COMMERCIAL REAL ESTATE PRACTICES

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The committee met, pursuant to call, at 11 a.m., in room 2128, Rayburn House Office Building, Hon. Henry B. Gonzalez [chairman of the committee] presiding.


The CHAIRMAN. The committee will please come to order.

This morning the committee starts peeling back the covers on growing problems in the commercial banking industry, particularly in real estate lending.

The savings and loan crisis, with its tremendous costs, some call it megabucks, has obscured developments in the banking industry and the deteriorating condition of the insurance fund that guarantees bank deposits.

As chairman, I am determined that problems in the financial industry be dealt with and not hidden and rationalized. The savings and loan scandals grew in the dark basements of official government secrecy, and the facts did not reach the American public until the problem became massive and unmanageable.

Thanks to the savings and loan crisis, if we can say it that way, we know now that the American taxpayer is the ultimate fall guy for regulatory failures among insured institutions.

The public is the financial industry safety net, yet the public seldom gets the facts, that is, the real facts, until it is time to pay the bill. It is essential that this committee understand how the regulators are handling the growing problem in commercial real estate lending.

In an effort to gain this knowledge, I urged that the regulators and key New York City banks discuss how $2 billion of loans to Donald Trump and the Trump organization, as a case on hand, but not necessarily limited to that, and the subsequent restructuring of this debt, were managed and regulated.

Details of the loans and restructuring have been spread across the front pages of the daily newspapers and have been prominent items on the evening television news. But the regulators are thrown into near convulsions by the thought that they would be required to discuss the broad outlines of how they approach the Trump banking problems.

At this point, I am not even sure that we will concede that they have heard of the man. This Alice-in-Wonderland approach to the
world around them is made even more congruous by the fact that another government agency, the Securities and Exchange Commission, collects and makes public data about problem loans of bank corporations whose stock is publicly traded.

The SEC, which lacks bank regulatory powers, released filings by Manufactures Hanover Trust Company of New York in late June, which led to the revelation that the bank was holding about $157 million of non-performing loans to the Trump organization.

Clearly, neither the bank nor the regulatory agency slipped into the East River on the basis of this revelation. But ask the people who should know, the regulators, and they covered their mouths, eyes, and noses and fall dead silent, not unlike the response of M. Danny Wall, who never gave us the real facts in his 3½ years as chief regulator of the savings and loan industry.

A leading business publication that has been tracking the Trump loans closely says, and I quote, "The bankers were so eager to lend to Trump that they were practically spraying him with money."

The publication also quotes a developer as saying, and I am quoting, "The bankers got mesmerized. They thought it was almost an honor to lend to Donny."

If this was the banks' scientific approach to the $2 billion of Trump loans, we need to know what the regulators did in response and when they did it.

Maybe the regulators, like the banks, were mesmerized by the glamor and glitter of the Trump operations.

Obviously, there are millions of smaller-than-Trump borrowers across the nation. And, we are hearing increasing reports that small and medium-sized businesses, as well as home buyers, are being hit by a true credit crunch. This group must have some real questions when they see headlines about billions of dollars in loans plus restructuring agreements going to the Trumps of the nation.

When the committee conducted field hearings in Texas in June, the bank regulators were quick to deny that there was a credit crunch among the small and medium sized borrowers. But no sooner had we returned from the field hearings than the Secretary of Commerce, Robert Mosbacher, was quoted in the Wall Street Journal as saying the nation was caught in a serious credit crunch that extends well beyond the real estate industry and appears to be worsening.

Secretary Mosbacher went on to say, and I am quoting, it, the credit crunch, "is serious and it appears to be exacerbating. It is not just a real estate person. Real estate is very serious, but it also has to do with small and middle-sized business, high tech, across-the-board, businesses who are trying to get loans and can't."

So on the one hand, we have reports that the multi-billion dollar loans, like the ones we referred to, are being handled somewhat casually. On the other hand, there are increasing reports ranging from small businessmen and consumers to President Bush's Cabinet that the smaller-than-Trump borrowers are facing much stiffer tests at the loan windows.

The regulators before us this morning are in a great position to give us the facts on these competing claims. I also want to remind the regulators that this committee is preparing for an intensive
series of hearings in mid-September on reform of the deposit insurance system.

As I have expressed for many months, I am very concerned about the condition of the bank insurance fund, and we cannot wait repetitious and long-winded studies to act decisively. But we cannot act without the facts that the regulators have locked in their file cabinets.

You, the regulators, must provide the committee with the hard-nosed information if we are going to make rational decisions about the shape of the insurance fund for the future. Blank checks with no questions asked are going to be things of the past for the regulators.

The taxpayer is faced with the enormous bill for the savings and loan mess, and they simply will not allow it. I deeply regret the refusal of Citibank, Manufacturers Hanover, Bankers Trust, and Chase Manhattan to appear here today to help us understand the banking problems.

At this time, I ask unanimous consent to place in the record our letters of invitation and the responses we received.

[The letters referred to can be found in the appendix.]

The CHAIRMAN. These are all banks operating with taxpayer-backed Federal insurance and the benevolence of much of the regulatory machinery. These banks have a public obligation which they have chosen to dodge here today.

Similarly, we had hoped that Donald Trump would see an obligation to be here today. He, too, has declined the invitation, and among the letters that I asked to print in the record is the reply we received from Mr. Trump.

I do want to thank the regulators on our first panel, Mr. Robert Clarke, the Comptroller of the Currency; Mr. John LaWare, Governor of the Federal Reserve Board, and Chairman of the Board's Committee on Supervision; and Mr. Peter M. Philbin, Deputy Superintendent of Banks, New York State Banking Department.

We do hope that you will be responsive as far as possible to this committee.

I want to express my special thanks to the private analysts who will appear on our second panel, Mr. James McDermott, Jr., Executive Vice President of Keefe, Bruyette & Woods, Inc.; Ms. Lacy Shockley, Vice President of Research, Smith Barney, Harris Upham & Company; and Charles L. Cranmer, Analysts, Shearson Lehman.

Their testimony will be most helpful in the committee's effort to understand the conditions that impact on the banks in the market place.

We deeply appreciate your voluntary cooperation, and that of your individual firms. With that, the Chair recognizes Mr. Leach for any statement he may wish to make.

Mr. LEACH. Thank you, Mr. Chairman.

I want to commend you for holding these hearings today on the financial problems facing the commercial banking industry. The recent slump in coastal real estate markets, coupled with the continuing problems associated with LDC loans, highly leveraged transactions, and the prospect of oil-driven inflation evidence or
foretell serious problems with the banking industry in general and money center banks, in particular.

Given the precariousness of the economic circumstances, it could not be more appropriate for this committee to insist that the regulators understand their obligations to the taxpayer.

As the S&L debacle illustrates, failure to regulate prudently and in a timely basis can be costly to society. Three aspects in particular of the thrift regulatory failure would appear relevant to commercial banking today.

One, inadequate capital ratios allowed S&Ls to over-leverage depositor resources; two, imprudent accounting practices masked the depth of industry problems; and three, regulators failed to understand the speculative impact of new powers granted the industry, particularly those related to direct investments and junk bonds.

The distinction between thrift and more rigorous bank regulations has come to be widely understood. Less understood are the different regulatory standards that have developed over the last decade between big and small banks.

Historically, it was believed big banks needed less regulations as they had more diverse assets and more sophisticated management. It now appears money center banks are in a difficulty because of regulatory indifference to capital ratios, because of phony bookkeeping and because the competitive framework has changed to the marked disadvantage of larger banking institutions.

Before turning to capital issues, let me mention three competitive difficulties facing big banks.

First, regional banks, and in many cases, smaller banks, can now provide all the essential services money center banks can.

In fact, banks in rural communities have more rights to do more financial services such as insurance than money center institutions.

Second, large banks which traditionally do business with large corporations have found that these corporations no longer rely on bank borrowings but can raise money by selling commercial paper and other debt instruments.

Third, investment banks, as well as foreign commercial banks, are competing for the same big, business clients as trade becomes more internationalized.

Accordingly, money center banks in the 1970's looked to governmental business as a salvation, arguing that sovereign guarantees provided ironclad risk avoidance. Believing that it would be much more difficult to attach Brazil than Iowa farm land and believing asset growth in banking was being skewed to the weaker, albeit larger banks, I introduced legislation calling on the Federal Reserve Board in connection with other central banks to develop stronger capital ratios for money center banks or impose reserve requirements in international lending.

Such an approach was eventually developed, although in a modest way, with the Basle Court. In hearings held in the legislation I introduced in the late 1970's to impose more prudential standards for international lending, representatives from money center banks objected strenuously to greater regulatory oversight.

Representatives of Citicorp, Morgan Guaranty, Chase Manhattan and Bank of America backed up by the Treasury and Fed, assured
us that their banks had sound foreign asset portfolios and that di-versification of lending implied no need for capital standards equival-ent to those required of smaller banks.

Mr. Chairman, I have a great deal more that I would like to in-troduce into the record on this particular subject. Let me just con-clude by saying that subsequent to the time in which you called this hearing, there have been events, most particularly in the Middle East, that also have a great impact on banking, particularly the inflation implications as well as the possible shock that could occur as Iraqi and perhaps Kuwaiti obligations are defaulted upon. So we have new circumstances that relate, indeed, to international banking, and particularly the security of our money center banks that I think all of us have reason to review, I would like to ask your consent to put more in the record on this subject.

The CHAIRMAN. Certainly. Without objection, it is so ordered.

[The information referred to can be found in the appendix.]

The CHAIRMAN. I agree with the gentleman in his observations.

Mr. Schumer, thank you very much for breaking your vacation period and being here with us this morning.

I wanted to send my thanks to the other Members. These are dif-ficult times. You know, you would have thought 2 weeks ago we had a crisis of some kind, for months we have been hearing about an S&L crisis, and I feel we can't do business as usual and look to an over 30-day period in which we would not be working. There-fore, beginning with yesterday's hearings by the Subcommittee on Housing, we feel that we must take advantage of this August break knowing full well that it taxes the Members who have plans and especially those that have small children, as Mr. Schumer.

We are appreciative of that and, therefore, doubly appreciate your presence, Mr. Schumer.

Mr. SCHUMER. Well, thank you, Mr. Chairman.

I want to thank you for holding these hearings. I guess it is no secret that these hearings have, when you proposed them, caused some bit of controversy, and I don't think that is very fair. We are hearing all over the place that the administration, the regulators, and, of course, Congress, should have been looking at the S&L issue not after it happened, not after the horse was out of the barn. That is just what the Chairman is attempting to do in these hearings on commercial banking real estate practices.

No, it is not a billion, multi-billion dollar crisis yet, but these kinds of hearings might help prevent it from becoming one, and you can't have it both ways.

You can't criticize when the committee tries to do oversight and then criticize when the committee doesn't do oversight. We are lim-ited in how much oversight we can really do under the best of cir-cumstances, but to not try really is unfair, so I think a lot of the criticism of this hearing was really unfair and uncalled for.

We are in a different time. We are in a time where Federal in-surance causes the taxpayers to spend over $150 billion, maybe $500 billion, and that means there is going to be more oversight from these committees and in different ways than it was in the past, and maybe it is going to look at certain specifics, and that is the prerogative of the committee, and I think really its obligation.
Let me say on the issue itself, I don’t think it is a surprise that we are finding real trouble in the banking industry and in the banking industry in real estate.

I think this is an all in outgrowth of the changes in the world that occurred in the middle and late 1970’s and early 1980’s. The whole financial world changed, new products, international markets, computers, the ability for money to just be transferred with the push of a button from one place to the other. You had an industry, a financial industry, whether it be the S&Ls or the banking industry, that was highly regulated, and all of a sudden they had to adapt to this brave new world.

It was as if you took people who knew how to walk on the dock very well and then threw them in the water and said learn how to swim. Well, quite naturally, it would take a long time for some of them to learn how to swim, and quite naturally, some of them, as we have learned, would drown.

That has been what I have seen in the banking industry for quite a while. I have always been perplexed at how much trendiness there seems to be in banking lending.

Third World debt was the big thing, and it was overdone. And before that real estate investment trusts were the big thing, and they were overdone. And then maybe oil and gas was the big thing, and it was overdone. And then now real estate, and M&A, and all of these things were the big thing, and they get overdone. What I don’t understand, having never actually been involved in a business deal myself, is why aren’t people looking at the fundamentals.

It shouldn’t be the name Trump automatically beckons forth hundreds of millions of dollars, particularly in unsecured loans without any examination of whether the casino industry would be healthy 2 years from now or this industry or that industry, and maybe the art of making credit decisions is just that, an art, not a science.

Maybe it is a lot more of psychological guessing than I would imagine and more importantly than it was in the past, but if that is the case, then inexorably we turn to Federal deposit insurance reform.

If there is so much guesswork in making these types of loans, if it is not a science, if you can’t sit down and look at the piece of paper and say, well, we have got a pretty good guess—but in any case, if there is so much guesswork in making loans, then maybe the Federal Government ought to re-think insuring these kinds of loans. If it is different than it was 30 years ago.

I find it amazing that two of the smartest banking institutions in the country, supposedly the smartest banking institutions in the country, gave hundreds of millions of dollars in unsecured loans basically on the basis of a name.

I still scratch my head and I say, how did that happen? Not secured loans. Unsecured loans.

It is now real estate, but sure as we are sitting here, it will be something else tomorrow, just as it was something else yesterday. Something is different in the banking industry, different at any time since the thirties, and I think we have to understand it and adapt to it in ways that we are really not expecting.
I am worried. I am worried about the insurance industry because they, too, are plunged into this brave new world and did some crazy things, and they were a highly regulated industry, but at least they are not federally insured.

We are all worried about the S&L industry, but some of the very same fundamentals that caused problems in the S&L industry are going to continue to cause problems in the banking industry until we examine it and change the way, in a fairly fundamental way, our banks operate.

Yield back the balance.

The CHAIRMAN. Thank you very much, Mr. Schumer.

Mr. Parris.

Mr. PARRIS. Mr. Chairman, I don't have an opening statement, but I would like to associate myself with the remarks of my friend from Iowa, Mr. Leach, in his reference to the frightening developments in the world today, which makes it, in my view, increasingly important that the financial structure of institutions in the industry of financial services at home be more stable and secure than it has ever been.

I would say to my friend from New York, I agree with much of what he has observed here this morning, with one caveat, that this is inherent risk in the extension of credit by financial institutions simply because of what you acknowledge, Chuck, is the time and technology and markets in fact do change.

You don't lend money by the day, you lend it in oftentimes by the decade, and I don't have a crystal ball and I don't think you do, and sometimes I think Jeanne Dixon's doesn't work very good.

Obviously, some banks don't have one, either, but that doesn't mean that they are inherently incapable of creating because we have created in this nation for 200 years an economy which is the envy of the world, so we, I don't think, want to, as a function of this committee or of our oversight, which you have again accurately suggested is not nearly what I think it should be, and the system makes it that way.

We are just not good at that, and we never have been, and we never will be. That is why we have got regulators.

So much of what has been said here I agree with, and I thank you, Mr. Chairman, for the opportunity.

The CHAIRMAN. Thank you, Mr. Parris.

And we welcome our new Member to the Banking Committee Mr. Weiss. I think this is your second hearing. The first may have been with the subcommittee, but I think it was the full committee.

So, Mr. Weiss, thank you very much for your presence, and we recognize you at this point.

Mr. WEISS. Thank you very much, Mr. Chairman. I have no opening statement as such.

I simply want to express my appreciation to you for convening these hearings. I think they are extremely important.

I think, too, that you have outlined very eloquently the concerns which have led you to call these hearings. I think some of the statements you have made, and my other colleagues, are extremely profound and I think provide a setting for these hearings.

For a long time there seemed to be a sort of an air of superiority about the commercial banks and how safe and secure their oper-
ations were compared to the savings and loan industry, and quite clearly it has not been as safe and secure as it was initially thought to be, and I think it is important for us to get some sense of the dimension of the problems which may be existing right now and to see what can be done to try to make it a more secure and safe system.

Thank you, Mr. Chairman.

The CHAIRMAN. Well, thank you, Mr. Weiss, very much. We deeply appreciate your membership, It is a tremendous addition, in my opinion, to the Banking Committee.

Mr. Vento, thank you very much for joining us.

Mr. VENTO. Thank you, Mr. Chairman.

I appreciate the opportunity. I happened to be in the back in the district, and we are back for this task, so it is an important issue that comes before us, and clearly decisions by the Office of Comptroller of Currency and Federal Reserve Board with regards to creditworthiness and credit extension are important issues in terms of the regulation of the institutions that they have responsibility to regulate.

The word "regulate" has taken on a negative connotation in the 1980's, but I think we are quickly finding the importance of this role and the absence of it in the 1980's as to what the consequences are.

Mr. Chairman, as we know, our institutions, and the dynamics of what is going on in those franchises, whether they be banks or other financial institutions, is dramatically impacted by the events in the global market place, and clearly as increasing amounts of financing are sought for mergers, for takeovers for significant developments, our financial institutions end up absorbing increasing risk in that process, and I am interested to learn how the regulators are managing that, how it is affecting the entire system, especially in the aftermath of some of the experiences with the S&Ls, and how we can—how we can predict what will happen in the future, especially, of course, with these large loans.

Like you say, if you have a situation where you have a loan with 10 percent of your capital at risk, you have got a loan, if you have 60 or 70 percent of it at risk, you have got a partner in the financial institution.

I think that is where a lot of institutions find themselves today, not just with the Donald Trumps of the world, but with a lot of the extended foreign debt and other problems, all of which, of course, under some circumstances developed a good rationale, that we had to do it in order to avoid economic dislocations in the economy, but I am not so certain that many of those economic dislocations have not been rolled forward from 1970 and 1980 to 1990, and I think we have to work our way out of that and back into a situation where there is a decentralization in the credit worthiness and where we see it to some extent being restricted because of these activities in the economy, and so, Mr. Chairman, I think it is important to have this type of hearing, this type of focus, and I appreciate you calling the hearing, and albeit during a time when we are supposedly in recess, Mr. Chairman.

The CHAIRMAN. Well, thank you very much, Mr. Vento. Thank you for your very apt remarks.
Well, gentlemen, we will proceed and recognize the Comptroller. I had more or less introduced you before by mentioning the fact that we appreciated your presence and your response to our call. These are unusual times, and it calls for a more than usual pattern of behavior on our part, so if there is no objection, and there are no time problems with the other two witnesses, we will recognize the Comptroller first.

Mr. Clarke, thank you again. I want to express my appreciation for you being with us in June in Houston, Texas, when we had the hearings there. It is something that we are grateful for.

You may proceed as you deem best. Your prepared text will appear in the record as you submitted it.

STATEMENT OF ROBERT L. CLARKE, COMPTROLLER OF THE CURRENCY

Mr. Clarke. Thank you, Mr. Chairman.

I am here this morning, as you know, with my colleagues, Governor LaWare and Mr. Philbin, to discuss the supervisory response of the Office of Comptroller of the Currency to the real estate lending problems of national banks. I have submitted a written statement which, as you have indicated, will be included in the record, and, rather than repeat that statement, I would like to talk to you for a few moments this morning about how the OCC is dealing with banks that have a significant volume of troubled real estate loans.

There are a number of misconceptions about the OCC's role that I would like to clear up. One of these misconceptions is that we have only recently discovered problems in the real estate lending of national banks and have just now begun to take action. Another misconception is that OCC examiners tell bankers what to do with individual real estate loans, which loans to make and which loans to turn down, which troubled loans to restructure and which ones to foreclose. A third misconception is that loan classification by OCC examiners and the ordering of additions to loan loss reserves are placing an unreasonable burden on banks.

Mr. Chairman, I have been asked a number of times in recent months why the OCC waited so long before sounding the alarm on real estate lending. The questioners seem to assume that just because the story didn't start to get attention in the national press until a few months ago that nothing was happening before then.

In fact, the OCC has been sounding the alarm on real estate lending for the past 3 years. Learning from the real estate disasters in your and my home State of Texas and in other parts of the Southwest, we began reviewing real estate lending practices in 1987 when we saw indications of softening in several real estate markets. We stepped up those efforts in 1988 and conducted real estate examinations at 13 of the largest regional banks in our Southeast District. Later in 1988, the OCC sent an advisory letter to the chief executive officer of every national bank in the country. That letter warned in very specific terms about the potential risks of excessive concentration in real estate lending and cited specifically a number of deficiencies which we had discovered in our examination of those regional banks. In 1989, real estate markets continued to soften and there were indications of over-building in
many cities, prompting us to conduct comprehensive examinations of real estate lending at a number of national banks.

We have all heard about the concerns of real estate developers and other borrowers who believe that they are being denied credit that they would have received easily in the recent past. We have also heard about the concerns of borrowers whose loans have been foreclosed, who feel that if they had been given more time, they might be able to work out their loan problems. Some of these borrowers look at other borrowers who are offered re-financing on troubled loans, and they wonder if they are being treated fairly.

