following this procedure should insulate the state from charges from lenders and investors that it was impairing the obligations of contracts or taking private property for public use without just compensation when it made the next announcement described below.

The state's Commissioner of Insurance and Banking should announce that, as of the announcement date, no Ohio homeowner fitting the specified parameters may be charged interest greater than the initial rate for floating-rate mortgage loans or than 3 percent above the Treasury's 5-year note rate on the date of issuance of the mortgage for fixed-rate loans (currently an upper bound of 5.81 percent). Any bank, servicer, underwriter, or investor unwilling to comply with that policy should be encouraged to tender the relevant mortgage or mortgage-backed security to the new state entity. The homeowner borrowers should be encouraged to seek private sector refinancing, if they qualified, for conventional fixed-rate mortgages, preferably with at least 20 percent down payments. Realistically, few, if any, of the covered mortgages would have sufficient loan-to-value ratios, and the Jesse Jones 90 percent appraisal method might have to be used instead (any borrower who could maintain timely service on his or her mortgage at 90 percent of par value should be deemed to qualify).

The state entity would receive income from homeowners who still would be expected to stay current on their mortgages at the new rates. The state's potential liability could be capped (and insured against—Warren Buffett has announced the formation of a new Berkshire Hathaway subsidiary to insure portfolios of securities and securities issuance

for states and municipalities) at the present value of the difference between the expected present value of the periodic payments on the securities that the state entity would have to issue and the expected present value of the incoming payment streams from homeowners. Essentially, the state entity would be paying out higher-rate obligations and receiving lower-rate income streams. To recover its losses over time (say, 10 years), the state entity would have to take a lien on the covered real estate equal to the expected final value of the payment differential just described for each mortgage. To prevent the abuses that have emerged in the mortgage financing markets in recent years on this point, the state entity should record its liens in the relevant county recording office for each mortgage. The state entity also should record a transfer of the existing liens on the real estate whenever the mortgages or mortgage-backed securities are tendered to it. Homeowners using the state entity's program should receive notice at the 5-year and 8-year points that they would be expected to seek private sector refinancing of their mortgages on conventional terms, at fixed rates, and with (preferably) 20 percent down payments after 10 years in the program.

The charter of the state entity should be set to expire within 11 years after the announcement date noted above (ten years and one month after the deadline for tender of covered mortgages and mortgage-backed securities to the state). Any real property covered by this program remaining in the hands of the state at that time should be transferred to a liquidating entity authorized to sell or otherwise dispose of that property within two years.

If any bank, trust company, federal savings bank, savings and loan association, building and loan association, credit union, or other depository institution licensed to do business in Ohio wished to transfer its entire portfolio of covered mortgages and mortgage-backed securities secured by Ohio real property to the state entity under the conditions described above, the state entity should stand ready to appraise the value of the assets of that institution and offer to purchase assets in the aggregate worth at least 80 percent of remaining principal value. That threshold would be consistent with the objective of transferring as many borrowers as possible to conventional fixed-rate mortgages with 20 percent down payments at the end of 10 years. State political authorities may debate among themselves whether they should speculate on property appreciation in Ohio over the next decade: Sound advice would be to resist the temptation to offer to refinance portfolios worth as little as, say, 70 percent of book value.

Any depository institution tendering its relevant mortgage portfolio to the state entity under the last paragraph above should be required to issue 10-year convertible preferred shares to the state entity at an interest or dividend rate above the state entity's cost of funds and with a conversion rate to be decided upon by the state entity. However, it is strongly recommended that the conversion rate should be not less favorable to the state than the rate received by the U.S. Treasury for the Chrysler warrants (one common voting equity share for every $1 of funds advanced, as I recall). In the current Ohio banking environment, a conversion rate of one share for every $5 advanced would be appropriate. Letters of resignation addressed to their own corporate boards and their relevant federal and state bank chartering and supervisory authorities should be tendered to the state

entity for the top three officers of each borrowing institution, but the state entity should not act on those letters before the expiration of 10 years unless it believed that the circumstances warranted such action.