I sympathize with the plight of business people who, through no fault of their own, have difficulty obtaining credit. But the conclusion that many observers seem to have reached—that OCC examiners are ordering bankers to withhold credit—is based on a mistaken view of how bank supervision works.

OCC examiners do not make individual credit decisions. That is what bankers are paid to do. We do not tell the bank to make or to deny any specific loan. We remind the bank to take care when making loans. It is the banker's job to find the good loans and to make them. And, it is the banker's job to be able to justify the loan, not just, and not even first, to bank supervisors, but to its own board of directors.

We have not repealed the basic rules of banking, including the practice of bankers working with customers during economic downturns. That means working with customers to restructure loans if necessary. When we classify a loan, we are not sending a signal that the bank should simply walk away from the loan and the borrower. Rather, the banker would be expected to analyze the credit and consider restructuring if that is appropriate. We do not tell the bank whether to foreclose or to restructure.

We believe that such decisions should be made by bank managers, not by bank supervisors. Our role is to ensure that the loan is valued correctly on the bank's balance sheet and that the bank has reserved adequate funds for loan losses. This ensures that any losses will be borne by the bank's stockholders, not by the Federal deposit insurer, or by the taxpayer. What the bank then does with the loan—whether it restructures it or forecloses it—is up to the bank.

Banks should treat all troubled borrowers equitably, regardless of their size, but I do not believe that there is much reason to be concerned about preferential treatment. The bank faces a straightforward business decision: whether it can recover more of its investment by demanding payment in foreclosing than by restructuring the loan. It is difficult to image a bank with its own capital at stake making that decision on any basis other than to maximize its eventual recovery.

Of course, large borrowers may have options that are not available to all small borrowers. They may have other sources of uncommitted revenues or collateral that can be used to obtain additional financing. Small borrowers, on the other hand, often have no resources beyond the revenue stream and the collateral that was pledged on the original loan. Consequently, a bank may find that a large borrower presents better prospects for recovery through restructuring than through foreclosure, while the opposite may be
true for a small borrower. But small borrowers who can demonstrate their creditworthiness can, and frequently do, have their loans restructured instead of foreclosed.

Whenever a bank is having problems collecting its loans or anticipates such problems, then prudent accounting requires some recognition of potential loss. That is the purpose of loan loss reserves. Criticism of loans by the OCC is not the cause of credit contraction. It is an effect, an effect of and response to deteriorating market conditions. Criticism of loans by the OCC, and the resulting addition to loan loss reserves, is the recognition by bank supervisors of changes in the environment that call into question the value of loans that are already on a bank's books. That recognition of deteriorating market conditions may result in a tightening of credit underwriting standards by banks and the terms and conditions under which credit is available.

Some observers have asked why banks cannot be allowed to carry troubled loans for a period of time at their book value rather than being required to write them down immediately. This, it is argued, would give the bank more time to work out its problems. Now, on the surface, that idea may sound appealing to you, but it is essentially arguing that problems be hidden and that the true financial condition of the bank be disregarded.

Public confidence demands that problems be recognized and not swept under the rug. This does not mean that banks whose capital is reduced to unsatisfactory levels as a result of recognizing their problems do not receive any cooperation from bank supervisors. The OCC has a long history of working with banks that have credible plans for restoring their capital to acceptable levels and we will continue to do so.

Mr. Chairman, we recognize that excessively stringent bank supervision would have harmful effects. We do not want bankers to change their credit decisions based on fear of unwarranted criticism by bank supervisors. But it would not be in the best interest of the banking system or the general public for the OCC to ignore changes in a bank's condition that materially affect its safety and soundness.

The OCC will continue to monitor real estate markets. We will continue to conduct focused examinations of real estate portfolios at national banks where we have indications of credit problems. We will continue to direct those banks to reserve against loan losses when this is necessary to reflect the actual value of the loans. And, we will continue to urge banks to maintain high underwriting standards. We recognize that these steps involve a certain amount of pain for those who are involved, but they are precisely the steps that are required to work out the problems in banks' real estate loan portfolios.

Thank you for the opportunity to discuss this important topic this morning. I will be pleased to answer any questions that you or the other Members of the committee may have.

[The prepared statement of Mr. Clarke can be found in the appendix.]

The Chairman. Thank you, sir.

Mr. LaWare.
STATEMENT OF JOHN P. LAWARE, GOVERNOR, FEDERAL RESERVE BOARD, AND CHAIRMAN, FRB'S COMMITTEE ON SUPERVISION

Mr. LaWARE. Thank you, Mr. Chairman.

I am very pleased to be here on behalf of the Federal Reserve Board to discuss real estate lending by commercial banks and its effect on their financial condition.

The committee is, I am sure, well aware of the many problems that banks and other depository lenders have had with real estate loans in the last 5 years and is understandably concerned about the prospects of these problems continuing.

Real estate markets were generally robust over the decade of the 1980's. Growing demand produced sizeable increases in property values and prompted substantial growth in construction of new commercial and residential structures.

Commercial banks, thrift institutions, insurance companies, and other major lenders, including foreign institutions, played important roles in this process, providing funds for the construction and sale of new properties and for the transfer of ownership of existing properties at rising values.

For the decade as a whole, real estate loans at all commercial banks almost tripled, while total assets of commercial banks grew at a much slower pace. By the end of the decade, real estate loans made up about 23 percent of total bank assets, compared with less than 15 percent at the end of 1980.

Commercial property and construction loans now account for roughly one half of the $778 million of total real estate loans held by commercial banks. By the end of the decade, the pace of expansion had slowed. In the last few years, the supply of real estate has exceeded demand, with consequent effects on vacancy rates, property values, and rental rates.

These weakening market conditions are reflected in higher real estate losses for banks. During 1989, real estate charge-offs at commercial banks rose 54 percent from the prior year to almost $3 billion, and totaled a billion dollars in the first quarter of this year alone. Non-performing real estate loans also continued to mount, increasing by 37 percent last year and another 8 percent to $32 billion in the first quarter of this year.

Non-performing real estate loans now account for nearly one-half of all non-performing loans held by commercial banks. The perceived need to find new business, the ability to generate real estate loans, and the appeal of larger fee income combined to encourage aggressive real estate lending.

Some banks failed to assess realistically the economic soundness of specific projects and cash flow projections. Construction loans that historically had been made on the basis of pre-leased space and pre-arranged permanent financing were now made without these features and largely on the basis of past relationships and on the appraised value of the underlying property.

Borrower equity in projects was often minimal, and appraisals supporting the loans were sometimes based on revenue projections that simply did not materialize. Many lenders also seemed to have
focused on the strength of specific projects without giving appropriate consideration to total market conditions.

Although the latest projects they were financing may have been successful, many were so only because they drew tenants from existing buildings and created problems elsewhere. The expanded investment powers for thrifts may also have changed the nature as well as the level of competition.

In addition to increasing the supply of credit available for real estate construction, these changes introduced new competitors that at least initially were inexperienced in commercial real estate lending and unable to adequately evaluate all of the risks.

Thrifts holding equity interests obviously had different incentives than typical lenders and often focused on the potential gains from their ownership roles and extended credits they might otherwise have denied. The result of these developments has been overbuilt real estate markets in which financial institutions have been forced to finance buildings long beyond the time they originally envisioned in order to accept significant concessions on residents and to face vacancy rates much higher than planned.

In these circumstances, the value of the bank's collateral, often only the real estate itself, has been reevaluated on the basis of existing market conditions and has led to significant write-downs of many loans. As bank supervisors, the Federal Reserve and other Federal and State banking agencies have responsibility to review the activities of financial institutions and enforce sound lending and operating procedures.

Bank regulatory agencies generally try to minimize their influence on credit allocation decisions, and as a general rule do not impose limits on the different types of loans that banks should make. We do evaluate the policies and activities of individual banks, but we try to avoid substituting our credit judgments for theirs in lending decisions unless the need to intervene is clear.

This supervisory approach recognizes that the long-term interests of the economy are best served when lending decisions are made by private institutions and not government agencies. I would stress that we clearly recognize our role in protecting the Federal safety net and minimizing risks that insured deposits present to taxpayers.

Balancing those concerns with the objective of avoiding unnecessary interference in bank lending activities is a constant challenge to bank supervisors. While we leave credit decisions to banks, the effects of their decisions must be promptly and accurately reflected so that management receives the information it needs to respond prudently.

The Federal Reserve has long had the view that a strong supervisory process is built upon a program of frequent on-site examinations. A key function of the examiner is to evaluate credits and ensure that banks reflect assets at appropriate values in their financial statements. Many of the real estate losses banks have recently experienced have been identified by rigorous supervisory views or by bank management's preparation for such a review.

Some banks have been hit hard by these examinations, but others have come through quite well. Most banks, though, are acknowledging that the real estate markets have changed and have
reviewed and tightened their lending procedures. The effect is painful now, but it will be beneficial for the long-term.

It will also reduce the risk they present to the Federal safety net. Under present conditions, the Federal Reserve has been concerned that credit-worthy borrowers continue to have adequate access to bank credit and has monitored credit markets very closely. In that connection, the Chairman of the Federal Reserve, along with the Chairman of the FDIC and the Comptroller of the Currency, met in May with bank representatives to stress the importance to the economy of continued lending and to clarify that supervisory actions are not intended to prevent new loans.

In subsequent testimony, Chairman Greenspan and I both indicated that while lenders had tightened their standards there did not appear to be a broad-based squeeze on credit, but we noted that the Federal Reserve was monitoring the situation closely. More recently, evidence is building that credit markets have become weaker.

It is difficult to determine what part of the slowdown derives from higher credit standards versus less loan demands. As the Chairman stated in his testimony of July 18, though, lending standards seem to have tightened too much. The Federal Reserve has recently taken some steps to offset the effect of these tighter lending standards.

Unfortunately real estate loans are only one of the significant risks that banks in this country faces. Loans to highly leveraged borrowers and to developing countries cannot be ignored. The current slowdown in real estate markets will have a dampening effect on economic activity that will be felt unevenly nationwide.

The problems that financial institutions are experiencing at this time merely illustrate the risks and uncertainties that are inherent in lending funds. Strong bank management and an active and sound supervisory process will help prevent many problems.

Many others, though, will still exist. It is critical that banks have sufficient equity capital to support the risks they take, both to insure their own survival and to protect the Federal safety net. Ensuring adequate bank capital is an important objective of supervision and remains an important priority of the Federal Reserve.

I will be delighted to answer any questions you may have afterwards, sir.

[The prepared statement of Mr. LaWare can be found in the appendix.]

The Chairman. Thank you very much, sir.

Mr. Philbin.

STATEMENT OF PETER M. PHILBIN, DEPUTY SUPERINTENDENT OF BANKS, NEW YORK BANKING DEPARTMENT

Mr. Philbin. Thank you, Mr. Chairman.

Superintendent of Banks, Jill Considine, regrets that she is unable to appear today because of a commitment which long pre-dated your invitation. By way of background, it may be helpful if I give you some information about the New York State Banking Department.
We supervise over 4,000 financial institutions, including commercial banks and trust companies, bank holding companies, savings banks and savings and loan associations, credit unions, banks and agencies of foreign banks, licensed lenders, sales finance companies, money transmitters, and mortgage bankers and brokers.

In the aggregate, we supervise entities with assets in excess of $1 trillion. Banks supervised by the Department comprise more than 35 percent of all State-chartered banking assets in the nation. As you can see, we have a wide spectrum of supervisory responsibility, and we believe this affords us a unique perspective on a variety of financial players and markets in which they operate.

Your request asked us to discuss the role of the New York State Banking Department in the examination, supervision, and regulation of State-chartered banks, with particular attention to the banks' real estate lending practices.

You also asked us our reaction to the lending arrangements recently concluded by two of our chartered institutions with a particular major customer. With regard to the latter request, we have not completed examinations of those banks since the lending reconstruction was arranged, and therefore have no knowledge of the specifics. Moreover, from both legal and policy viewpoints, we have always held it to be inappropriate to discuss confidential and proprietary information concerning a bank's relationship with an individual customer, particularly in a public forum.

Consequently, I am not able to respond to the second part of your request. The New York State Banking Department shares supervisory responsibility for the banking institutions that it charters with several Federal agencies, specifically the Federal Reserve Bank of New York, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, and the National Credit Union Administration.

The New York Banking statute requires an annual examination of our banks. As a practical matter, we attempt to alternate annual on-site examinations of State-chartered banks with the Federal Reserve in the case of a member bank and the Federal Deposit Insurance Corporation in the case of a non-member bank.

This is done in order to minimize the duplication of regulatory effort, to achieve optimum efficiency from limited financial and human resources, and to ease the regulatory burden on supervised institutions.

In the case of a problem institution, however, both the New York State Banking Department and the appropriate Federal agency would normally jointly conduct examinations on as frequent an interval as is deemed necessary.

On-site examinations are viewed as a component, albeit a very important one, of the ongoing supervision of a chartered institutions. Our supervised entities are continuously monitored from the office by desk examiners who review a myriad of external and internal reports and analyses to track the progress of an institution and to watch for any sudden change or deterioration which might signify a negative occurrence.

We also attempt to follow national and regional economic trends and trends in the banking industry in order to anticipate develop-
ments which might have significant impact on the banking industry in general and on banks with particular business profiles.

In this regard, we became somewhat concerned in the past year about the quality of our banks' real estate portfolios. The experience in other parts of the country, particularly the southwest and New England, the softening economy in the northeast, the abrupt reversal of the real estate inflation engine in the northeast, and some empirical evidence of a rise in delinquency and non-performance on residential and commercial property real estate loans prompted our concern. As a consequence, we have conducted several studies and made special visitations to numerous supervised institutions whose structures and business practices we believe might make them vulnerable to a serious downturn in the real estate markets.

Our reviews covered such areas as underwriting standards, documentation, appraisal and reappraisal policies and techniques, servicing practices, management information systems, problem loan recognition and workout capabilities, portfolio concentrations, and loan loss reserve adequacy.

We were interested not only in determining whether a bank had a real estate loan portfolio problem, but also whether bank management had identified and measured the problem and was taking the proper steps to deal with it.

Although New York State-chartered institutions have not escaped completely the consequences of a softening economy and difficult real estate markets, our review disclosed that at this time there does not appear to be a major problem with the universe of our banks.

That is not a prognosis for the future. As we have experienced in the past week, unforeseen events can dramatically alter the status quo. A serious recession or a depression would certainly have negative implications for the real estate markets, as well as other sectors of the economy, and consequently for our banks.

As a general comment, it is our belief that the decade of the 1980's, with its almost uninterrupted economic expansion, combined with the natural competitive drive of banking institutions, induced a subtle liberalization of real estate lending and servicing standards.

In a climate where the aggregate of problem real estate loans has been minimal over an extended period of time, a feeling of caution tends to erode as the memory of previous lessons fades. There is a certain discipline built into the traditional business cycle that has the effect of braking the attitude of you euphoria brought on by good times and provides a dose of reality to the lending process.

I might also add that the constraints on American banks, which impede their ability to provide a full array of financial services to their best customers, has considerably narrowed the choice of business opportunities and intensified competition for what limited business remains.

I believe a case can be made that concentrations apparent in some institutions in the areas of commercial real estate and highly leveraged credits are, in part, a consequence of lack of opportunity to pursue high quality business elsewhere.
In an environment where the optimism of the past decade has eroded and management concern has shifted from quantity to quality in the struggle to manage problem loans, it is logical to expect that lending standards will be reviewed and tightened, thus the perception on the part of some that there might be a credit crunch.

We see no such phenomenon but would acknowledge and applaud a healthy reevaluation of underwriting standards and servicing practices and the adoption of cautious and prudent lending strategies by our banks. That concludes my statement, Mr. Chairman.

I will be happy to respond to any questions you may have.

[The prepared statement of Mr. Philbin can be found in the appendix]

The CHAIRMAN. Thank you, Mr. Philbin.

Let me say at the outset—and I don’t mean this to be disparaging, but just my perception.

For 29 years I have sat on this committee and I think that just given the different scene and scenarios of the time, the 1960's, 1970's, 1980's, the regulators said pretty much what you are telling us today.

I mean about the only differences are little variations here and there, but the basic content or thrust of what I have heard has gone through very little change.

On specific questions.

The publicly held bank holding companies make routine filings with the SEC, as well as filings for stock and debt offerings.

They are required to include in those filings audited financial statements as well as other informational material to an investment decision.

Thus for example, Manufacturers Hanover disclosed that because of the non-performance status of Donald Trump's loans, non-performing loans are expected to increase by $157 million.

Yet neither the Federal Reserve nor the OCC will discuss the specifications of the major banks—not one case—not any attempt to seek confidential or proprietary information, but just discuss the specifics of a major bank's real estate loan portfolios.

Don't you believe this is material to a depositor's decision about where to deposit his funds?

How can we encourage depositor responsibility and the attendant decrease in risk to the Deposit Insurance Funds if the bank regulators refuse to disclose data to potential depositor's that is required to be disclosed to potential investors?

Mr. CLARKE. Who would you like to answer that question?

The CHAIRMAN. It is really directed to all three of you. Because even in the case of Mr. Philbin, you share regulatory supervision in, and, in fact, Mr. Parris mentioned about the present problems confronting our nation and the international darkened picture. We have cases where just last week, in fact, we were asked about situations in which foreign-based banks having branches or agencies that are chartered by individual states have recreated situations where they have been able to maneuver billions of dollars through channels and avenues that would appear to be contrary to the national policy of the President or U.S. foreign policy.
So these fall in crevices where the State-chartered institutions ostensibly in international workings is really only supervised or capable of being supervised by the Federal Reserve Board.

Where you have a State-chartered institution you have gaps where this is possible, because we now have about $500 billion plus of that kind of money in our country. But under the existing laws it is possible to have massive embezzlement and yet there is no law on the books to call for criminal culpability of bank embezzlement in those cases.

This is what concerns us. In this case the question I am raising is really, purely national, but you have shared jurisdiction in the case of the State-chartered institutions.

This is what I think is a main concern to us on this committee, and others in the Congress, as well.

Now, with respect to the specific question, I would like to have some comment without necessarily encroaching on what is privileged, proprietary confidential information We don't seek that.

That is none of our business, and we know that. But the general and broad policies of regulators is very much of prime importance to us at this time.

Mr. CLARKE. Mr. Chairman, I think you are very appropriately concerned about the broad policies that bank regulators follow, and that is why the three of us are here today. As we all indicated to you, we are prepared to talk about those broad policies, but we are not prepared to talk about specific transactions or specific customers of banks. There has been a longstanding tradition that the Congress has recognized, that such material should be maintained confidentially. There is a mechanism by which the Congress can exercise its oversight responsibility, and that is through the GAO, as you know. I think it would be a terrible mistake for bank supervisors to come up here and present financial information about individual banks' borrowers in a public forum.

The CHAIRMAN. We are not asking for that. My question is has to do with the ability of the smaller banks to review the information necessary to make a decision.

Mr. CLARKE. For a depositor to make a decision?

The CHAIRMAN. Yes.

Mr. CLARKE. Let me talk about that for a minute. There is a mechanism available for that purpose. The Securities Exchange Act of 1934, which applies to bank holding companies for which the SEC has jurisdiction, but which also applies to banks which are not part of bank holding companies and for which the OCC has jurisdiction, requires annual and quarterly statements and information in between about material events that may occur. With respect to smaller banks that don't operate in publicly traded markets but are closely held, the bank supervisors require banks to make annual financial statements for the last 2 years available to anyone who comes in and asks for them. There is a mechanism of public availability of financial information about banks, large and small.

The CHAIRMAN. Mr. Clarke, I don't want to be disrespectful, but aren't you kind of building the lily there and begging question, because this is sophisticated knowledge, underanalyzed.
We have cases that have been brought to this committee in a postmortem fashion. The Penn Square Bank in Oklahoma, where the examiners had been going through there and yes, indeed they had examined it, but who was going to analyze the information and who was reporting it.

You had the Continental Illinois Bank in which we discovered belatedly, that it had exceeded its one bar limit of 10 percent, and it is still under government ownership, as a matter of fact, since 1984.

Isn't that still the law? How can anybody know this unless the regulators are advised? They certainly weren't in the Continental Illinois case. Just with that one borrower, the Penn Square Bank, exceeded way over the 10 percent limit. In fact, $1.3 billion.

By the time that became available to this committee, we were doing a postmortem. What we are trying to get at this point is why can't we get the facts in a general way, without destroying the confidentiality of Mr. Trump or the banks or even trying to trespass on the confidentiality and that information which you well described as being outside of the public disclosure?

On the other hand, if the SEC can discuss non-performing assets, why can't another department or agency of the government do it?

That is the thrust of my question.

Mr. CLARKE. Mr. Chairman—

The CHAIRMAN. This is public knowledge. You have had unlimited press coverage of this. It has already been discussed by the banks in one case. That is the Manufacturers Hanover case, but it was all based on the fact that SEC does make public its reports and its findings and its information. And why in the world can't the other public agencies do so?

Mr. CLARKE. Mr. Chairman, the SEC makes available essentially the same information for bank holding companies that are subject to the Securities Act of 1933 and the Securities Exchange Act of 1934 that we make available for banks that are subject to the same requirements.

The CHAIRMAN. Let me follow through with the second question here, a follow up question.

Given that the syndicated or participating loans are actually underwritten by the lead or agent bank, have you found that the banks participating in the loans adequately review the loan files before buying into the syndicate?

In short, are the smaller banks capable of taking sufficient care to review the qualifications of large syndicated borrowers, like the Trump case, as they would local borrowers? How do they access the necessary documentation to perform a thorough review of the borrower's qualifications and do all of the institutions that participate in these loans have the financial expertise to determine on their own if the borrower is qualified? We can't expect an average citizen or depositor to be sophisticated, but what about those smaller banks?

Are they in a position to know what they are getting into, and to what extent are they overexposed? Is the examiner watching that?

Mr. CLARKE. Mr. Chairman, as with any population, there are some banks that do a better job of analyzing that information and taking care before they purchase a participation in one of those
loans than others. It is OCC policy that any national bank, before it buys a participation in a loan, is to evaluate that loan applying the same credit standards and evaluating the same information as if it were going to make the loan itself. That is one of the things our examiners look at when they go into a bank that has bought participations.

The Chairman. Let's be a little bit more specific.

My understanding is there were as many as 90 commercial banks participating in the syndication of $2 billion in Trump loans. Fix in on one occurrence. Reportedly, the lead banks and the foreign based multi-nationals did the negotiating on the restructuring of the loans and most of the smaller banks were only given one to 1 1/2 weeks to review and approve the plan.

Not surprisingly, many of these banks would rather have been bought out than participate in the $65 million new loan package, including deferred interest payments, yet they went along with the deal anyway.

Could you please tell the committee how large the other banks involved in the syndicates are, and in your opinion, is there a risk, either real or perceived, that these smaller banks would jeopardize their correspondence relations with the larger banks if they did not cooperate in the restructuring plan?

Do you believe the lead banks are representing the best interests of all the institutions involved in this syndication?

Mr. Clarke. Mr. Chairman, as I indicated to you earlier, I am not in a position to talk about the specifics of a particular bank's credits. I will tell you as a general regulatory requirement, however, that all of those banks are required under our policy to evaluate any loan in which they want to buy a participation in the same way as if they were originating that loan themselves. That means they have to ask for and receive financial information, and they have to analyze it. If they can't get the information or they don't have the capacity to analyze it, they ought not to make the loan. They ought not to buy the participation. It doesn't mean some of them don't, and it doesn't mean some of them won't be criticized when our examiners go in the bank and review those portfolios.

The Chairman. On the other hand, if the lead bank has a strangle hold on that small bank as a corresponding bank there is no way, unless the examiners and the regulators are aware—you know, you can just change the names around. Instead of Trump let's have Keating, and that is exactly what we heard for 3 1/2 to 4 years.

We had regulators saying the same thing. We can't discuss that individual, but we were using that as a symbol of a generalized condition or situations existing in that area of regulatory authority.

So that we know in the real world that if you have a smaller bank and the lead bank says, look, it stands to reason, they have to have that corresponding relationship and they are not going to jeopardize it. We know that, but we have no way of knowing, for instance, by you saying that, well, we can't discuss this individual, even though it involves 90 separate commercial banks that are under your supervision.
OK. We will let it go at that. The event that finally forced the Trump Organization to renegotiate its debt load was the company's inability to meet a June 15, 1990, $43 million interest payment on the Trump's Castle Casino junk bonds.

All of this is public knowledge—Mr. Trump may have been able to avoid this liquidity crunch with another trip to the junk bond market, except with the bankruptcy of Drexel, Burnham, Lambert, the once active bond market is drying up as a source of liquidity for high rollers.

I think we could either in terms of praise or admiration, say Mr. Trump falls in that definition. Is it true that many of these borrowers never actually intended to repay their loans, but planned to refinance their debt with junk bond issues? How will banks be affected now that large borrowers can no longer refinance their outstanding obligations through junk bonds?

It just seems to me that in this case we are actually looking at a demonstration of what is out there, and in our opinion the State and soundness the banking system is involved, from the standpoint of this bond situation, it may be you cannot comment. I don't know. I haven't asked Mr. LaWare if he cares to comment on either or both of those questions.

Mr. LAWARE. In your prior question, Mr. Chairman, you referred to, you seemed to be referring interchangeably to syndication and participation, and those are two quite distinctly different procedures from the standpoint of the banks.

And I am not commenting now in terms of the specific situation, but rather a generalization with regard to how these are handled.

In a syndication it is customary for the members of the syndicate to jointly consider the terms and jointly arrive at the negotiating points with the lead bank or banks in the syndicate who actually conduct the negotiations with the borrower.

In a participation situation, the loan is negotiated and originated customarily by one or perhaps two banks, and portions of the loan are sold to interested other banks who want to have a piece of that action, either because it is an attractive borrower or because the rate is attractive or because they are trying to fill out a hole in their loan portfolio.

You referred to the Citicorp having a strangle hold on the smaller bank. Actually my own experience as a correspondent banker, it works the other way around.

The Citibankers are so anxious to have the business of the smaller banks they bend over backwards to give them good service and make sure they are well satisfied with the service from the big bank. The smaller banks are increasingly willing to exchange their big Citicorp interests if they feel they are not getting that attention.

With regards to the procedures followed in approving loans, I would certainly underscore the controllers' policy with regard to requiring that banks for which we are responsible go through an analytical procedure on any loan, whether they originate it themselves or they buy a participation or whether they are involved in a syndication alone.

Obviously, depending on their size, there may be a different level of sophistication. And I would not deny to you that some small
banks obviously rely on the judgment of their big Citicore, largely, but they do customarily go through the analytical procedure or check it out.

My experience with particularly small banks is every loan above five banks is reviewed by the whole board of directors. So it is not just a rubber stamp kind of procedure, in my experience.

The CHAIRMAN. Well, I will conclude my time at least by advising the committee that yesterday the New Jersey Casino Control Commission ruled that more than 1,000 pages of financial documentation detailing Donald Trump's rescue package must be released to the public.

So here we are, a Congressional Committee, being told that this is so sensitive that we can't here about it.

But in any event, I thought I would announce that fact.

Mr. VENTO. Mr. Chairman, maybe it will be in the New York Times. We can read about it then.

The CHAIRMAN. I will depend on Mr. Schumer being responsible for that.

I forgot. The reporter should show Mr. Kanjorski present as of sometime ago.

Mr. Leach.

Mr. LEACH. Thank you, Mr. Chairman.

I think we have here a circumstance a little bigger than the Trump issue. It strikes me that the major issue of our times relating to banking, the Federal Reserve Board and Comptroller as well as the New York Superintendent of Banking, is what is the future of big banks; where are they going to make money?

In the 1970's a lot of paper profits were made by loans made abroad with sovereign guarantees. It appears probable that the Trump issue involves only a personal guarantee on his particular loans. With regard to the collateral in the LDC lending, it was more difficult to attach Brazil than, say, 100 acres of farm land.

With Trump, it is not clear what the collateral is. Maybe it will be some gambling roulette wheels.

The point I raise is big banking appears to be stretching for customers. Some traditional customers have left and now use the commercial paper market or other kinds of commercial debt instruments. That raises the question of whether the large banks are adequately capitalized. It also raises the question, in the event of an emergency, is there enough cushion. All of a sudden that emergency is no longer theoretical. It appears that the economy which was pointing towards no growth or possibly a recession of mild significance, may now be confronted with an oil shock of rather dramatic dimension. With regard to banking there may be some dominoes that are going to begin to fall due to $7 or $8 billion in Iraqi debt that can't be repaid largely to, I guess, Japanese and Western European banks. The United States banks have about a half billion dollars in Iraqi debt.

But it also raises a little bit of the lessons of the 1970's when large banks recycled petro dollars that appeared at the first instance to be profitable.

Are we going to repeat that?

Most importantly, are large banks well enough capitalized to survive the kind of emergency that seems to have surfaced?
Would you care to comment on that, Mr. Clarke?

Mr. Clarke. Mr. Leach, in order to determine whether a bank is capitalized well enough to sustain an emergency, you have to define the emergency. I would say as a general proposition, however, the large banks are generally well capitalized, even after having taken, in many cases, some very substantial charges to earnings and equity capital in order to build up loan loss reserves for real estate loans. Obviously, there are some exceptions. As a general proposition, there is a lot of equity capital still in the large institutions.

I think the question you raised initially about the future of big banks is really quite relevant. I would say it is more than just big banks. I would say it is the future of banking in general.

For all the reasons you very accurately articulated, a major thrust of how we keep the banking system safe and sound has to be reforming it in such a way that banks can diversify their earning sources and their investment opportunities. Simply because banks have been deprived of some of their traditional sources of earnings is no excuse for their going out and getting overconcentrated in bad loans.

But, I do think the temptation is there since the universe of profitable investment opportunities for banks has been shrinking. This is an issue that has to be addressed and, as you know, has to be addressed for the most part by the Congress.

Mr. Leach. That is a possibility, although I must say it is ironic that the institutions which seem to be making major mistakes are the ones you suspect will make more money by getting into more fields that are relatively competitive. It doesn’t mean we shouldn’t move in that direction, but it does raise some questions.

Let me ask Mr. LaWare, it appears one aspect of the Iraqi invasion in Kuwait relates to political sovereignty. Another aspect, it has been described as a bank heist. What ramifications has this for international banking? Are the Kuwaiti banking assets being taken by Iraq of rather substantial dimension, and are they leaving there any liabilities for others to take on, such as publics?

Mr. LaWare. I am not sure I follow your question.

Mr. Leach. Kuwait is a substantial banking center with enormous assets. The taking over by Iraq of Kuwait takes over a lot of those assets.

Mr. LaWare. A lot of those assets, while they are booked in Kuwait, really represent investment elsewhere. For the most part those investments have been frozen, as you know, until there is a clear-cut outcome of this event. I won’t venture to speculate on what that final outcome will be, but clearly that could have been one of the possible motives of this action.

Mr. Leach. Let me ask you to comment on Mr. Clarke’s assessment that large banks are very well capitalized.

As you know, there is a reference to the General Accounting Office. The General Accounting Office believes money center banks should write off substantially more of their LDC debt obligations.

Another aspect of the Kuwaiti issue is that it appears that for non-oil producing LDCs, an oil shock is going to be rather disadvantageous, perhaps more than for the United States. That implies that lending to those countries may become more dicey. That could
have serious ramifications for the banking system. Obviously loans to Mexico and Venezuela look a little better, but those to Argentina look a little bit worse.

Do you see any ramifications of that for the large banks. If they have to write off more of their LDC loans, do they have any capital of any great significance? I would simply stress, coming back to the word "well capitalized," that your smaller banks have substantially higher capital ratios. The case suddenly might well be reversed. Large banks should prefer to have more capital than small banks, instead of the old assumption that because of diversity of their lending the large banks needed less.

Have you given that any thought?

Mr. Laware. I think the disillusionment with sovereign guarantees is probably pretty general after the experience of the last 10 years.

I do agree with the Comptroller that banks—the large banks today are by and large better capitalized then they were when this LDC crisis began to emerge. Not only in terms of nominal capital on the balance sheet, but because they are better researched.

There have been two rounds of major reserving by the money center banks, and the regional banks by and large have reduced the—have reduced the amount of their exposure to a de minimis level. I can't, with any kind of a sense of responsibility, speculate on the effects of the oil shock to the LDCs, because at this stage of the game it is hard to figure out what the duration is going to be.

If there is a quick solution to the thing, obviously the impact to us, as well as everybody else, will be minimal. But if it is a prolonged one, then it is going to be—

Mr. Leach. I appreciate that. The Chairman indicated the Minority's time has expired. Let me just make a couple quick comments.

First, even though the Chairman of the Federal Reserve Board came in as a fairly stark deregulationist, I think he is to be commended for giving increasing attention to the capital issue.

Second, as Comptroller, Mr. Clarke has received a great deal of criticism, but my own guess is that given the overbuilding in some of the coastal areas, particularly the New England and East Coast, the Comptroller's policies have probably saved more people from bankruptcy than they cost.

The fact of the matter is if you build in overbuilt markets, the likelihood of coming out of that is pretty weak. And so there is reason for a tough policy. As much as it makes people uncomfortable today, it gives some a little bit more chance to come out of it tomorrow.

I think the Comptroller's policies and the Chairman's policies are in the right direction. I would only add that I think unfortunately for money center banks, it looks as if the real estate phenomena is going to continue to be difficult. California bank lending is heavily in real estate. New York City is heavily in real estate.

New York City is an international banking center, but also a regional banking center. To have 16 percent occupancy or vacancy problems is very serious, and 16 percent could go higher given the social and tax problems of the State of New York and the city of New York.
I think these are concerns the Federal Reserve Board is going to have to bear well in mind. Despite the drop in value that has been registered in recent weeks of the stock, of a number of large money center banks, there is no excuse for not insisting that greater capital be raised the old fashioned way, if not through earnings then through equity offerings.

I would finally conclude with the observation that one of the least understood aspects from the banking community's perspective of equity, as contrasted with preferred debt offerings, is that preferred debt normally pays a higher interest rate than deposits, and it makes profitability less, rather than more, likely. So it is real capital, not preferred debt capital, that I think the Federal Reserve Board and the Comptroller ought to be particularly concerned with today.

I understand that Mr. Clarke has to stress confidence in the system, but my own sense is that American commercial banking in general is in pretty decent shape today, but in the coast and money center banking, it is not. It is up to all of you as regulators, and just as businesses that find themselves in a weaker climate are required by banks to raise more capital, to require stronger and more capital as well for banking.

You are moving in the right direction, but it is quite possible those movements ought to be accelerated at this time.

Thank you.

Mr. SCHUMER. Thank you, Mr. Chairman. Thank the regulators for being here.

Let me say I guess my view is a little different than some of the views that have been offered here. I think while the regulators certainly should be on top of all of these kinds of problems, that fundamentally, if something is wrong in the banking system, to ask the regulators to deal with all of it is virtually impossible, unless you have a regulator poring over each deal. It is sort of the same as if you had a cop on every corner there would probably be no street crime, but we don't have the ability to do that.

If we had a regulator sitting in on every deal, you probably wouldn't have any problems, but that is not going to happen.

I look at the bank industry itself and say what is going wrong. That is my first question to the gentlemen.

Let me ask Mr. Clarke. We have seen what seems to be a herd instinct taking more prominence in banking. They do all these different types of loans, but there is too much of each one. That didn't seem to happen 30 years ago or 20 years ago the way it does today. Is that perception or is that reality? And why is it happening? Why is it that whatever the latest trend is, banks seem to be investing in too much, whether it be real estate, Third World debt, junk bonds, or whatever?

Mr. CLARKE. Mr. Schumer, I think it is due to a combination of factors. It goes back a little bit to the discussion Mr. Leach and I were just having. Banks are under pressure for earnings. The larger banks have publicly traded stock. Investors are after them every quarter wanting to know what the bank did for them. There is a lot of pressure to get the earnings up. When something comes
along that offers fee income or higher interest rates, there is a temptation to invest in that because it will produce some revenue.

Mr. SCHUMER. In a private business I wouldn't mind that at all. It is when there is Federal insurance there we have to really worry about this.

Mr. CLARKE. The point is not that there is that temptation out there, but how that temptation is controlled. The business of bank management is to take and manage risk, and there is nothing wrong with availing yourself of some of these opportunities as they come along. The problem is, as you suggest, that they overdo it.

You also have to look beneath the surface to tell if somebody has overdone it. You could have two banks of equal size with highly leveraged transaction portfolios of equal size. One could have a very highly diversified—

Mr. SCHUMER. I understand.

Mr. CLARKE. The other with the same aggregate volume of HLTs could be heavily concentrated and have the bank very much at risk. A lot of it gets back to how you manage——

Mr. SCHUMER. You have said the management is more difficult and with poorer results today than it was years ago.

Mr. CLARKE. In some cases, it is poorer. I don't know that I would say management results are poorer, but I would agree management is much more difficult.

Mr. SCHUMER. Let me ask you a general question. Is it unusual for—let me put it another way. Is it—generally would it be regarded as very bad practice, when a certain individual has several billion dollars in obligations outstanding, for institutions as an aggregate to lend him another $400 million unsecured? I mean, isn't that just beyond the pale?

Mr. CLARKE. There is one very important factor not specified in that hypothetical: the financial condition of that borrower and the various entities that that borrower may be seeking the money for.

Mr. SCHUMER. Would you be very, very careful if you were a bank manager before you would do that?

Mr. CLARKE. Sure would.

Mr. SCHUMER. Would you, Mr. LaWare?

Mr. LAWARE. Certainly.

Mr. SCHUMER. Are all bankers that careful?

Mr. LAWARE. It becomes—there comes a time in a situation such as you describe, in a hypothetical situation such as you describe, where the judgment has to be made by putting some more money in now are we protecting what we already have there?

Mr. SCHUMER. I would put it another way. In other words, in that situation does the debtor have the banker over a barrel and forces them to make bad decisions?

Mr. LAWARE. They are not necessarily bad decisions.
Mr. Schumer. But he may have them over a barrel. They are less bad decisions, but still not very good decisions.

Mr. Laware. I don’t agree. I wouldn’t characterize all those decisions as bad decisions, because in many cases they work out to the bank’s advantage and eliminate the possibility of a loss where the failure to make additional advances at a certain point might have resulted in loss.

Mr. Schumer. When you see somebody is getting this kind of large, huge sums of money in an unsecured way, then you know that something or someone may be in trouble, I guess that is a fair thing to say.

Mr. Laware. That is fair, just on the face of it.

Mr. Schumer. I am just asking a very hypothetical case here. Why didn’t we know more about trouble or why didn’t banks—and I guess in this case, regulators, know more about potential trouble in real estate—two specific cases—I don’t mean specific individuals but with two things: 1986, the tax laws changed dramatically, dramatically, so that real estate would be less attractive investment and particularly tax-driven real estate, and yet real estate lending from banks went up after that.

More specifically, in 1989, when vacancy rates were already climbing, not just in the costal areas, but in large, large parts of the country, commercial banks increased their real estate portfolios rather significantly, compared to commercial or other kinds of lending.

Why didn’t either the changes in the tax laws in 1986 or, even more directly, the large vacancy rates in 1989 just send a signal that went out to, signal that went out to bankers that said slow down?

Mr. Laware.

Mr. Laware. A lot of that is commitment. You make a commitment, perhaps in 1988, or 1987, to build out a $200 million project. The completion of which is not scheduled until perhaps 1990 or 1991, and for a bank to renege on a commitment like that 1 year into the project would be a breach of contract.

Mr. Schumer. Well, I only know about house—directly.

Mr. Laware. Houses take a little bit less time.

Mr. Schumer. I understand it takes less time. But oftentimes you will find a bank, there is a contract and then there is a closing. And if circumstances change with the potential mortgagees’ situation between the contract and the closing—

Mr. Laware. In all due respect, I think any bank that reneged on a large project like that in midstream—

Mr. Schumer. They are not in midstream.

Mr. Laware. They make the commitment in 1987 when the market is all up and everything is find.

Mr. Schumer. And they have already signed and closed.

Mr. Laware. In 1989, it may only be half way finished.

Mr. Schumer. I understand that, but what it showed in 1989, they actually—commercial real estate, commercial construction, new commitments, went twice as fast as regular business lending.
Something is wrong when vacancy rates are so high. This is not on stream. This is new stuff.

Mr. LAWARE. In many of those cases, though, that is a general statistic.

In many of the cases where real estate was deteriorating rapidly in the latter part of 1989, the vacancy rates were still well below the national average. Today in Boston, which is the heart of one of the major problems, the commercial office vacancy rate is still 1 percent below the national average.

Mr. SCHUMER. That doesn’t mean if you were a bank you would lend to new commercial ventures?

Mr. LAWARE. No.

Mr. SCHUMER. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Parris.

Mr. PARRIS. I have been a Member of Congress off and on now for 18 years. Service on this committee has become increasingly an exercise in frustration. I know you gentlemen must share some of that.

Just before your testimony began, I received a call from a constituent in Northern Virginia in the development business. He said, quote, you have got to talk to the regulators. Bank examiners are killing the economy. There isn’t any credit out here and the markets are in a free-fall. This is a death spiral. This is a half hour ago.