Current Situation in Ohio

The Governor, the OAG, and the Chief Justice have all signed off on a plan that essentially would have the state finance the appointment of one attorney for every homeowner in the state wishing to contest mortgage foreclosures. This is a fruitless exercise in the long run because, even if all the attorneys won their cases, the banks still would be left holding the bag. Only a plan like the one described above provides necessary relief to both homeowners and affected financial institutions.

A National Plan

The adoption of a similar plan at the national level would be nice but would be unessential if the states acted as described above. It is important, however, that in exchange for any federal assistance, the states be charged with monitoring the development of real property within their boundaries and that the states be penalized for failing to take note of and to respond to aggressive overbuilding in marginal areas, which essentially is what happened in California, Arizona, Nevada, large stretches of the Sunbelt states, Florida, and the Northeast Corridor. If one encounters sophistry like, "I cannot recognize a bubble until after it has popped," then one could suggest adoption of a good rule of thumb like, "If it is expanding by more than 25 percent per year in a low-inflation environment, it is a bubble."

Endnotes

[1] Adam B. Ashcraft and Til Schuermann, "Understanding the Securitization of Subprime Mortgage Credit," paper released by Federal Reserve Bank of New York, December 17, 2007. The authors are economists in the Financial Intermediation division of the Research Department at FRBNY. Mr. Shuermann also is affiliated with the Wharton Financial Institutions Center. The final version of this Staff Report is posted on the FRBNY website as Staff Report No. 318, March 2008. Intriguingly, a cautionary study of collateralized mortgage obligations (CMOs), which had failed in circumstances similar to those of the last year or so during 1994, prepared by FRBNY staff members, was published more than a decade earlier as Julia Fernald, Frank Keane, and Martin Mair, "The Market for Collateralized Mortgage Obligations (CMOs)," in George Kaufman, ed., *Research in Financial Services: Private and Public Policy*, vol. 8 (1996), pp. 1-72, Greenwich, CT: JAI Press Inc.

[2] The beginning and ending dates selected for any state program are the same as those included in the United States Treasury Department's "Hope Now" housing refinance plan. *See*, U.S. Department of the Treasury Press Room, Statement No. HP-716, "Statement by Secretary Henry M. Paulson, Jr. at Press Conference to Announce

Framework to Help Preserve Communities by Preventing Foreclosure," December 6, 2007.

[3] *See* Walker F. Todd, "Subprime Mortgages and Government Rescues," *Research Reports*, vol. 75, no. 1 (January 14, 2008), AIER, for an analysis of the then-current rescue plans.

[4] *See* Walker F. Todd, "The Tyranny of the Fed," posted on AIER website, April 2, 2008, www.aier.org. *See also*, Thomas Humphrey and Richard H. Timberlake, Jr., "The Imperial Fed: Does It Have Enough Power?" posted on Cato Institute website, April 14, 2008, www.cato.org.

[5] *See generally*, Jesse H. Jones, *Fifty Billion Dollars: My Thirteen Years with the RFC, 1932-1945*, New York, NY: Macmillan (1951); and the works cited in Walker F. Todd, "History of and Rationales for the Reconstruction Finance Corporation," *Economic Review*, 1992Q4, pp. 22-35, Federal Reserve Bank of Cleveland.

[6] Traditionally, the Federal Deposit Insurance Corporation (FDIC) insisted on the tender of the letters of resignation of the top three bank officers as part of the formal closing ceremony for each bank in liquidation or conservatorship. It is unclear that the FDIC still follows this admirable practice.

[7] *See* Alex J. Pollock, "Crisis Intervention in Housing Finance: The Home Owners' Loan Corporation," *Financial Services Outlook*, December 31, 2007, American Enterprise Institute for Public Policy Research; *and*, Lowell C. Harriss, *History and Policies of the Home Owners' Loan Corporation*, New York, NY: National Bureau of Economic Research (1951). Professor Harriss, now 95 years old, lives in retirement in Bronxville, New York, and is a current trustee and former chairman of AIER.

[8] The Federal Reserve System received some negative publicity for its perceived supervisory shortfalls regarding the subprime mortgage debacle, and the Federal Reserve's Board of Governors and probably all the local Federal Reserve Banks are believed to be eager to participate in reasonable efforts that would tend to counteract such perceptions. *See, e.g.*, Edmund L. Andrews, "Fed Shrugged as Subprime Crisis Spread," New York Times, December 18, 2007.