It is a painful time, Mr. LaWare, and this morning’s newspaper, it says, D.C. area banks feel the strain in troubled real estate market, troubled loans rise for banks, and so forth.

I have talked to Mr. Clarke, and he has been most generous in his time. Many of us have, as well, talked to bankers.

You are correct. They have tightened the standards, obviously. But many involuntarily have done so, we are told. Bankers in Northern Virginia tell me that some of the bank supervisors have a dramatically different attitude now than they had just I the recent past.

And even current performing real estate loans are being required to be reserved by the supervisory people. Therefore, earnings are declining. The management is badly reflected, and so forth.

You gentlemen know all this. The problem seems to be many banks have assumed a risk adverse posture. That is what Mr. Schumer and I were talking about earlier in the opening remarks. Somehow banks have got to do something except issue certificates of deposit. And if that is all they are going to do, then I think we are in deep grease around here as a Nation.

And I throw one more thing at you and I just have one question. It has been an interesting discussion, but I don’t know that we are solving any of the problems this morning.

In a recent oversight hearing, we explored the $5 billion obligation. Statement was made and this is generally advised to you, Mr. Philbin, as a New York State official, statement was made by the California banking authorities that even though the plan’s capital requirements are unfunded, and that is the reason why the office of thrift supervision has said, because employees don’t have any rights and they don’t have any rights to withdraw their own contri-
butions, they are restricted; they are constructively held in trust by the State of California. And when California was recently faced with a budget crunch of about $4 billion, they did not contemplate using the employee contribution funds, and would not do so in the future, but they are unfunded.

It is the State of California's money. That is the same theory that sovereigns don't default on LDC loans. Is it Brazil or Argentina that has 13 billion that interest is not being paid? Isn't that basically the same consideration? Doesn't that exacerbate the extensions of credit?

I share some of the confusion and frustration of the gentleman from New York, Mr. Schumer. I am kind of worried about all this and I don't know what to do about it, and I don't know that, frankly, that you gentlemen—and I don't mean this in a critical way—have come up here with a blueprint—not just this morning, but with a blueprint that says here's our problem, here is what we do about it, one, two, three, four, five.

And we are just not very good at that, gentlemen. Politicians don't see the light until we feel the heat and then it is too late. Is that where we are getting to in the delivery of financial services in this Nation? If it is, I implore you to be more direct in your comments to us, because we can't let what we all know about the S&L situation spill over or pour over into other areas. I think some of all that is evidenced by the comments this morning.

My real and only question to you, gentlemen—I appreciate your comments and it is perhaps overly general, but is there a real purpose being—continuing to be served by giving banks the option to chose the easier regulatory system? Have we out lived the dual banking system? Are we getting to that point? I am sure Mr. Philbin doesn't want to see the governor of New York send everybody a pink slip. Is the dual banking system—the situation the Chairman alluded to is cause for some heartburn, I think, and that is a result of the dual banking system.

Have we gotten to the point we need to examine banking powers and the regulatory system itself? Are we there yet?

Mr. Clarke.

Mr. Clarke. I will be glad to take a stab at that. I think the dual banking system has provided some very important benefits for this country. The States have been the place where a lot of the innovation in banking has taken place.

You might quickly come back and say there has been too much innovation and that is what caused many of our problems. I readily acknowledge the possibility that State chartering authorities could allow banks to do things that perhaps should not be funded with federally insured deposits.

There is a way to control that. There has been too much blame passed to State chartering authorities without recognizing that the Federal deposit insurance system has the ability to step in and say to the States that their banks are not going to be insured if they engage in certain activities or they will not be insured unless they conduct those activities in a particular way. The FDIC has considered doing this with regard to direct investment in real estate.

I think there are some benefits to be derived from the dual banking system. But I agree with you that the benefits should not in-
clude being able to escape to a softer regulatory system. Having a Federal scheme that can override authority granted to State chartered banks through the denial of deposit insurance is appropriate. But I do think it is important to have a dual banking system, at least for the time being.

Mr. PARRIS. Mr. Philbin.

Mr. PHILBIN. Thank you.

I would like to respond to that, or comment on it, because it is of particular importance to us in New York.

I think that the history of the dual banking system, as Mr. Clarke indicates, has been on balance, terribly successful in this country. The roots go back to the Federal system and as such it has been a very dynamic part of the fabric of the economic growth of this country.

I think there is probably a misconception about regulator shopping or the idea of trying to get an easy regulator or an accommodating regulator.

Certainly with the regulators that I am familiar with—and I am speaking very broadly of this idea, we have a reputation, if anything, of being a very aggressive and a very strict regulator. There may be somewhere in the system a weakness, and that weakness could be addressed.

It seems to me that in tackling the regulatory structure in the country, dual banking system is not perhaps where time would best be spent. I would suggest that a rationalization of the Federal structure in some manner making it more efficient in terms of the various Federal supervisory agencies might be a more profitable exercise. The dual banking system I think has stood the test of time and has demonstrated that it has been very fruitful for the economic development of this country.

Mr. PARRIS. I thank you. If you have anything more to add Mr. LaWare—let me add for the record, Mr. Chairman, I hope my question is not interpreted by the Association of State Banking Chambers as advocating the immediate elimination of dual banking system. That is not my purpose.

I will say to you gentlemen, I think this committee will examine the restructuring and the status and posture of Federal insurance—deposit insurance and reform thereof.

I hope we do that in the near term in the next Congress. I think the the Chairman’s shares that point of view with me. I hope we are capable of doing so.

Thank you.

The CHAIRMAN. I announced earlier that we would begin to have hearings this next month on the Deposit Insurance System and in the interim, we will have some—at least speaking for myself, I will have one specific bill that I hope we can have ready by the time the Congress reconvenes in September.

Yes, I believe Mr. Clarke had a comment.

Mr. CLARKE. I wanted to make one response to Mr. Parris' comment. I am delighted you are going to begin to look into the idea of restructuring again. We have talked about that a lot, but I think it has become very appropriate to move it to the front burner.

I think it is also important for everybody to remember that there is, as the Congress mandated, a deposit insurance study underway
under the auspices of the Treasury Department. Other parts of the administration are also participating in that. It is my hope that there will be some specific things coming out of that that can be recommended to the Congress. I want to make sure everybody knows we aren't sitting around doing nothing. There is a very active effort underway to come to grips with some of these issues.

The CHAIRMAN. Mr. Vento.

Mr. Vento. Thank you, Mr. Chairman.

I wonder if all of our problems could be solved through deposit insurance, Mr. Clarke? I don't know that they can.

I think your interpretation of the law passed in the early part of this century with regards to discussing some of these matters is very limited in scope, and I really—I don't understand it because I think from the insurance standpoint, —from the franchise standpoint that some of these questions ought to be part of the public debate, public scrutiny.

I don't believe in this sort of view of special culture of bankers are somehow immunized from public accountability and scrutiny. But nevertheless, I guess you are going to persist in that particular view.

It boggles my mind that these banks that have loaned billions of dollars to a single individual could go forth and give him $400 million more when there is no collateral remaining or very little collateral remaining and put in a position to manage these substantial loans and assets, all of which, of course, reflect back in those institutions and insurance system and perhaps the entire economy of that area, without any public or limited public involvement.

If he marches forward and makes a big profit that is great, but he is gambling with what I would interpret a lot of public dollars behind him, and insurance that he doesn't own.

The free enterprise system in this country you hear all these speeches about it, but everyone, it seems, is very quick to cover themselves with a blanket and Federal insurance as tightly and significantly as they can.

Frankly, I would think as regulators there would be more of an interest in discussing this issue so when we do come time to make decisions about this we can have all of the issues on the table and in part public debate but that isn't going to happen today because of your insistence on the limitations, I think, you must place on yourself, and you end up placing on us.

But with that said—Mr. Chairman, and Mr. LaWare, you comment in your paper about the substantial growth of real estate loans in this decade of the 1980's, in terms of bank assets.

Can you give us a little more quantitative information on that as what portion of those real estate loans are commercial or residential? Could you give us any further detail on that?

Mr. LaWare. The total is just under $800 billion.

Mr. Vento. This is nationwide?

Mr. LaWare. Nationwide. And just under $300 billion of that is commercial. It is about $280 billion is commercial.

Mr. Vento. The remainder is residential?

Mr. LaWare. The remainder is residential, one to four family, mostly.
Mr. Vento. By region, do you have any insights? Apparently we are focusing on the northeast region today because of some of the problems that have occurred.

Can you give us any insight into the regional differences that exist here with regards to this?

Mr. LaWare. New England, if you look at total real estate lending in New England, it is probably the highest of any region in the country.

And partly that is due to the fact that there are a large number of mutual savings banks in New England whose prime asset is real estate loans. But historically, the —historically the banks in New England have always been very active on the real estate side, both commercial and residential.

Let me see if I can bring out —in New England the commercial and savings banks had as of the end of March, total assets have $290 billion, of which 1 to 4 family real estate loans were $131.5 billion. So that is almost 40 percent of the total assets of the New England banks.

Mr. Vento. In other words, it is about the same, isn’t it as you have on the nation figure?

Mr. LaWare. The national figure is about 24 percent or 25 percent. And that is up for commercial banks from about 15 percent just 10 years ago.

Mr. Vento. The—do you, Mr. Clarke or Mr. LaWare, is there any classification of the size of the types of commercial loans to entities that is undertaken in terms of review of banks?

Mr. LaWare. I don't have that kind of breakdown in front of me.

Mr. Vento. Is there any examination of it?

I realize you don't have that. You don’t want to bring that along because that may prompt other questions that you may not to answer. I am being facetious.

Mr. LaWare. The largest bank in New England is the Bank of Boston with, roughly, $30-odd billion of assets and I assume they have $6 billion of capital and they would be limited to the—the largest loan would be 10 percent of that.

Mr. Vento. My question is —of course, I understand the 10 percent rule.

We got a little familiarized with that in terms of the S&L situation, in writing the regulations than rather assuming some one was going to go take care of it. After we wrote it there were certain modifications made of it by the administration.

Is there any monitoring of the large loans made with its commercial entities or real estate or otherwise that approximate that 10 percent? Is there any special attention paid to these?

Or are they given—what do you do? What does the Federal Reserve Board do, what does the controller do when you have these large loans that can severely impact an institution like Citibank or like the Bank of Boston?

Mr. LaWare. The examination process always targets in on large exposures and they are looked at almost on an individual basis in each examination.
Mr. Vento. Mr. Clarke, for a non-performing loan in this particular category, what is the involvement of the regulator when the restructuring of those types of loans would occur?

Is there any special role of the regulator plays in this instance for these large loans?

Mr. Clarke. You mean do we get involved in the actual restructuring of the loan?

Mr. Vento. What type of monitoring do you do? I don't want to say involve because you may interpret that differently than I. I am asking what your role is when you have restructuring or default on those loans, how do you classify them, what do you do?

Mr. Clarke. We evaluate a bank's loan portfolio in the ordinary course of business. If we go into the bank and find it has a large loan that has some deficiencies, depending on what those are, the loan may be classified and we may require the bank to charge off part or all of it. We may require it to be placed on non-accrual. It depends on the facts.

If the bank, after having recognized that problem itself or deciding to recognize it after we identify the problem, decides to restructure the loan, the bank restructures that loan on whatever terms and conditions will cause it to lose the least amount of money. Governor LaWare indicated earlier that is part of the business of banking to figure out how to size up a troubled credit and do something with it that will preserve as much of the value as possible. The next time we review that bank we will look at that loan in its restructured form. If we think it has deficiencies, we will call those to the attention of the bank and require the same kinds of things if appropriate.

Mr. Vento. Are you in a position to, in fact, limit the type of terms or conditions that, in fact, are imposed on that particular loan or the renegotiation?

Can you stop that?

Mr. Clarke. We can determine after the fact that a loan is unsafe and unsound and require the bank, as I said earlier, to reserve against it, to charge off part or all of it.

Mr. Vento. So you have examined, I suppose—how long a time period are we talking about here after these events occur? Are we talking about weeks, months, years? Is it just part of the regular examination, or is there a special monitoring that goes on in terms of these types of mega loans?

Mr. Clarke. It can be either. It depends, once again, on the bank. If the bank is a bank that is in weak condition, if it's a bank that we are spending a lot of time in because we are concerned about it, if it's one of our multi-national banks or large regional banks where we have a more continuous examiner presence, then it may be looked at rather frequently.

Mr. Vento. So, I mean, the point is if there are any deals that have been struck of the magnitude that have been the cause celebre today, then we can assume the regulators have actually put their stamp of approval on this.

Mr. Clarke. No, you cannot do that.

Mr. Vento. You don't want to take credit for that?
Mr. Clarke. I think it is very important, Mr. Vento, to remember that commercial banks are not public utilities. They are privately owned institutions, and they are run——

Mr. Vento. They have a franchise that is granted by the national government. They have Federal insurance. They are part of the monetary system, so they are regulated, I assume.

Mr. Clarke. That is correct, but they are managed by people who are paid by the shareholders to run the institution, and they make the decisions about how to restructure these loans. We have the luxury of being able to come in after the fact and criticize those decisions.

Mr. Vento. Let me yield to the Chairman. He is very anxious to get in on that statement.

The Chairman. Yes. I think you made a very important point here, and that is the point of view.

The U.S. laws in chartering banks say a bank is chartered for public need and convenience so that we are not here for the convenience of the bankers.

We realize that the comptroller is a creature of the banking institutions because you are not funded by appropriated funds from the Congress.

You are funded through the fees you exact of these very same banks you are overseeing. And when somebody tells me that a bank is afraid of OCC examiners, I find it very hard to believe. Because in any arrangement of this nature, time after time I have seen comptroller after comptroller come before this committee and essentially say that.

And I think we ought to remind everybody that a bank is chartered for public need and convenience, and that is exactly what the gambling commission in New Jersey has just announced. That the public need to know exceeds this business of secrecy involving that particular transaction.

Mr. Vento. Certainly Mr. Clarke would like if I could continue——

Mr. Clarke. I don't disagree with your point that banks serve a public purpose, and I don't disagree with Mr. Vento's point that they are backed up with a Federal deposit insurance system that gives them certain advantages. But the fact still remains that banks are run by private sector boards of directors and managers subject to government supervision. As a consequence, we don't make the management decisions for those institutions, and I don't think you want us to make the management decisions. What you want us to do is supervise the way that management performs, point out deficiencies in the way they perform, and require banks to adhere to prudent practices and to provide accurate portrayals of their financial condition. And that is what we do.

Mr. Vento. Well, Mr. Chairman, Mr. Clarke, I realize that there has to be a balance here, but I think that implicitly if you have institutions with problems and you are reviewing negotiations, you are requesting reserves, you are, in other words, implicitly putting your stamp on these types of arrangements after the fact with, I guess, limited amount of knowledge by the very nature of the regulatory process.
But we all hope it's the right information, but we hope that you will look at this type of arrangement very carefully.

I might add, Mr. LaWare, in your statement you talk about the atmosphere of deregulation in the early 1980's led to budgetary pressures in some agencies and in some instances to less supervisory oversight.

I don't know that the Federal Reserve Board was subject to that, were they?

Mr. LaWare. No, we were not.

Mr. Vento. Of course, you are not operating on appropriated funds. I think that arguably Mr. Clarke would say he might have been limited in terms of the funds that he had available. I don't know, by virtue of the fees permitted by someone.

Were you arguing that you were limited, Mr. Clarke?

Mr. Clarke. No, we were not limited in our ability to generate funds. The only limitation that we had previously was on our ability to pay our employees. You all took care of that for us. We are very grateful for it.

Mr. Vento. We all like to look at parity between these different supervisors if we only know what they receive, but apparently that is additional information—that we don't want to make public under the 1905 law, Mr. Chairman, or some such statute.

Well, Mr. Chairman, the other question I think that is of interest to Members, I think in the context of Mr. LaWare's remarks, I cannot find it now, but you point out the RTC's impact in terms of the real estate market. Is that just a suspicion that there is a shadow of real estate owned properties that is hanging over the market here?

Mr. LaWare. No. It's quite a significant number.

Mr. Vento. In some regions.

Mr. LaWare. Tens of millions of dollars.

Mr. Vento. I think the real estate owned right now is about 10 percent of their assets, which is about between $15 and $20 billion tops, in terms of the marketplace nationwide.

Of course, in some regions, it may be severe. I don't believe it is in the northwest, as an example, is it?

Mr. LaWare. No, it's not evenly distributed over the country as a whole. New England, for example, would have less of it than would Texas and the Southwest, but in looking at the effect of the overhang on the prices in the market, you cannot look at just what has been intervened and taken over by the RTC.

You have to look at the whole pot of assets that they are eventually going to have to process because that is what has the dampening effect.

Mr. Vento. Well, Mr. Chairman, I just would point out that during the arguments over who should pay the fees in terms of these, that there was a lot of discussion about the involvement, the amount of involvement that comes from other regulated institutions and that they shouldn't be, but if the RTC is going to hold these properties.

And I have been a big advocate of them getting rid of it because I think they are degenerating, that the properties are losing value, and I think this overhang may be a lot worse, frankly.
I think the market could easily absorb whatever real estate owned properties the RTC has, as well as the commercial or other types of mortgage paper, and they have been dragging their feet, quite frankly, for a lot of reasons.

I just think that—but as we begin to talk about managing it to somehow help the overall picture. I think then the question is where the fees come, where income can be raised should also be re-examined in terms of insurance fees.

Just one last comment, Mr. Chairman. We are about to receive the testimony from Mr. James McDermott, and I would just call my colleagues' attention to the nonperforming asset percentage of reserve plus equity on the last page of his testimony where he points out in the Northeast.

And I don't know that he separates money center banks from other regional banks, but that the nonperforming assets versus percentage of reserves plus equity has gone from 23 percent in June of 1989 to 46 percent in June of 1990.

So it has doubled. So I would—is there any surprise to that, Mr. Clarke? Is that what is going on? Do you agree with that number, or do you have to examine the chart to answer it more definitively?

Mr. Clarke. As to the amount of real estate lending?

Mr. Vento. No, the nonperforming assets as appears age of reserves plus equity has gone from 23 percent from June of 1989 to June of 1990.

I will share that with you.

Mr. Clarke. I would be glad to check on that.

Mr. Vento. Or look at it before we have another round. It obviously indicates a very severe problem.

Mr. Chairman and the Members have been very generous in permitting me to go a couple extra minutes.

Thank you.

The Chairman. You might wish to submit that part of the testimony that we will hear after the witnesses for the record to Mr. Clarke.

Mr. Kanjorski?

Mr. Kanjorski. Thank you very much, Mr. Chairman. I have to agree with my friend, Mr. Parris from Virginia. I have not served in Congress nearly as long as he has, but am I supposed to leave here with the understanding that our banking industry is in fairly good shape, we have nothing to worry about, and certainly the Congress has no responsibility to do anything at this point; or am I missing something here?

It seems to me, Mr. Clarke, that I have seen you indicate on television that the $100,000 deposit insurance limit is not the cause of any problem either in the S&L or the banking industry and yet on the other hand, quasi admission officials such as Ed Rollins, who we are all familiar with, seem to indicate that the S&L disaster was caused by the fact that we went to the $100,000 insurance level and that therefore the S&L disaster was the responsibility of Congress.

Could you give us some insight on that beyond taking the 18 month or 2-year deposit insurance study that we are talking about?

Mr. Clarke. It seems to me that while the existence of Federal deposit insurance facilitated the ability of some of the thrift insti-
tutions that we are now having to pay the price for to grow very rapidly, it's not deposit insurance itself that was the culprit. Rather it was what the institutions were allowed to do with their federally insured deposits, that those deposits were not backed by capital, that the institutions were not supervised properly, and that they weren't closed when they became insolvent.

Mr. KANJORSKI. All right. On that point, since the Congress set the insurance amount, the regulators and the administration had the responsibility of supervision; is that correct?

Mr. CLARKE. That's exactly right.

Mr. KANJORSKI. So that the failure in the S&L industry was not the responsibility of Congress in setting the amount of insurance but the failure of the administration and the regulators to supervise and regulate. Is that correct?

Mr. CLARKE. Well, it's not quite as simple as that.

Mr. KANJORSKI. Well, let's try to find out so we simpletons out there who are going to have to pay the dollars know what we are paying for.

Mr. CLARKE. If you are going to increase the amount of deposit insurance and you are going to increase the variety of things that institutions that have deposit insurance can do with that money and not create a structure that at the same time protects those deposits from abuses and improper investment, then I think that everybody is in the soup together.

Mr. KANJORSKI. Did the Congress fail to establish that type of regulatory agency?

Mr. CLARKE. It's not a regulatory agency. It's a regulatory structure.

Mr. KANJORSKI. Did we fail to provide that regulatory structure?

Mr. CLARKE. I would suggest to you that at the time the thrifts were permitted to engage in a much wider variety of activities, which I incidentally think was a good idea, there was not at the same time, as part of that structural reform, the creation of mechanisms to preserve safety and soundness and to insulate the federally insured deposits from risk.

Mr. KANJORSKI. All right. Now, I ask you in the banking situation, has the Congress of the United States provided the structure that is necessary?

Mr. KANJORSKI. Can we leave here today and say, well, if the banks of this country start to fail and there is an economic reaction similar to the S&L economic reaction, we have done everything we can do because Mr. Clarke told us so, or haven't we?

And if we haven't, will you tell me today or in writing as much as you can? Unlike Mr. Grey, who made speeches, I would like you to tell Members of this committee and the Congress what we should do to be certain we don't revisit in the banking industry what we have just gone through in the S&L industry.

Mr. CLARKE. Number one, you need to insist on having strong supervision of financial institutions.

Mr. KANJORSKI. Do we have that?

Mr. CLARKE. Speaking for our agency, I hope so. We are making every effort to do that.

Mr. KANJORSKI. How about the Federal Reserve System and the FDIC?
In your opinion, have you examined the agencies of the Executive Branch of Government that are responsible to do this and are they sound?

Mr. Clarke. In my judgment, the Federal banking agencies are doing a good job supervising the institutions.

Mr. Kanjorski. And the structure established is sufficient, is that correct?

Mr. Clarke. It is sufficient. The question you asked me is whether you can make some improvements in it, whether you can make it more efficient.

Mr. Kanjorski. What can the Congress do by changing the law to improve this system?

Mr. Clarke. I think that bears some thought. You have to decide, first of all, if you are going to change the structure of the industry.

Mr. Kanjorski. Well, we are going to do what you tell us to do, Mr. Clarke.

Mr. Clarke. That comes back to the conversation I was having earlier with Mr. Leach. I very much hope that at some point there will be some changes in the structure.

Mr. Kanjorski. But that is to presuppose that we know more about this system than the bankers and the regulators do.

I am going to concede that I don’t. I don’t think anybody who gets elected to this Congress does.

We rely on you to come forward and tell us what you need as a regulator, as a comptroller, what should be done.

We rely on the bankers who don’t seem to show up here when we need them, but they do show up when they want additional powers, I take note of that, but they don’t seem to have come forward today and said they need anything.

Now, I don’t know why you all feel that those of us who represent constituencies out there have superior knowledge of the financial industry of this country.

You folks do.

Now, what do you need? That is what I want to know.

Mr. Clarke. At the risk of repeating myself, there is a comprehensive study being undertaken at this time by the administration, headed by the Treasury Department, which is addressing many of these issues. It is expected to be completed by the end of the year. It is at that point that I would expect there would be some specific recommendations made to you all about how to change the industry. Once we know what kind of industry we are going to have after those changes have taken place, you can also at the same time address what kind of regulatory structure makes sense.

Mr. Kanjorski. So is it my understanding that until that study and those recommendations come forward, there is nothing the Congress of the United States can do for the American people to protect their interests or their potential liability in the banking industry because it is all being done and we are just waiting on this administration and these regulators to tell us what to do?

Is that correct?

Mr. Clarke. I think you can be using that time to inform yourselves as much as possible by having hearings, which you will be doing, as the Chairman indicated.
Mr. Kanjorski. We do that, Mr. Clarke, but you can't disclose to us individual deals or what is happening.

It is a rerun, in my mind, of the S&L thing. It is the same thing I heard 3 and 4 years ago.

I wanted to call your attention to something. I amuse myself every morning now by reading two or three newspapers, and I pay particular attention to the advertisements on Certificates of Deposit.

They now seem to be constantly now talking about 8.5, 9 percent, short-term, long-term CD's, and again, and I go back 3 or 4 years, and I seem to remember rather than having bank names at the bottom of these ads that are there today, they used to be S&L names, many of which have now become famous.

Then I pay attention when I watch the evening news to the prime rate, and I see where it is 9.5 or 10 percent, and yet these banks are paying 8.5 or 9 percent for money.

It strikes me that that is scrambling for liquidity.

Am I wrong there? Is there some new secret in banking that says you can make money in banking without having a 2 or 2.5 percent spread between what you pay for the money and what you lend it out at?

Mr. Clarke. The general rule of thumb is that you need to have a wider spread than that, but once again there are lots of facts about your hypothetical that we don't know.

Mr. Kanjorski. Well, have you noticed, as I have noticed, the tremendous amount of advertising in this country for CD's?

Doesn't that indicate some lack of liquidity out there?

Mr. Clarke. Not necessarily.

Mr. Kanjorski. You mean there is no attention to what is happening?

We should just ignore that, that similarity to the S&L problem of 3 and 4 years ago, there is no relationship between the two?

Mr. Clarke. Once again, I think we are really getting off the target here. The advertising for certificates of deposit and the paying of rates on certificates of deposit are not what brought down the savings and loan industry. The important thing is what institutions are allowed to do with those deposits.

Mr. Kanjorski. I realize that, Mr. Clarke. You are telling me you don't look at what the banks do until after the fact of these deposits.

I am suggesting there are an awful lot of banks out there getting an awful lot of money advertising across the country for brokered funds or otherwise, just as the S&L's did, and is it possible that these banks are scrambling for high-risk investments to make back some of the money they haven't been making and should we take note of that or should we ignore it as a Congress?

I am not an expert in the field, but I am revisiting something that happened 2 or 3 years ago in the S&L industry.

It just seems so similar to me, that I just want to be assured by you, sir, that I have nothing to worry about.

Can I go to sleep tonight and say my regulators are taking care of this, they know, and this similarity has no relationship, and there is no problem, I should pay attention to?
Mr. Clarke. The point you make about banks having such a narrow spread that they are really not making any money, that they are making it all up on volume, is a valid concern. That is why it is so important to have capital in these institutions. If someone is silly enough to invest their own equity capital in an institution and then go out and pay too much for money so that they have no spread and are losing money and thereby eroding that capital, then you have created a powerful disincentive to do the kind of thing you are talking about.

Mr. Kanjorski. But the Congress can't go out and examine banks, Mr. Clarke.

We don't know how their capital is, what their capital is, whether it is well stated.

The only people I know in the government that have the authority to do that are the regulators.

Your testimony today indicated to me there is no problem out there with capital in the banks.

Is that correct?

Mr. Clarke. As a general principle, the statement I made is that banks are well capitalized. There are banks, both big and small, that are not well capitalized.

Mr. Kanjorski. Well, should we start telling the American people which ones these are?

Mr. Clarke. As I said, there is publicly available information about those institutions. The ones that are publicly traded and subject to the SEC reporting requirements publish their information, the audited financial statements, quarterly reports and interim statements. The smallest bank in the country is required to provide anybody who wants the information—

Mr. Kanjorski. You, as a regulator, send to me the top 100 banks in this country and rate them, 1 to 10; 10 being the best, 1 being the ones in difficulty, and give me an idea what I should watch out for so at least I can tell my constituents what banks to deal with and where to put their money.

Mr. Clarke. We are not in the business of rating banks. There are rating agencies that do that.

Mr. Kanjorski. OK.

Should we create authority for the regulators to rate banks?

Should the Congress be doing that now?

Mr. Clarke. In my judgment, you should not.

Mr. Kanjorski. We should keep that private enterprise?

Mr. Clarke. Yes.

Mr. Kanjorski. I know I am taking a lot of time, Mr. Chairman, but I do want to address one other thing.

I have made inquiries to the FDIC. I don't know if we have made it to your office, Mr. Clarke. I am particularly interested in the bank investment contracts.

I have seen them grow hundreds of percent in the last 2 or 3 years since we have taken the lid off with FIRREA, with the assistance of the regulators, that that wasn't something to worry about.

We have now asked a lot of questions of the regulators as to how large the BIC market is. They don't seem to have any direction of how to examine or keep track of what is happening out in the financial field in bank investment contracts.
The last information that I had is that it had grown so significantly to now be well over $30 billion direct liability to the FDIC.

Is there any way that we should be monitoring this or worried about it since there is such a high proportion of loss experienced by insurance companies in the guaranteed investment contracts that they had, but without insured funds?

Should we be worried about the depositors funds in the big BIC contracts, again, is that something that the Congress shouldn't pay attention to, that the regulators have that impact, and we don't have to worry about it?

Mr. CLARKE. Have you requested information from us about that?

Mr. KANJORSKI. We have requested it from Mr. Seidman, and he indicates that, one, he does not keep that information. It is not examined, it is not available, but because the bankers of this country are so great and do this every day, he doesn't see any need to keep track of this information.

I am just wondering if that is the position of your office, too.

Mr. CLARKE. I will be glad to see if we have any data that either supports or refutes the number you have.

Mr. KANJORSKI. I would appreciate that.

Now, Mr. Chairman, I just want to ask one other question.

I have heard we can't discuss individual deals here or go into them, and I can understand the need for confidentiality in banking, except I remember Danny Wall coming up before this committee and telling us he couldn't discuss the December deals in 1988, and it is now after the fact that our colleagues on the Senate side are bringing out the evidence in the Fail case, that if this committee and this Congress had had the opportunity to know some of the facts in those deals I am sure they wouldn't have been entered into and billions of dollars of American taxpayers' money wouldn't have been guaranteed out there, so I am just wondering, maybe I will ask the question, do you feel that because or where there are depositor funds at stake that we should pass a statute requiring either direct disclosure of large loans, particularly where unsecured loans and the one we are talking about today are made, and whether or not this information should at least be given to the Congress in camera, if not in public?

Mr. CLARKE. As I said earlier, when we were discussing this issue at the outset of the hearing, there is a mechanism which Congress created for doing just that, and it is the GAO. GAO does have the ability to get that information, and they are subject to criminal penalties for improperly disclosing it.

Mr. KANJORSKI. Mr. Clarke, I just want to call your attention to something. That is very nice, but do you know that the standard Member of Congress who makes a request of a GAO study has to wait about 18 months to get it back. That seems to me the experience I have been having.

It would seem to me if we are going to wait 18 months to find out whether these deals are relatively good deals, not only the deals could be gone, but the banks could be gone in that period of time.

It seems to me we are going to have to have the people there on a day-to-day basis.
We do not have the sufficiency on the congressional side of this government where we spent less than $2 billion of the 1300 billion dollars of the American budget.

We spent only $2 billion of that here. We don't have the capacity to do the examination and have the information.

Our problem is we have always asked regulatory agencies and administration officials and executives for the facts, particularly in the S&L disaster, because I sat here for 5 years doing it, and they didn't tell us the true facts, didn't give us the correct information, and I would go so far as to say in many instances outright lied to the Congress.

Now we see the result of that, but for your age to turn around and say, "Let's have the General Accounting Office do it, to me that means that since we don't have the funds and we don't have sufficient investigative arm there, nor do they have the capacity that you all have and information.

It is just not going to be had.

Should we go one step further and not go to the GAO, but say the regulators have to do this and provide us with that information?

Is that something the Congress should do and would it be reasonable?

Mr. CLARKE. In my judgment, Mr. Kanjorski, the Congress should not. Individual borrower information is very sensitive and should not be made publicly available.

The CHAIRMAN. Mr. Kanjorski, along that line I have a letter here in my kit of letters regarding foreign reserve currency holdings and related matters. I have a letter from the Treasury to the GAO saying that they would not release information to the GAO or to any public body, including the Congress, so that if we could count on you, we are going to have a hearing on that subject matter next week, on the 14th, and we hope to develop that a little bit more.

In range of importance, let me point out that that involves in terms of money or assets to the country way in excess of what is involved in the S&L deal, and so we do have a case where Treasury told GAO, the official arm of the Congress, it is not permitted to obtain information of the nature that the GAO is commissioned to inquire. So I do want to point out that these are policy matters that we really can't expect the regulator to tell us.

We have to decide that. That has been the problem before, that when you do have such issues as bank powers or deregulation, the officials—the last comptroller, Mr. Conover, spent more time lobbying on behalf of extended powers for the banks, than ABA, so, you know, you wear two hats here.

On the one hand, we hold you as the delegated authority to oversee.

You mention public utility and the reason for my comment outburst, public utilities are monopolies, franchises, that in return for that monopoly must have public accountability, meaning oversight and regulation.

To the extent you have proper oversight and regulation, you have proper public interest defended or respected, banks are no different.
In a matter of speaking, they are public utilities. They are chartered for a public purpose and not necessarily a license for the institutions to go after profits in heed of also disregard of the public interest.

So I think this is an important element that over the course of the last two or three decades has been very much overlooked, and I think the latest example is where the Treasury says to GAO, "Hey, we are not going to give you or any other public agency or official the information you are requesting," and they are doing it on the question of the committee, in this case, this committee, so we do want to point out that that is a question that ultimately we can't shake off.

We can't delegate it any more than the congressional pay issue because the Constitution places that responsibility exclusively in the Congress, and the Congress is the only national policy-making body we have, and that is ultimately our decision, and how we answer that depends on the majority will in the Congress.

Mr. Weiss, I am sorry that we interjected before we recognized you. I apologize.

Mr. Weiss. No problem at all, Mr. Chairman.

Thank you.

I am going to try to switch the topic just a little bit to the second part of the equation.

I think that the Chairman indicated it was a matter of concern at the outset.

Let me ask it of each of you.

Do you believe there is still a credit crunch, and if so, what is its principal cause, if any?

Mr. Clarke.

Mr. Weiss. Do I believe there is still a credit crunch? That assumes that I believed there was one at one time.

Mr. Weiss. Well, is there a credit crunch? Strike the "still".

Mr. Clarke. The answer to that question is, once again, not that simple. We are going through a period of adjustment from a time when real estate values were going up and everybody was making a lot of money in certain parts of the country to a time where real estate values are going down, and some small business has been adversely impacted. As a consequence, there is both a decline in the demand for credit and a tightening up by banks in the terms and conditions under which they will grant credit in recognition of the deteriorating economic environment. If the test of a credit crunch is that it is harder to get credit than it was 6 months ago or a year ago, then we have a credit crunch.

Mr. Weiss. Thank you. I think that is a pretty simple answer.

Mr. Clarke. But if the test is that you can't get credit at all, then I would suggest that we don't have a credit crunch because I think that most people who are qualified borrowers are able to get credit.

Mr. Weiss. Mr. Clarke, if you use a credit moratorium, that would be one thing. A credit crunch is exactly—it is a tightening, right? I am pleased that ultimately you came to a response that indeed there is a credit crunch.

Mr. Clarke. I am not going to accept that. That is not what I said. I said if there are—–
Mr. WEISS. Assuming that it is defined as you defined it, which is
the way that most people in this country define it, you say there is
a credit crunch, then I agree with you, there is a credit crunch.
Mr. CLARKE. If your question is whether people are being subject-
eted to tougher standards then they were 6 months ago in some of
these markets, the answer is clearly yes. But there is——
Mr. WEISS. Why do you think so?
Mr. CLARKE. Because of the change in the economic environment.
Mr. WEISS. Mr. LaWare.
Mr. LAWARE. I think there are two other aspects to it in addition
to what Mr. Clarke has suggested. One is that the economy is grow-
ing slower and, therefore, demands for credit are less, and second,
in this kind of an environment where capital has become impor-
tant to banks, where many banks have taken hits against their
capital account to make adjustments for loan problems, and where
the capital markets are not exactly thus as particular about under-
writing bank securities, there is some down-sizing going on to meet
future capital adequacy requirements, and so, you know, one of the
fastest ways for a commercial bank — there are two fast ways for a
commercial bank to down-size.
One is to securitize assets and sell them off. The other is to turn
off or constrain the amount of credit that they are extending.
I think there is some of that going on in the economy as well.
Mr. WEISS. Mr. Philbin.
Mr. PHILBIN. Well, Congressman, in my opening remarks, I
talked a bit about the perception of a credit crunch, and I indicated
that we did not consider it so. I think Mr. Clarke has really
touched on it.
It seems to me that from our analyses that proper credit is avail-
able for those who really need it. It is true that standards have
been tightened. We believe that as a result of the uninterrupted ex-
pansion of the 1980's and the subtle liberalization of lending stand-
ards, it is important that this particular reaction set in for the
good of the banking system and the good of individual banks that
are participants in those markets.
We do not see a credit crunch. The implication there is that
credit worthy borrowers are being frozen out of the market.
We do not see that.
Mr. WEISS. The Chairman in his opening comments quoted Mr.
Mosbacher as saying that there is a "serious credit crunch gripping
the United States".
I gather all three of you are to a significant extent in disagree-
ment with that characterization? Right?
Mr. Philbin, you are?
Mr. PHILBIN. Yes, I am.
Mr. WEISS. Mr. LaWare.
Mr. LAWARE. Yes.
Mr. WEISS. Mr. Clarke.
Mr. CLARKE. Based on the evidence we have available to us, that
is exactly correct.
Mr. WEISS. The people who read the daily paper, the financial
sections, I think would also find your positions to be in direct vari-
ance to what they read about on a daily and regular basis.
Mr. Philbin, it seems to me that the tightening of the standards seems to apply not to everybody, but only to some people. The kind of cases that we are talking about before where there was an acknowledgment that maybe the larger borrowers have the banks over a barrel or it was more difficult for them not to continue to end, would indicate that not everybody is being subjected to the same rigorous standards.

Mr. Philbin. Well, Congressman, if you are talking about a restructuring or dealing with a problem situation, as Mr. Clarke went through the whole process, I think, very eloquently in his opening remarks. There is a rational process which ultimately ends up with a bank answering the question as a business decision: is it better for me to restructure this loan, perhaps to lend additional money because in the long run I will better my position.

That is the kind of exercise every bank, large or small, should go through with every borrower, large or small, when it is dealing with a problem situation, and to my knowledge, all banks do so.

Mr. Weiss. Well, I don't want to go over old ground, so let me, Mr. Clarke, ask you, a criticism of the bank examinations performed by OCC is that they contribute to the credit crunch.

What is your opinion of that criticism?

Mr. Clarke. If your question really is whether as a result of our examination, the banks have tightened their credit standards, that is right. In many cases, the result of our examinations has been that we expect the banks to do that because some of those credit standards had gotten pretty loose and had resulted in some loans being on the books that in a down-trending economy do not look so good. Our examinations have been responsible in part for bringing about greater attention to the reality of the marketplace and to better and tighter credit standards.

Mr. Weiss. But you know that that criticism goes farther. The criticism is that your very presence, your involvement, your people make the bankers, in essence, tighten up to such an extent that there is a crunch or even more than a crunch and that people are denied loans because the bankers, the lenders consider your position to be that you don't want them to be making loans at all, never mind that you want tighter standards.

Now, what steps is the OCC taking to make sure that bankers do not overreact to your examinations and accelerate the creation of the credit crunch?

Mr. Clarke. We are taking a number of steps. The most important one is communicating with the industry and encouraging them to communicate with us to understand exactly what our standards are and what we are requiring. I have met with groups of bankers, borrowers, civic leaders, Members of Congress, and members of State Governments all over the Northeast for the last 6 months talking about this very subject and emphasizing at every opportunity that we are not telling banks to quit making loans. We are telling them to be careful in how they make loans.

Mr. Weiss. Mr. Philbin, how many bank failures have there been in New York State and New York City for 1989 and then so far this year, 1990?

Mr. Philbin. I am sorry, sir, I didn't understand.
Mr. WEISS. How many bank failures have there been in New York State and in New York City, both for 1989 and for 1990?

Mr. PHILBIN. Well, speaking just for New York State-chartered banks, we had one small bank failure in 1989.

We have not had any in 1990.

Mr. WEISS. How much money in real estate loan losses will the New York bank industry suffer this year?

Mr. PHILBIN. I don’t have that information, sir.

I would assume that because of the way the markets have been going and the banks’ participation in the markets that it will be up from the previous year, but I don’t have specific numbers.

Mr. WEISS. Will you submit that for the record, please.

Mr. PHILBIN. The New York State chartered commercial banks reported a total of $90 million in real estate loans in the first 6 months of 1989 compared to $70 million in the first 6 months of 1988.

Mr. WEISS. What are real estate loan losses expected to have on the New York banking industry?

Mr. PHILBIN. We have done some studies and made some visits to banks concerning New York State-chartered banks.

We have concluded that, although there will be some impact on our institutions, the present time the capital and the reserve positions of banks is generally adequate to deal with the situation.

Going forward, we are not making any predictions about the economy.

Should the economic situation worsen dramatically, we would have to review that particular conclusion, but that is our opinion at this time.

Mr. WEISS. In your opinion, what is the general health of the banking industry in New York and how would you compare it to the rest of the Nation?

Mr. PHILBIN. I don’t have enough specific statistics to compare to the rest of the Nation.

I would say at the present time the general state of the banking industry in New York with regard to New York State’s chartered banks is satisfactory.