[9] Various rescue plans are beginning to be described in the press, but many of them are ahistorical and, in musical terms, are tone-deaf on the moral hazard problem. A good example is Howard P. Milstein, "Give the Banks Some Credit," New York Times, February 6, 2008, p. A21 (op-ed column). Milstein proposes a 15-year federal guarantee of the principal of subprime mortgages in exchange for banks leaving their initial teaser rates in effect for 15 years. Banks (not clear which ones: original lenders, servicers, packagers of mortgages for underwriting and sale, etc.) would repurchase subprime mortgage-backed securities from the market "voluntarily." Nothing is proposed to reform supervisory practices with respect to banks' mortgage lending.

[10] U.S. Representative Barney Frank (D-MA), the chairman of the House Banking Committee, was quoted in the press on April 16, 2008, as saying that, if the bankers do not pursue voluntary reductions of principal and interest rates for mortgage borrowers, he would take that failure into account in formulating regulatory reform legislation in the next congressional session. Such brave talk is frequent in Washington, but, it is fair to say, every dot and comma of financial services legislation and regulation that has issued from Washington since December 1991 (in the latter phase of the deposit insurance fund debacles of that era) has been pro-banker and anti-consumer. There is little, if any, sign that the current Congress is willing to grasp this nettle. For information on the earlier crises, *see* "Report of the National Commission on the Origins and Causes of the S&L Debacle: An Analysis," in George Kaufman, ed., *Research in Financial Services: Private and Public Policy*, vol. 8 (1996), pp. 201-265, Greenwich, CT: JAI Press Inc.

[11] Interestingly, the most successful defense against foreclosures in Ohio raised so far is one that the writer inadvertently may have helped to create: It has been pointed out that, in a market for mortgage-backed securities that often are ill-documented, it would be nearly impossible for a remote holder of a claim on the property to produce the original mortgage note. Under federal procedural rules, foreclosure cases that wind up in federal court (usually because they involve out-of-state or national bank plaintiffs or defendants) require that the original note be filed with the court at the inception of the case. Federal judges in Ohio have been dismissing such actions for failure to produce the note. The dismissals are without prejudice, however, meaning that the cases can be refilled if and when the notes are found. But many of the mortgage originators have gone bankrupt or been taken over by other entities, and it is fair to characterize the related record-keeping as a mess.

[12] The State or the OAG might already possess the relevant data, but it might be necessary to wait for FRBC to produce the relevant data. After informal discussions with interested economists at FRBC, this writer recommends the following parameters for working assumptions: If the total number of Ohio homes in foreclosure is 40,000, probably a conservative number, and if the average outstanding mortgage principal for those homes is $50,000, then the total to be refinanced is $2 billion. If the total number of houses were greater (say, 80,000) or the average principal were greater (say, $100,000), then either assumption would yield a total to be refinanced of $4 billion. If both of these highly negative assumptions were used, then the total would be $8 billion, an amount conceivably beyond the state's capacity to refinance.

[13] The Treasury and White House actively have supported the concept of state issuance of tax-exempt bonds to refinance mortgages affected by the subprime mortgage debacle. Statements to that effect were made on December 3, 2007 (Treasury), January 16, 2008 (White House press briefing), and January 28, 2008 (President's State of the Union address).

[14] *See* "Unfoldings in Ohio: The ODGF Crisis," 1985 *Annual Report*, Federal Reserve Bank of Cleveland. Walker F. Todd and Mark Sniderman wrote that annual report. *See*

also, Walker F. Todd, "Similarities and Dissimilarities in the Collapses of Three State Chartered Private Deposit Insurance Funds," *Working Paper* 9411 (1994), Federal Reserve Bank of Cleveland. The 1985 *Annual Report* pointed out that the State would have to use non-tax revenues of the State (like lottery proceeds, tobacco fund moneys, turnpike revenues, and the like) to fund any bond issue for the benefit of private persons because of various state constitutional restrictions on the use of tax-sourced funds.