Mr. WEISS. Do you have any opinion on non-New York State-chartered, the other banks, federally chartered banks?

Mr. PHILBIN. No, I have not.

Mr. WEISS. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Well, I guess from the questions here and the answers here we have to conclude that that old saying is quite true. “If you owe the bank $10,000 and can’t pay, you have a problem. If you owe the bank $10 million and can’t pay, the bank has a problem.” And that is pretty much the way I would sum that up.

I had one question with permission of my colleagues for Mr. Philbin.

We left him hear pretty much alone until our Member from New York asked a question.

On page 3 of your testimony, Mr. Philbin, you mentioned that your agency has been closely reviewing those institutions which
have in place structures and business practices which may make
the institution vulnerable to a serious downturn in the real estate
markets.

Would you be able to describe for the committee the structures
and business practices that your agency has determined leave and
institution vulnerable to downturns in the real estate markets?

Mr. Philbin. Well, sir, Mr. Chairman, I was referring to an insti-
tution which might have a higher percentage of real estate-related
loans than the norm.

Therefore, just by definition, it would be an institution that
would probably be impacted more so than another would be if
there were a downturn in the real estate markets.

That is not absolutely so.

It depends on the quality of the portfolio.

In addition, we were looking at institutions that may have grown
their real estate portfolios dramatically in the past few years, par-
ticularly in the period of time between 1985 and 1988. Those were
basically the two criteria we used in trying to determine whether
we should take a particular look or a special look at institution.

That approach was modified to some extent by our feeling for the
institute, our knowledge of its management, its capital support,
things of that nature, but the first two things I mentioned were the
driving forces in making our selection.

The Chairman. Well, I would say generally that if you had one
failed institution, I believe you said, in 1989 or 1988?

Mr. Philbin. In 1989.

The Chairman. You are certainly well off compared to other sec-
tions of the country, particularly mine.

Mr. Philbin. We are very fortunate. We would also like to think
that part of the reason is good supervision.

The Chairman. Well, I guess to be perfectly fair, you should take
some credit in view of the sort of sorry statistics we get from other
places.

I will point out for the record that we have had more commercial
bank failures than S&L failures.

Possibly one reason is there are that many more banks than
there are S&L's, Mr. Leach.

Mr. Leach. Could I just pursue one quick thought.

Mr. Philbin, what is the average capital ratio of a State-char-
tered bank in the State of New York?

Mr. Philbin. State-chartered commercial bank?

Mr. Leach. Yes.

Mr. Philbin. I would say between 8 and 9 percent.

Mr. Leach. Mr. Clarke, if I could return, of the five largest na-
tional banks in New York, does any have a capital ratio of real
capital, not preferred debt, real capital above 5 percent?

Mr. Clarke. As we sit here, I can't tell you that precisely. I
think they may well—you are talking about pure equity.

Mr. Leach. As I recall, Morgan has 4.2, although they applied
poor bookkeeping.

Mr. Clarke. The answer is yes, one does.

Mr. Leach. If one applies the GAO standard, and this is the gov-
ernment's accountants, of what LDC debt should be written off in
percentage terms, do any?
The man behind you is shaking his head about the one bank.

Mr. Clarke. He is saying yes because I don’t think it has any LDC debt.

Mr. Leach. Is this the Bank of New York? Is that—of the five largest, I would guess what you have—Citicorp, Chase, Morgan, Chemical, Manny Hanny?

Mr. Clarke. Those are not all national banks. I assumed you meant the five largest national banks.

Mr. Leach. Yes.

What is the one national bank?

Mr. Clarke. Republic.

Mr. Leach. The reason I raise it is that my State has an 11 percent average.

State banks have 7 or 8 percent in New York. We have developed a system where national banks, for the first time in American history, have lower standards on the average than State banks. Money center banks have substantially lower than the average State-chartered bank, and there are a whole spectrum of implications of this.

One of the implications is safety and soundness. A second implication and one of the great things we have learned from the thrift crisis, that where standards are lower, deposits run, that is if you have a state with lower standards than another state, deposits go to the state with lower standards.

If we look at the LDC issue, one of the things that has been of long concern to me, when one didn’t have either adequate capital ratios for the types of banks that lent abroad or reserve requirements in international lending obligations, you skewed the growth in the direction of where there are weaker standards, and I would only stress that a regulator must say they are adequate standards, you have no choice.

On the other hand, a regulator must serve the public and work for tougher standards if there is an assumption that maybe they are not so strong, and at this moment in time in the banking arena, the national standard which used to be the great wonder of prudence is now weaker than a lot of other standards being put forth by other regional—well, by other states.

I just hope that instead of having the American banking industry put in the position of competitively seeking equality at the lower standard, meaning money center standards or sometimes national bank standards, that we seek equality in the playing field at the higher standards and that we continue to work, as you have started to do and as the Fed has started to do, in a direction of a little more prudence.

I would just conclude, in 1983, then-Secretary of the Treasury came and in response to a question of was a 5 percent standard adequate, which again the money center banks don’t meet, I would say under general—this is the Secretary of the Treasury, I would say under general circumstances what the banks have now is adequate, barring a major recession or some outside calamity, for example, in the nature of an oil crisis.

I just think that is kind of prescient. In average times these standards may be good enough, but many economists are now predicting a bit of a recession. It looks like this is another oil crisis
brewing, and so, if there is another reason to be concerned with
capital ratios, it is upon us, and so I hope it is with some alacrity
that Federal regulators are telling banks today that there is a
reason to respond to an oil crisis that has occurred, and I just hope
that this message has gotten out.

Mr. Clarke. If I may, I think that we need to keep in perspective
what we are talking about in terms of capital standards. I think to
say that the average capital of a bank in Iowa or the average cap-
ital of a bank in New York is, therefore, the standard isn't neces-
sarily accurate. That is, in fact, what average capital ratio is, but
the question is what the regulatory standard is, is really a different
question.

Mr. Leach. It is. That is one of the reasons why in my opening
line of inquiry I tried to make the point that the rationale for ex-
istence of the big banks is no longer as strong as it was years ago,
and that, therefore, it may be Congress should act as you would
like us to, to give more powers, but whether or not Congress acts,
the need for greater capital in banking has escalated dramatically
as the business of banking has depreciated.

If real estate lending is no good, if LDC lending is no good, if big
business lending has dried up, if mergers and acquisitions activity
has declined, if it looks as if some of the junkier kinds of junk bond
portfolio lending is dicey, then the question is do banks need a
little greater capital today than they did 10 years ago or 20 years,
and I think the answer is pretty clearly yes.

Mr. Clarke. And equally as important, I would suggest, is the
quality of the capital that they have, as you say real capital. I
think it is important to recognize. I think all of us sitting at this

table recognize the importance of that and all of us have done
something to move those standards forward from where they were
several years ago in terms of the quality of capital, the emphasis
on the pure equity capital that you refer to.

Mr. Leach. Well, I only say this, first, to compliment both the
Fed and yourself on the direction you are going in. I personally
think you have taken some criticism for it that is unfair.

On the other hand, to try to put a perspective that the direction
might be correct, but the goal has not been established, and I think
the rethinking of the need for substantially greater amounts of
capital, despite the fact that bank stocks seem to be at low levels,
is appropriate; and I would also say unlike small banks, no institu-
tions in America have an easier opportunity to raise capital than
large banks, because they are publicly traded. And whether banks
like it that they are selling at less than the values they might like
to receive, the fact is with relative ease on very quick notice, a
large bank can raise substantial amounts of money.

I hope they are told to do so.

The Chairman. Does either one of you two gentlemen——

Mr. Weiss. No.

The Chairman. I am going to impose on you. This is a matter
unrelated to today's hearing, but it is going to form the basis for
hearings as early as possible, and it has to do with my asking you
some questions and submitting them in writing on this matter.

I might have one or two on the business at hand, but at this
point I am considerably concerned about the fact that the interna-
tional banks and their branches in the United States, and it happens that you three gentlemen represent the institutions that are more or less directly involved. In the specific case of the BNL scandal, that is the Banco Nationale de Liboro, which is an Italian bank which is really government owned, the government owns at least 80, 85 percent of it, we had the scandal in Atlanta where $3 billion were funneled through that bank to Iraq.

Of that presumably $800 million were guarantees by the Commodity Credit Corp, and we don't know how much more. Now, the United States headquarters of BNL is in New York, Mr. Philbin, and my questions will be related to the base for future hearings and perhaps saving you a trip. I will submit the substance of the questions to you in writing, but for instance, I would like to know what the New York State Banking Department's role is regarding U.S. banks and agencies of foreign banks.

The same thing, Mr. LaWare, in the case of the Federal Reserve Board, and the same thing to the Comptroller. I would like to know what role your agency has played.

Apparently there are crevices in the law. For instance, I don't know if you are aware, or may be, that the U.S. branches and the agencies of foreign banks are not subject to criminal penalties such as bank fraud, embezzlement, falsifying bank entries, misapplication of funds, and bribery, as enumerated under Title VIII of the U.S. Code. This is this gap here which is really a first-class scandal, because we have about $500 billion, of which this Italian bank represents less than 10, but the Italian bank itself completes these transactions in secret with the entity, such as Iran.

In the meanwhile, we don't have any real accountability in the U.S. for these transactions, plus the fact that there is an absence in the law that belatedly has been discovered and only because of these scandals.

So I will take the liberty now of announcing that I would like to submit these questions to you and then you may address them, because we do intend to have some hearing either in September if it is possible, and we are going to try to shoot for September of in October. In the meanwhile——

Mr. KANJORSKI. Mr. Chairman? If I may ask a question, if the Omnibus Crime Bill had been referred to the Banking Committee, is it very likely that we could have corrected those failures?

The CHAIRMAN. Well, it is possible, but, you see, that is the reason we were critical. That didn't come through the committee. It was—we were short-circuited. I don't know that we would want to go into this until we know exactly what it is and have hearings on it. We must have hearings. It may be possible that an amendment could be appended to the pending so-called crime bills, but I do think that it would be wiser to do it intelligently and have hearings and know exactly what the range of responsibility is and what powers, if not in these statutes elsewhere in our corpus of laws.

Gentlemen, thank you for your patience and your cooperation. We are appreciative of the face.

Mr. PHILBIN. Thank you, Mr. Chairman.

Mr. CLARKE. Thank you.

[The information referred to can be found in the appendix.]
The Chairman. Our next panel consists of Mr. James McDermott, Jr., executive vice president of Keefe, Bruyette & Woods, Inc.; Ms. Lacy Shockley, Vice President of Research for Smith Barney, Harris Upham & Company; and Mr. Charles R. Cranmer, analyst of Shearson Lehman.

Well, if there is no objection, we will recognize you in the order that we introduced you and recognize Mr. McDermott first.

First, let me say we are very grateful for your response on quick notice.

And, second, that your testimony, as you gave it to us will be in the record intact, as you presented it.

Mr. McDermott?

STATEMENT OF JAMES J. McDERMOTT, JR., EXECUTIVE VICE PRESIDENT, KEEFE, BRUYETTE AND WOODS, INCORPORATED

Mr. McDermott. Thank you, Mr. Chairman.

As you indicated, I have submitted written testimony to you.

What I would like to do this afternoon is summarize some of the points in that testimony and elaborate as well on commercial banks as pertains to the real estate problem in particular.

First I would like to State commercial banking today is a besieged industry. This observation is not simply rooted in looking at the financials, but in confronting the reality of reduced confidence visited to all banks good and bad.

The performance and credibility has been high. So far this year 31 banking companies have had downgradings on their debt, and there has been over 20 billion in lost market value in 8 months alone, among the top 50 banking companies.

The price of the deterioration in credit quality has been high in the marketplace.

I would respectfully submit to you a critical issue, in my opinion, is not so much the Trump's exposure per se, or his restructuring. That represents about 2 billion in commercial banking debt versus real estate exposure at the top 10 banking companies. Commercial real estate exposure of about $50 billion, about $800 billion in total real estate exposure.

It is the actual perceived condition of our commercial banks that is the key issue. We used to have a highly regarded banking system, it is less so today. For that, bank management is largely responsible, but so are some of the antediluvian structural and regulatory impediments to efficient operation.

Let me set the backdrop, if I may, for the deterioration that is present in today's banking system. The decade of the 1980's witnessed market deterioration in the quality of bank assets.

This is best reflected in what has been termed the effects of rolling recession around the country. Looking at our index which is a representative sampling of 24 money-center and large regional banks, the level of writeoffs quadrupled from 30 basis points in 1980, to about 130 basis points in mid-1990.

By comparison, in the mid-1970's, the peak writeoff level for those same banks was about 65 basis points. So pre-recession we are already in a level of double the highest or peak writeoff experience that we have had in recent times. Nonperforming assets rose
2.5 times from 1.3 percent of total loans to 3.5 percent of total loans.

This, keep in mind, was against a backdrop of a strong national economy. And this deterioration forced banks to push up the level of loan loss services, and by definition to retain earnings and build capital in the period of the 1980's.

Reserves increased, and likely reserving going to continue in the months and years ahead. More recently, for comparison, if you look at the period from year end 1988 to mid-1990, nonperforming assets of the top 50 banking companies—keep in mind representing in this case about 2 trillion in assets, only 50 of them have two-thirds of the assets in the system.

Nonperforming assets for those banks during the 1980 to mid-1990 period rose 10 billion from 42 to 52 billion with regional banks in the Northeast and Southeast counting for the rise. Money-center banking nonperforming assets held steady, but at 28 billion during this period.

What is interesting about this is there is a change in the mix of those nonperformers due to writedowns on LDC exposure during the last 2 or 3 years that had reduced the level of performance, but at the same time that reduction was replaced by an increase of non-performing loans, such as real estate and highly leveraged transactions.

In act, if you look at both regional center money LDC, from 1988 to mid 1990, nonperforming assets at both money center banks increased over 18 percent. Simply if you look at the write off picture for banking companies during the first half of this year, the top 50 banking companies wrote off an unprecedented amount, about 12 billion in writeoffs. Half of that was LDC related.

Likely to be repeated in future years to the same extent, given the fact much of the average Argentinian exposure has been written down and Mexican debt has been restructured.

A key among the problems, of course, in the current picture is the real estate issue. It was mentioned this morning by Mr. LaWare, that real estate lending exploded during the decade of the 1980's, clearly tripling from 250 billion to 800 billion. In our judgment, evidence of systemic over capacities everywhere, and it accounts for this lack in increase.

In Texas approximately 50 billion in bank lending was erased. In New England, in the last 12 months about 5 billion in equity has been erased because of that. Why does this happen, why do these mistakes seem to be repetitive. Don't bankers learn?

I would argue one of the reasons is the increasingly lower credit worthiness of banking companies. This is chasing customers out of the system. Some of the tight relations of recent times is chasing customers out of the banking system because they can't get financing or cause some of the loans banks book are forced to carry reserves.

Nonregulated, nonfinancial sector continues to absorb some of the business that had been the traditional domain of banking companies. In addition, it was mentioned this morning about conversion of Mutual Savings Bank in New England during the mid-1980's.
That is a good example of how problems get exacerbated in the banking system. Approximately 5 billion in new equity was created which was exactly the amount erased in the last 12 months was created in the mid 1980's.

That equity needed to be put to work at higher returns in order to attract investors to keep capital flowing into that region.

What happens is overheating of the region economy was given further stimulus by creation of this new equity, and it affected major banking companies to the point loan growth in New England was twice the regional average of banking companies elsewhere. The fast growth was created by the stimulation of new equity in the marketplace.

The combination of excess capacity, in the case of New England, stimulated by the conversion of that equity, the lower credit worthiness, chasing out traditional wholesale customers of banking companies forced banking companies to seek out whatever other avenues are available to them, such as a retail, real estate, highly leveraged transactions, and so forth, where margins and volume opportunities exist.

In our opinion, excess capacity aggravates the situations as too many banks chance too few good customer opportunities. The result, of course, is the deterioration reflecting lending mistakes as the economy turns negative, and the response is regulators are tightening standards and banks turn inward.

Credit crunch or less available credit feeds on itself or can aggravate a downturn in the economy.

I think it is interesting to listen to the testimony this morning and talk about definitional differences about whether or not a credit crunch exists. Point of fact, whether the issue is not evenly spread about, the fact is credit is considerably more difficult to come by, particularly in the regions that are under the most siege or at the institutions that are experiencing the greatest difficulty at this point.

It is only common sense those regions and the banks elsewhere that are under stress have to look inward, rather make new loan commitments in an uncertain environment where they may be forced to take added reserves against those exposures.

We heard an instance of a bank in New England which booked credit in January of this year, and the regulators came in March. The bank thought it booked the credit under the standards defined by the regulatory authorities only to find that new credit required some reserving set against it.

The bank decided to sell that credit at book value, absent the reserves to a nonfinancial, nonbanking company.

Again, indicative of what can happen here if banks are too limited focused and penalty is too tight, the customer base will be driven further out of the mainstream of commercial banking system.

One of the things I addressed in the paper is the role of industry consolidation, which in our opinion is a crucial element to perhaps dealing with some of the excess capacity in the system.

To some, how dealing with repetition of mistakes that occur— and much has been made in the past about our global competitive or the lack of our global competitiveness as a banking system. In
our judgment, to have a global competitive banking system, which we currently do not have, we need consolidation to create a national healthy banking system with the attributes that well managed institutions can provide.

No banking institution enjoys more than 5 percent revenue from any product source. This is not an indictment of small banks, but an indictment of too many banks in our opinion.

This is why we see these problems crop up, time and time again, whether it be REIT lendings in the 1970's, energy lending in the 1980's, or the problems with real estate currently.

We feel small banks are a beautiful aspect of the banking system so long as they are very profitable. In my paper I referred to hypothetical scenarios, if banking companies would go graphically diverse, it might reduce the claims on the DIC in the mid 1980's, in the Southwest, perhaps spreading out the risk elements in the portfolio.

And one of the things that become axiomatic in the banking industry is simply no matter if you are a good banker or bad banker if you are in a region whose economy is suffering stress, then the likelihood all banks in that economy are going to suffer in varying degree from that stress. If it is high enough and deep enough, the result can be a Texas like situation.

Most banks in New England with probably hardly any exceptions are undergoing extreme stress and that is a function of—in our opinion, geographically landlocked. The only places these banks can lend are in the region they operate.

If those regional economies undergo a downturn it is axiomatic those banks will experience problems. A bank in Hartford, Connecticut that makes most of its loan in the New England region, if the New England region is undergoing a downturn, then in all likelihood the banks will also.

What should be done? I talked about—in my paper I talked about the changes in market capitalization, the erasure of 20 billion of market capital.

You may say what does that mean, who cares, the point, in fact the reduced capital in the system increases the cost of capital to the banking companies. There are good and bad aspects of a listing of large market caps.

On the one hand, the capital is being drained out of the system because of fear of the things we talked about this morning, on the other hand it is being redistributed in other areas, giving way to more capital, strong and better managed banking companies.

So there has been a redistribution, and that in itself should be some comfort as you look at the systemic risks in the banking system that is risk is not concentrated as it once was.

In terms of conclusion, we would encourage the continuing absorption of S&L for deposits into the commercial banking system. One of the contributions we feel to bank stability is to keep one side of the balance sheet as liquid and as stable as possible. In recent months a number of regional banking companies have been absorbing these deposits at relatively low cost.

This has improved the profile of the commercial banking system. If you look back for comparison and ask yourself the question why
did Continental Bank fail and Bank of America not fail, one of reasons is clearly deposit profile.

Second, encourage consolidation with the attendant supervision, of course, to promote diversity by product and region and restrict entry into the banking system.

It is ironic if not downright ridiculous at the one time we are trying to better manage existing institutions how easy it seems to be to get a bank charter and get into the banking business which at lot of investors had attempted to do in the last half dozen years.

Encourage higher capital ratios, by perhaps encouraging combinations and encourage confidence by stressing the heterogeneity of banking companies that most of the banks in the system are good banking companies, but there are some problems at the money center level and particularly in the Northeast region at this time.

Thank you.

[The prepared statement of Mr. McDermott can be found in the appendix.]

Ms. Shockley.

STATEMENT OF LACY M. SHOCKLEY, VICE PRESIDENT OF RESEARCH, SMITH BARNEY, HARRIS UPHAM & COMPANY

Ms. Shockley. Good afternoon, Mr. Chairman, Members of the House Banking, Finance and Urban Affairs Committee and other Members of the House of Representatives.

I am pleased to address this honorable group and hope my comments lead to a better understanding of the difficult situation our banking industry is facing.

As background, I am Lacy Shockley, a vice president of Smith Barney, Harris Upham and Company. My job is to analyze the stocks of regional banks for the firm's retail and institutional clients.

I specialize in banks located on the East Coast and have been analyzing banks for approximately 20 years. Prior to joining Smith Barney, I worked for Mabon, Nugent and Company, Butcher and Singer, McKinsey and Company, and the Fidelity Management Research Company.

This morning, due to time limitations, I will address three topics:

One, the impact of the current depressed real estate market on the banking industry.

Two, the industry's present low market valuation and the resulting negative impact on the industry's ability to raise capital.

Three, the importance of the regulatory agencies and their role in helping to resolve the problems.

Regional banks, unlike money center banks, usually concentrate their lending in three major areas: consumer, commercial and real estate loans. Most regional banks can weather a problem in one of these sectors without jeopardizing the existence or structure of the institution. Few can weather problems in all three sectors simultaneously without creating significant stress to the bank.

Virtually every New England regional bank currently is under severe pressure because of problems in all three sectors. The New
England region is in a recession with no let up in sight for few of the underlying industries appear to be stabilizing.

However, when looking at banks in the middle Atlantic and Southeastern regions, the situation appears quite different because most of the regional economies basically are still relatively healthy. Those banks whose asset quality and profitability ratios have shown deterioration generally are only under pressure from the real estate sector.

Indeed, many banks from Pennsylvania down through Florida appear to be coming through this real estate cycle virtually unscathed.

In our opinion, the single most important factor in assessing the effect of the real estate industry's current problems on the banking industry is the quality and depth of management.

A strong, perceptive management recognizes the early signs of weakness in the real estate sector and adjusts its lending practices accordingly.

An example, we consider the management of Fleet/Norstar Financial Group in Rhode Island to be outstanding. Despite the fact that it is facing problems in all three lending sectors, we expect the institution to be able to resume its normal growth and profitability track when the economy of New England ultimately strengthens again.

In the middle Atlantic and Southeastern region, where only the real estate sector appears to be significantly weakened at this time, a number of the better-managed banks remain largely unaffected.

Sovran Financial Group, based in Norfolk, Virginia, is a major real estate lender in Virginia, Maryland and Tennessee.

Yet its nonperforming loans at June 30 were a very low 1.43 percent of portfolio, a number confirmed by a targeted real estate exam conducted by the Comptroller of the Currency during the second quarter. Other well-managed banks like CoreStates Financial Corporation, Mercantile Bankshares; First Wachovia Corporation, and Citizens and Southern Corporation, also appear to remain essentially unharmed by weak real estate markets.

Conversely, many other middle Atlantic and Southeastern banks with weak managements are having difficulties.

From the market valuation perspective, the current problem in the real estate sector is having devastating effects on virtually all bank stocks, regardless of management strength.

Since last October, bank stock prices have moved consistently lower. In my years as a bank stock analyst, it is hard for me to recall a period when investors sentiment has been more negative. It is as if investors have decided that loan portfolios truly are a blind pool and reported asset quality numbers have no credibility.

Consequently, all bank stocks, regardless of fundamental quality, have been under downward price pressure. Indeed, the stocks of many banks are so depressed that it appears our traditional valuation framework for these stocks is being challenged. (Note the two charts following this text, tracing relative valuation of the group over the last 20 years.)

The implications of this historically low valuation include the following: It is very difficult, if not impossible, for most banks to raise equity capital at this time. Therefore, many banks that need to bol-
ster reserves are forced to sell off more profitable subsidiaries, thereby weakening future profit potential.

Consolidation activity which needs to occur within the industry has been and will continue to be severely curtailed. The curtailment has occurred for two reasons: First, banks do not prefer to buy other banks with cash because of the resulting goodwill generated on the balance sheet.

Second, larger regional banks whose fundamentals are strong still have stock prices that are too low to allow them to acquire other institutions without unacceptable levels of dilution. This situation will not change until the market valuations improve.

In our view, the government agencies regulating regional banks could be a significant force in helping to strengthen and restore regional bank stock valuations by providing credibility in the reported numbers.

For example, we are very pleased by the OCC's current posture of rigorously reviewing bank's real estate portfolios. This review process is a significant step in restoring credibility in the asset quality numbers reported by banks after such an exam.

Furthermore, this will help generate greater credibility in the projections of earnings and book value used in determining stock valuations.

This, we believe rigorous review by agencies is a fundamental step in restoring investors confidence, which has been severely tested in the banking industry.

We are very encouraged by our understanding that this type of rigorous regulatory analysis is being extended to the other lending portfolios within regional banks. We believe it is also critical that all regulatory bodies reviewing banks' loan portfolios adopt similar strict standards.

In the short run, due to the current real estate situation, in our view, it is essential these standards be immediately implemented by all regulatory bodies, evaluating real estate portfolios.

Thank you, Mr. Chairman, for this opportunity to address your committee. I hope my comments have been useful and I am happy to answer any questions you might have.

[The prepared statement of Ms. Lacy M. Shockley can be found in the appendix.]

The CHAIRMAN. Mr. Cranmer.

STATEMENT OF CHARLES R. CRANMER, ANALYST, SHEARSON LEHMAN

Mr. CRANMER. Thank you, Mr. Chairman, and Members of the committee.

First, I would like to say that I am honored to be asked to speak today before the House Banking Committee.

I have been a bank analyst now for 8 years. I had been a commercial banker in New Jersey for 2 years prior to going to graduate school in business.

In my remarks and in the question session, I hope that I can shed some light on the real estate loan problems in the banking industry and talk a little bit about how I think we got to this crossroads. Like everyone else, I would like to do what I can to resolve
the industry's problems with a minimum of pain to the banks, the economy and bank shareholders.

As a bank analyst, I have had a first-hand view of the market's declining confidence in the banking industry. Since last October, regional bank stocks have fallen 40 percent in value while the market overall is roughly flat. And sometimes it seemed as if credit agency ratings were dropping as fast as the stocks.

Banks stocks move based on perceptions of credit quality, and credit quality fears, especially real estate fears, are clearly driving bank stocks today. All in all it has been a sobering year for bank analysts.

To start off, I think that real estate loans pose a serious problem for the many large banks. These problems are not pervasive but they are real. Nonperforming real estate loans are rising sharply throughout the industry and the proportion of real estate loans in bank portfolios is nearly double the level of a decade ago.

Commercial vacancy rates now average 20 percent nationwide, which is close to an all time high, and most regional real estate markets are seeing deterioration. Those markets that are improving tend to be markets like Houston, Denver and Austin that have been overbuilt for a long time.

What concerns us at Shearson as much as the vacancy rates is that despite the slow economy, there seems to be lots more product in the pipeline. While office construction spending has dropped 50 percent from its 1985 peak, it is still running 50 percent above 1979.

Events in the Mideast throw a whole new variable into the equation. If, as some predict, we are now headed into a recession, real estate problems are bound to worsen.

The potential impact of real estate loans on the banks themselves is very difficult to forecast. It depends on a multitude of factors such as the banks underwriting standards, the strength of local real estate markets and economies, but one of the things we analysts try to do is look for precedents. Unfortunately precedents to the current situation are few and often contradictory.

In the REIT crisis in the 1970's, which has been brought up a couple of times by the previous panel, banks had huge burdens of nonperforming loans, far beyond the legal of nonperforming loans we are seeing now. But bank losses from REIT loans were surprisingly contained.

In Texas conversely, nearly every band of consequence failed. Now we are clearly somewhere in between these two extremes. If the results of any recent regulatory examples are a guide, we can expect banks to write off 50 to 75 percent of their nonperforming real estate loans.

How did real estate loans come to be such a serious problem for the industry?

I will focus on two reasons.

First, the real estate business was profoundly affected by tax legislation. The 1981 tax bill was favorable for real estate and encouraged the construction of projects that by themselves were uneconomical. Then, the 1986 tax bill removed these benefits.

In New England, at least, there was a rush of deals in the fourth quarter of 1986 proposed by developers who wanted to quality
under the 1981 laws. It would be interesting to know how many of
today's problems had their inception in the fourth quarter of 1986.

Second, lending standards eroded in the 1980's. For one thing,
the further we got from the last recession, the less memory bank-
ers had of how hard times could be. A whole generation of landing
people grew up never having had to work out of bad credit.

More importantly, in the 1980's earnings momentum was the
name of the game, and earnings and credit quality were so good for
so long that I think managements deceived themselves into think-
ing they couldn't make a mistake. Bankers may have lost sight of
how easy it is to fabricate earnings by compromising the balance
sheet just a little.

Earnings were paramount in the 1980's because the 1980's were
a revolutionary time for banking. Interstate banking barriers were
falling, and acquisitions took place at a frenetic pace.

Think what weak earnings meant to a bank. If earnings weak-
ened, a bank might have been precluded from making acquisitions,
or it might not have been able to get the highest price for its share-
holders in a buyout. Of all the ways for a bank to generate earn-
ings, real estate lending is the easiest. A bank can always find a
developer who will borrow.

What compounded these eroding credit standards was that many
bank mergers that did take place were never fully integrated. That
meant that problems at the acquired bank were never fully ad-
dressed.

Worse, dilution incurred in acquisitions was sometimes earned
out not through synergies, but by turning up loan volume. Without
an integrated loan approval and review system, a bank that did
this was just asking for trouble.

Now it is often argued that the banking industry ought to consol-
idate to generate economies of scale. If the record of bank acquisi-
tions in the 1980's suggest anything to me, it is that bank mergers
have the potential for significant diseconomies of scale.

I am afraid I can't suggest a panacea that would cure all the in-
dustry's ills, but I can suggest one remedy we might what to avoid.

There is a strong support among students of the banking indus-
try, and I understand, some regulators, to force banks to "own up"
to their current problems by marking their loan portfolios to
market. They contend the GAAP accounting cannot capture the
economic value of a bank. They advocate a "mark to market" ap-
proach to bank accounting.

While I think that this approach has theoretical merit, I think
its broad application in today's environment might not be appropri-
ate for the commercial banking industry.

Proponents of "mark-to-market" point to the thrift crisis to sup-
port their views. They correctly claim that many thrifts were eco-
nomically insolvent in the early 1980's even though accounting and
regulatory standards showed them as having capital.

This "phantom capital" gave thrift managements an incentive to
take ever greater risks. If the gamble worked out, management
was enriched, but if the gamble failed, management was no worse
off, and the FSLIC picked up the tab. It is argued that billions of
taxpayers dollars could have been saved if these thrifts had been
marked to market and shut down at the start.
You are well too familiar with the this syndrome. It is easy to extend this argument to today's banking industry as some now advise. But for several reasons, I think that this theory is difficult to apply in practice, and that attempting to mark bank loan portfolios to market in today's environment could aggravate an already bad situation.

One, marking to market tends to procyclical, not countercyclical. That is, it tends to reinforce the excesses of speculative boom and likewise has the potential to worsen the downturn. Markets are often wrong over the short term.

Two, real estate assets are highly illiquid investments, especially in the falling market. Appraisals can overstate the decline in real estate values when those transactions that do take place tend to be fire sales.

Unless some highly subjective assumptions are made, it is difficult to determine a market price to mark to. And given the leverage of a banking company, small errors can have a big impact.

Three, whatever price is determined appropriate for a particular class of real estate will tend to establish a ceiling price for that class.

Potential investors will dear buying at anything above that price until the wave of bank foreclosures and auctions has passed, thus mandated writedowns can have a tendency to become self-fulfilling.

Four, the large writeoffs that can result from marking to market could potentially reduce credit availability in a regional economy just when such credit is most needed.

Thank you for allowing me to speak.

[The prepared statement of Mr. Cranmer can be found in the appendix.]

The CHAIRMAN. Well, let me say that we are the ones to thank you, Mr. Cranmer.

And we are the ones that are grateful, and also honored with the presence of all of you analysts, and particularly the responsiveness to our invitation to rather quick notice, at this time when it is supposed to be vacation time.

I wonder offhand if you were here when Comptroller Clarke was testifying, and if you could comment on his statement that it was his opinion that the principal banks were well capitalized. Would any of you have any comment on that?

Mr. McDermott: One of the things you first learned is reserved capital—when you are out of business you are out of business, otherwise you are in business and you are solvent.

Can you play—with regulators we play all sorts of games, what is adequate capital, because they have got all sorts of ratios. One of the problems in the 1980's, it was best illustrated in the bank report in 1984, is the elusion created through the establishment of primary capital, about adequacy in our system.

Principal capital, of course, is total equity plus the reserves, so you had a situation where during the decade of the 1980's, principle capital increased by 50 percent, and in 1984's Bank America Report the Chairman said he was very proud in telling shareholders their capital had increased.

In point of fact, if you look at the common equity, it had gone down in 1984, it actually decreased. So for about 10 years we fooled
ourselves, or the regulatory authorities did in what constituted real capital.

The adjustment to risk capital has cleaned up the landscape somewhat. It has inhibited cash acquisition.

If a bank wants to buy another bank, it has to get its stock prices up so it can use that as a premium of exchange. The issue of solvency or the issue of adequacy in the big banks is going to vary.

You can't talk about all big banks as if they were one bank. I think you almost have to be bank specific, rather than general, and say what are—anymore than comparing the Iowa’s Bank’s average capital with that of Chase Manhattan. It is apples and apples.

It is like comparing the great State of Texas, with the great State of Nebraska, it is two different issues. You want to keep your comparison.

In my judgment, to answer question shortly now, I think the institutions are satisfied in terms of minimum regulatory capital. All right, but it is clear that the regulators and the marketplace are looking for more capital than in the institutions going forward, around its forcing those institutions relatively low capitalization to shrink and sell assets.

The game plan is just like Bank America when it got in trouble, it was $125 billion institution, it shrunk to a $90 billion institution. It had to seek out capital, and today Bank of America is one of the best capitalized banks among the large banking companies.

The issue for someone like "Night Line" to suggest the top six banks are insolvent is naive, because nobody is in those institutions marking to market or assessing the value of a deposit base, for example.

They are simply looking at what maybe LDC loans sell for and marking those to market. Unless you charge the system, as Charlie mentioned, you can't talk about adequacy in marking to market since when we are dealing with GAAP sense accounting.

Under GAAP they are adequately capitalized as we see it today. If you want to go through an institution from marking to market, you have to market everything and see what sort of capital support you have then.

The CHAIRMAN. Well, that is very well and rather succinctly stated, given the complexity of the subject matter.

I am grateful to you. There is no question that you are right.

It depends on who has the beholders eyes. But our concern has been the regulatory oversight and standards. We saw that clearly in the S&L case—and the same reasons and the same arguments that are offered now, given the contingencies that the banks face for attempting to gain resources we faced with the S&Ls, and beginning with the late 1970's, and all through the 1980's, actually, that was the issue.

What powers would enable them, in the words of one advocate, "to compete". Compete in the market, for capital.

And I am afraid that the chart that you have there, Ms. Shockley, is all too dramatic. That looks like the fever chart in an intensive care patient's room.

I think it is very provocative. You have major regional bank's dividend yields versus S&P 500 capital gain, regional banks versus S&P industrials.
Those are cold statistical graph sheets that very dramatically reveal problems.

I think you are very aptly pointing out that the most important factor in assessing the effect of the real estate industry's current problems on the banking industry is the quality and depth of management. I think to a large extent that is true.

Again, you point out very aptly that in case of Fleet/North Star Financial Group right in the center of New England, in Rhode Island, you consider it to have outstanding management, and apparently is riding the tide that the surrounding banks are not, or are apparently having trouble.

So it is very difficult for us, and I think that nobody really desires to legislate in such a way as to try to invade or fine tune or micro-manage, some of my colleagues say, the banking industry activities.

On the other hand, there is a strong responsibility that I happen to believe that Congress has, perhaps, not intentionally evaded, and that is the responsibility for looking out for the public interest.

I think the biggest concern in the late 1970's, and 1980's, was with the best of intentions was to save the S&Ls. And, in fact, the 1980's Depository Institutions Deregulation Act and 1982 Garn-St. Germaine Act were palmed off on the Congress, even though some of us were to go to the Rules Committee and to say 90 percent of this doesn't have anything to do with it.

Ninty-percent of this is actually revising for the first time on a wholesale basis, the 1935 basic banking act in which you had a line of demarcation between commercial and banking.

Also, compounding the problem has been the inability—I don't know about unwillingness, but the inability of the Congress to address the issues such as non-banking activities in a way that would provide a national policy.

So what is happening is that you create these vacuums and two forces rush in. Either the regulators try to make up for the lack of national policy and, of course, they are not equipped to do that, and our Constitution doesn't say they should.

Second, you have the courts, the Judiciary which also is a branch of our government that is not set up as a policy-making body.

So actually our task at this very, very difficult time is almost threefold. We have to catch up with what wasn't done, and even have hearings on that which evokes the past, and some Members say what is the use of spinning your wheels there. It is important because if we don't know where we are coming from, we can't hardly guess where we want to go.

Additionally, corresponding with that, we have the duty of keeping up with the times and trying to meet the actual societal and technological changes that have impacted on this industry, and that we can't overlook.

You commented on my first—a group of financial institutions that examines by State and Federal regulations appear to be getting tougher and more comprehensive. I wonder if you could tell the committee if your research indicates that bank regulatory agencies are engaging in a policy of tougher and more comprehensive examinations in such a way as to inhibit extensions of credit?
I know you addressed the question of the Comptroller tightening up on real estate, which I think is very appropriate, though belated, but what about general lending practices and do you find anything in the rules or the proposed rules announced by OCC and other regulators as inhibiting an otherwise willing lender to lend?

Mr. Cranmer. I think one of the difficulties that we analysts are having right now is determining the degree to which the results of New England bank examinations represent a precedent for the rest of the industry.

It seemed that those losses were so dramatic and had come up so suddenly—not without warning, but the magnitude of the losses was beyond anything I had anticipated. Thus, it seemed to us there had been a dramatic change in the way that the examination process was being conducted.

At the same time, we were getting anecdotal evidence from the banks and from businesses in the region that the examination standards had changed. One of the things that has been difficult is that consistently the regulatory authorities deny that their methods have changed, and I think that this aggravates the uncertainty.

If the regulatory authorities were more forthcoming with exactly what kind of methods they were using, I think that would be—I think that would be most welcome, as far as I am concerned.

The Chairman. Ms. Shockley.

Ms. Shockley. I think the answer to your question depends on which bankers you are talking to.

Because again, in my sample anyway, I have never heard a banker complain about an OCC examination who works for a bank that came through virtually unscathed. In other words, their ratios were low to start with and the OCC came through and made minimal changes.

Most of the complaints I have heard about the OCC being too rigorous came from banks where the OCC identified a lot of bad loans that the bank itself had not identified.

Now it also depends very much who is doing the examination. Because in talking to bankers, we don't see that the same standards are really being used across the board at all. Clearly the OCC is taking the most rigorous position at this time.

I think a lot of these bankers talk to each other about what the different regulators are doing. And in a number of cases, I have talked to a bank chairman who is not regulated by the OCC, as an example, and asked him, in your opinion, was the examine that was just conducted on your bank as rigorous as it would have been if done by the OCC. The answer is always no.

I think that is really creating a lot of uncertainty and confusion in the marketplace.

The Chairman. Mr. McDermott.

Mr. McDermott. I think it is pretty clear the OCC examination team went to school on the Texas experience, particularly as it relates to real estate. That experience is being transported to the high growth areas of real estate lending in markets that are deemed to be weaker or undergoing a lot of stress.

I think that I would agree with Lacy's observation that it really does depend on what part of the country you go to. I don't think the credit crunch or the difficulties that some bankers are evidenc-
ing in New England is evidenced, say, in the Midwest where the speculative building was not as present or in evidence.

I don't think you will find the same problem in the Pacific Northwest, for example, or say, in the Southeast to the same extent, although they too have undergone rigorous examinations.

I think it is a matter of degree. If you are looking for examples of this, I think you have got to look by region and type of institution.

I think if you ask Morgan Bank has anything changed from the standpoint of regulation, the answer would be no. If you asked the Chase Bank, I think the answer would be yes.

I do think that while the regulators have been under a lot of criticism, they are under a very difficult job from the standpoint of trying to anticipate this problem, given the fact that regulators were amiss with the savings and loan problem.

I sense there is an attempt to overcompensate in the process particularly at some institutions and I think that they should be credited with their efforts to try and get ahead of the curve on this problem. Keep in mind these markets are constantly changing.

It is not like in 1988, we knew exactly what growth in New England was going to be and what the different industries in that region, how they were going to perform. This is a dynamic that changes.

Judgments are made at that point in time, based on forecasts that may or may not pan out, just as the loans are made on the same basis.

It think it does depend on where you look, what institutions you talk to, but I think that the overall examination process by the OCC is pretty rigorous at certain levels within that organization.

The CHAIRMAN. Well, there was one other question I had.

I think you have addressed that very well, very aptly. I recall that about some 6 or 7 months ago one of my colleagues from Massachusetts got a hold of me, and was very anxious to do so, and he said I think you have got to do something on your committee.

He said I have got all my bankers saying they are in trouble because they have gotten all these Texas examiners to come up here to New England and we have got to remind them this isn't Texas.

So I asked him what he thought we could do. And he said, well, these bankers were talking to him privately. And I said, well, I think you have got to recognize the fact unless you give me some specific grievances, that for your sake you don't want to go in there on an individual basis and intervene on an individual basis for any individual banker or group of bankers. And he thought it over, and at that time, of course, we were in the middle of the savings and loan question and whether or not and under way circumstances Congress wanted to properly intervene.

I will never forget they were blaming on the fact that what happened was they had just imported from the Texas area those bad examiners from Texas and now bad things were happening in New England.

Now according to some reports if one were to take a look at the bank's 10 most troublesome loans, one would find the bank had deviated from its general underwriting policies of procedures in most of those 10 cases.
For example, a bank which had a policy against making casino loans would make an exception for a special client or would grant signature loans in excess of normal practice.

What is your opinion on this?

Would you say this is an accurate assessment and what if any would be your observation?

It does seem to me that some of the longstanding basic underwriting policies I understood banks just simply accept that as a matter of course, had to be dispensed with in the case that has then become national and glaring expose' of bad banking practice. Would any of you have any comment?

Ms. SHOCKLEY. I think it gets back to the quality of management. If you talk to management of some of the banks that are reporting exceedingly good numbers right now, they will tell you they simply don't deviate from whatever their credit standards are and they don't make exceptions.

Whereas I think if you are looking at banks with poorer credit histories, what you are saying is absolutely true. If you look at some of the banks with the weaker numbers, and you look at their 10 worse loans, they probably are each exceptions.

Now, again, you have to look at this by region. If you are in an environment like New England where the economy is in free fall and nobody expected it to be quite as weak as it was, you could have been using reasonable standards a year or two ago. However, the environment is so overwhelmingly different now that good loans have deteriorated.

I think what you are saying probably applies more in an area that is not in recession.

The CHAIRMAN. Is this what they said in Texas and then later in Colorado? They said it wasn't bad management at all, it was these forces that overwhelmed them.

The repetitiveness with which the real estate markets dropped in value. To a certain extent, I can tell you—and you mentioned in your statement, the fact that the tax laws of 1981 encourage the type of investment, and in 1986, with the removal of so many of those tax credits benefits.

I know in my area alone—but, of course, I also have been noticing and, in fact, reporting in Special Orders, because I couldn't get any forum here on this level, the land flips and the highly, and, in fact, scandalously, and I would say fraudulently increased values, and how those values and land were being used to capitalize newly-chartered savings and loans, which then on the basis of that and very little cash, actually, advertised in the East and in the New York money markets exceedingly large packages of CDs, and brought in most of what a year later they were reporting was their capital structure. And that meant several million dollars or more.

What was obvious in 1983, and particularly 1984, was that bubble had to burst. I knew of one case and I reported it here, where an individual owned about some 15,000 acres. It wasn't susceptible of any business investment or for that purpose—this individual told me—in fact, he asked me the question what was going on. I thought people used to go to jail for what is happening now.

I said what do you mean? He said, well, I have been approached and they want me to put up my land.
I don’t have to have any cash, and from an savings and loan—he said the thing that gets me is I bought that acreage at less than $800 an acre and they want to capitalize that at $15,000 an acre.

So if that was true then, and I assume this businessman, when he asked me the question—I said, first place I am just a politician, I am not an investment counselor, but I would say on the basis of what you are telling me that people would still go to jail today if caught up with.

Now, I said you may have a loosening of standards where it isn’t easy to catch, and I said I think I know where it is coming from, those loosening of standards, but I need not say anything because you wouldn’t be asking me if you yourself hadn’t prefaced your remarks by asking the question.

So obviously you know there is something wrong. But the truth is that you had very, very much of that, not just a little bit. And so that by December of 1986, which was after the approval of the 1986 reform package, the tax bill, you began to see a drop by the end the year.

By the first quarter in March of 1987, we had registered better than 40 percent drop in real estate values in my area, San Antonio, Texas, and surrounding areas.

Now Houston must have had much more of a severe drop because there was that much more stress. And construction—real estate construction and so you are correct when you say that the bill—the tax policies—and this is one of the things that I have long been very much concerned about.

I think we in the Congress are proceeding very much like we did 100 years ago. In fact, this committee was a result of the 1865 National Currency Act and it was taken from the Ways and Means Committee and formed into the Banking and Currency Committee as it was know until recently.

The fact remains that today we share jurisdiction—for instance if we have anything that has to do with junk bonds or securities, we share jurisdiction with the Energy and Commerce Committee.

On the other hand, no matter what we do here to reform, a tax bill can result in undoing everything we do here. So what I have been advocating for some time now is to have sort of a Congressional intercabinet sort of intercommittee level where we would get at least these what I call the money committees and have them in the same direction, at least. Because I know that speaking from the housing situation—and I have been chairman of the housing subcommittee since 1981—that the tax bills had everything to do with what our housing policies were being formulated under authorization level.

So we do have that as a problem, Mr. Cranmer, that we have no control over the tax policy as a committee, and up to now I regret to say that we have had very little coordination to where at least we could get together and say, well, this is where was want to go, and you are correct, there was a cause and effect, and it was pretty immediate, and it was, I think, in our area a very heavy contributor to the S&L because the peculiar history in Texas was that 90 percent plus of the S&Ls were State-chartered and stock.
Just the fact that they were State-chartered may or may not have been something, but they were stock and they were made to order for the high flying ventures.

I noticed in your statement, Mr. Cranmer, that you say one of the thorniest problems for banking and lists these days is trying to determine the lost content of nonperforming assets. That is, how much will ultimately be written off, and you point out the historical experience of early 1970's where you had your writ bubble of that time. The only thing I might disagree there is that I can't help but believe that was the handwriting on the wall and it did have an impact on what happened subsequently, but there you point out the percentage of loans that were construction-related, yet First Union, for instance, was able to weather that storm.

Then I am very grateful to you in your prepared text how you differentiate between the Texas, Arizona, and New England, the impact of the real estate crisis on banks.

I think the significant portion with respect to banking board of directors tend to be passive, and I am quoting, I think, the composition of banking boards of directors often works to the detriment of the banking industry. It has been pointed out by banking stock investors much smarter and well thinker than I that there is a curious tendency for banking directors to comprise the best customers of the banking or else the cronies of management.

Well, I think that has been historically true. To be on a bank board, as I understood it, you have to own stock in the bank, so it would be very difficult to figure out a businessman and especially if you have interlocking directorates who looked upon membership as just a passive thing rather than something that is passive to the general transactions but also something that perhaps he would find advantageous in his own personal way by virtue of that membership.

I want to say that this is what we are looking at also by way of reform. This is the reason we have gone back and had hearings. We will continue to go back and survey some of the S&L deals but also some of the banking deals because we think that the time has come where we have got to, on a national level, address that issue so we are very much concerned about that.

With respect to your concerns about trying to discern the complexity of regulatory activity on all of these levels, we are also very much concerned, and I have come to the conclusion that some of the studies that date back to the late 1960's, the Hunt Commission study around 1969, I believe, 1970, and some of the later studies based upon a lot of hearings here, the FINE studies we had in hearings, one of the recommendations that came out of the Hunt Commission was that we ought to have a unified regulatory structure.

Of course, nothing was ever done by way of following through on those studies, but I firmly believe that we have got to address that. We have got to have cogency and some kind of unification in the regulatory spectrum, an umbrella.

I just think that the time has arrived where that has to be considered very seriously, and I hope to place that on the agenda for the committee.
I think your testimony this morning is most valuable. I won't comment any further, but I wanted to thank you very much, and particularly, Ms. Shockley, your statement about the implications of historically low valuations and your analysis, I think it is very valuable to us.

Mr. McDermott, likewise, and with that, Mr. Kanjorski, thank you for your patience.

Mr. KANJORSKI. Thank you very much, Mr. Chairman.

I will try not to extend the panel too much further, but I am just interested in asking, particularly Ms. Shockley, you are a stock analyst for banks, but are you also an expert in real estate or are you just studying real estate and gathering this as a second area source?

Ms. SHOCKLEY. Well, certainly my job is to be an equity analyst. I have never made a real estate loan. I have never worked for a bank, but certainly if you are looking at bank stocks right now you have to attempt to learn a little bit about the real estate market.

Mr. KANJORSKI. Well, then my questions will be legitimate to you.

I am very curious as to what your honest opinion is. Are we in a national real estate crash in the country or just a very limited regional area crash or do we have no crash occurring?

Ms. SHOCKLEY. In my view, it is probably a limited regional crash that obviously is more severe in some regions than others. More importantly it is going to be much more severe with regard to some institutions than others because you can see plenty of examples of two institutions in the same market that are faring very differently today.

Let's just put aside New England for a moment. That clearly is in a recession. Take a reasonably healthy market where there may be some over building but the underlying economy has remained relatively healthy. Yet, You will see institutions whose numbers are virtually untouched continuing to report exceedingly strong profitability, capital numbers, very low levels of nonperforming assets. Right next door you will see an institution whose numbers have deteriorated significantly. I think that is where we could have situations; OR let's say a selected crisis for certain institutions.

Mr. KANJORSKI. In talking with some of the people, again moving away from New England, but in the New York market, some people recently have indicated to me their feeling that real estate prices have fallen somewhere between 10 and 12 percent just in the last year, and relating that to some of my prior experience in banking and law, that is generally the equity someone comes into a proposition with and the rest is picked up in a mortgage.

Is it reasonable to say that in the last several years, then, most of the equity has been wrung out of real estate transactions and projects in the New York Metropolitan area?

Ms. SHOCKLEY. My thought would probably be no because the market may have declined 10, 15 percent in the last year, but I think it was going up very dramatically for a number of years before that. So unless you bought your house, co-op or your commercial real estate very recently, you have probably still have a significant amount of equity left.
Mr. Kanjorski. All right. But say the most recent commercial developments, the area Mr. Schumer is talking about is now 20 percent vacant across the country. Those are real major problem areas in your opinion or not? In other words, what I am looking at is, when you look into consideration of the S&L assets that are on the market, what may be on the market as a result of some failures in banks or having to sell off the assets at tremendous losses, do we have an instrumentality out there to support the system or should the Congress be looking at something like the old reconstruction finance corporation, sort of a third tier market to come in on a temporary basis to shore up this market before it tumbles and then eventually becomes an avalanche or isn’t that possible?

Ms. Shockley. Well, it probably depends whether or not we are going into a recession nationally. I guess that has been talked about more in the last week or two than it was before that.

Mr. Kanjorski. I have strong suspicions. What are your suspicions that we are, in fact, in a recession?

Ms. Shockley. You could absolutely be right. I think that is a very strong possibility.

Mr. Kanjorski. Taking that as an assumption that we are in a recession, that it would be a year, 18 months at least and could be more severe than just a simple recession, adding on the problems now with the Iraqi situation and now this underlying real estate weakness in the country, do you see any real major potential problems?

You heard the testimony here today from Mr. Clarke and others saying, well, we are in fairly good shape, we don’t have a problem unless we have a recession, unless we have an unusual emergency.

It seemed to me like they were describing what we have unless I am missing something.

Ms. Shockley. Well, for a select number of institutions, I think there could be a real crisis. If we going into a recession, there will be more buildings that don’t lease up and more houses that don’t sell and more developers that just can’t last that much longer and, therefore, go into bankruptcy procedures or have problems meeting obligations.

Mr. Kanjorski. Do you see any problem in the banking area that we had in the S&L where appraisals weren’t really quite correct and in some instances were puffed appraisals? Do you see any snide dealings that have occurred?

Ms. Shockley. I am not sure I have seen inside dealings, but I think there certainly have been cases where the appraisals may not have been quite rigorous enough. In other words, let’s say the OCC goes into a bank and does a targeted real estate exam. They find a significant amount of real estate loans that they want classified as nonperforming. One of the big reasons is often that the appraisal was not really reflecting reality in their view, and, of course, if we go into a recession these appraisals will have to be updated just that much more often because the prices will be declining.

Mr. Kanjorski. Do you see it as something that we saw in the S&Ls where there was actually conspiratorial activity, an intentional attempt to defraud the taxpayers or the government or is this just a poor business practice?
Ms. SHOCKLEY. I would have to say among the banks that I follow, I am certainly not aware of any situations where I believe they are attempting to defraud the regulators or their shareholders.

Mr. KANJORSKI. We don’t have any hot shot go-go people in the banking industry?

Ms. SHOCKLEY. There may be some. I don’t follow every bank in the country. All I can speak for is—

Mr. KANJORSKI. Have you seen anybody packing their brief cases and their bags and hustling off and picking up bank charters recently as we saw in the S&L industry? That hasn’t occurred, I assume?

Ms. SHOCKLEY. No, I haven’t seen that occur.

Mr. KANJORSKI. Now, where do you see the end of the real estate crunch? Do you see it potentially spreading nationwide? I have a suspicion myself that all of us have been watching the stock market as an indicator and that what we haven’t recognized is that the stock market is no longer a domestic indicator but a world indicator, and that the real—only valid indicator domestically any more basically is real estate and we have no developed market nationally; we have to look at regional markets because that is how it is laid out, and so I think that the only indication, we will get if something very severe is happening in the economy is in the real estate area and that we are getting those indications, but we perhaps have not been perceptive enough to recognize that they are not necessarily regional in nature but are nationally in nature.

I will give you an example. New England, everyone agrees to, but New York also. I am talking to bankers in Pennsylvania. They tell me real estate is really in bad shape. I have talked to bankers in California. They tell me it is in bad shape. I have talked to bankers in the Southwest and in Texas, as the Chairman indicated, and it is in bad shape. I have talked to bankers in Florida. They tell me it is in bad shape. That sort of represents all over the country.

The same bankers aren’t necessarily feeding this into a common market or a common disclosure form, but to what I see, we have low and falling prices, almost free fall prices in some areas, and putting that together with the S&L crisis, where there is massive amounts of hundreds of billions of dollars or more of real estate that we are throwing on the market, I am just wondering whether we aren’t fueling a fire of a real national crash in real estate and that that supports so much more even than just banking or just S&Ls.

As I indicated, we have just gone through hearings in FHA, and we are talking now about whether or not we should require two-tenths of 1 percent equity in a deal for homes. Is there reason for that when we have a 20 percent vacancy rate?

Are we coordinated or should we be looking for more equity or doesn’t this matter? Should we be examining how much of the portfolio of real estate in the country of insurance companies hold that aren’t showing up in bank portfolios but in effect may show up later on several years down the road when payments are required on insurance policies?
Do we have a problem in the pension funds that are highly vested in mortgages and other real estate investment?

I don't know. We don't seem to be getting this type of information, though, from the regulators because they have become very narrow in their scope, and they examined banks, particular banks, and particular problems and not broad-scoped problems, so I happen to be one of the people that urge the Congress to form a very broad examination of this whole market, looking at the S&L industry is not an industry that is only as a result of fraud, misuse and abuse, but had some underlying systemic problem there that may be reflected in these other areas.

We haven't gone to that State, but what would you think? Am I perhaps overly pessimistic about this whole problem or is there some semblance of fact out there that would reasonably cause us to examine these other areas and look at them?

Ms. SHOCKLEY. I would guess if we go into a recession, depending on the severity, that the real estate situation in the country as a whole could get significantly worse.

Now, again, it is going to get significantly worse by region. I think, as Jim said a minute ago, it is not as likely to be as bad in the Midwest because prices never went up dramatically. There was not a lot of over building and therefore the region doesn't lend itself to a crash. However you talked about California, Florida, New York, and, of course, New England, and Pennsylvania. All of those areas really did have very dramatic escalation in prices which generally spurs a lot of building. Clearly there is more vulnerability where overbuilding occurred.

Where there is overbuilding and resulting over capacity and falling prices you can have problems. Certain regions could have much more serious problems than is apparent now, and obviously affect many more banking institutions.

Mr. KANJORSKI. In the bank area—particularly I have some in Pennsylvania—I have noticed—as a matter of fact. I look like a genius, Mr. Chairman, I became an executor of an estate a year ago, and the primary resources of the estate were bank stock, and I determined to make the judgment to sell them and put them into government secured transactions, and it just so happens that stock today is worth about one-third of what it was a year ago, so I prided myself as being a great investor in bank stock or getting out of bank stock, but now that being the case, taking—this stock happened to be $45 last summer. It is now selling at $15. How much lower can it go? I mean, I am just astounded to see that type of free fall, and yet the market, the real estate market has really not yet stopped. It is still going down, massive amounts of vacancies, bad loans out there.

Where would you say we are going out there? Is the market overreacting or is the market truly reflecting the value there or is it a tremendous buy at this point?

Ms. SHOCKLEY. Traditional analysis—would suggest that this is as low as they are going to go. Although, as we know, the environment changes, sometimes structurally. Typically bank stocks underperform in a recession. However, what bank stocks have been saying since last October is for them the country is in a recession, and therefore they have taken a major move downward.
Do you want to know if, in our view, are they good buys right now? I think you have to very selectively look at different institutions. If you have a long-term perspective and you go after very, very strong bank stocks at the moment, they are probably exceedingly good buys and you are going to make a lot of money.

I don't know what institution you are talking about right now, but there are a lot of them that have come down that much that still have very, very strong fundamentals, yet their stock prices have been affected negatively by what is going on. These could be exceedingly attractive long-term investments at current prices.

On the other hand, there are a lot of institutions, as we have talked about a little bit already, are very negatively affected already and probably will be even more negatively affected before things bottom out. Indeed some may not be around and your equity could go to zero. So I think selectivity is the key.

Mr. Kanjorski. I have talked to a lot of bank executives and for the first time they have indicated great worry to me.

As a matter of fact, I had one come up to me at a conference just several weeks ago and called my attention to the CD picture, that what is happening now in banks is not dissimilar to what happened in savings and loans 3 and 4 years ago, that for purposes of liquidity they were going out and offering tremendously unsound return on investments because they needed that money.

And every day I open up the paper; I see here rates for CDs and much more aggressive advertising to get those rates. And I am just wondering, is that indicative of what happened to the S&Ls? We have the same striving for liquidity and hold for price interest to be paid, and is there another government bailout at the end of that rainbow potentially if there is a problem?

Have you looked into that at all?

Ms. Shockley. Well, it is hard to look into because we don't know what is going to happen. There probably is a correlation, even in the banking industry, between those institutions that may be a little more desperate for funds and those that are offering to pay people higher rates than some of their peers.

That did lead to trouble in the S&L industry. Since we know that there are some banking institutions that are likely to get into trouble if we go into a recession, one might be able to see some correlation between what some institutions are offering for deposits and deteriorating levels of nonperforming assets, capital ratios, and so forth.

Mr. Kanjorski. Would you think that perhaps this $100,000 deposit insurance limit should be looked at much faster than the Treasury seems to be reacting to it, with the idea you seem to attach a lot of credence to, that the management of each bank has to be looked at.

When you have $100,000 deposit insurance and you are looking to the government to pay rather than the bank, people don't really care, but would it be to our advantage to force some control into the marketplace and force investors and people to care a little bit more responsibly about who the management is of that particular bank and what their judgments are and how their portfolios are invested and should we encourage or should the Congress take some
quicker activity here on the deposit insurance question or is that not significant?

Ms. SHOCKLEY. In my view, that would be an exceedingly positive move. I think that should be looked at as quickly as possible and with the view of perhaps some changes.

In a lot of cases, the free market breeds some effective regulation.

Mr. KANJORSKI. We have really gone overboard in providing this tremendous amount of insurance to a large number of people who can broker their deposits. You agree, we have gone far beyond what the original intent of deposit insurance should have been, could be, and is in good practice in a free market economy?

Ms. SHOCKLEY. That is possible. I am not sure exactly what the original intent was, but I think that is possible.

Mr. KANJORSKI. I guess the last question, and I don't want to tie the Chairman or the panel up, but Mr. Clarke today and the regulators' testimony to me has not been much different than what the S&L regulators used to come up here and regularly say to us, sort of like not to worry, we have it all under control, and everything is going to work out well, and if we do have any problems, they are minuscule, just a few billion here, a few billion there, until we opened up Pandora's box.

Unfortunately, I am not going away with as happy a reaction to today's testimony because I really don't have any faith in the regulators any more, that they absolutely know what they are regulating, not that they are not doing honestly, but that they know what they are regulating.

Would you give us a view? Should the Congress be more involved, get more micro-management in this problem or shall we just lay back and take the word of these regulators that you heard today and say, well, until they tell us we have a problem, we have no problem? Do we have an obligation to do more than we are doing in your estimation?

Ms. SHOCKLEY. It certainly couldn't hurt.

Mr. KANJORSKI. I see. That is a good response.

Thank you very much, Mr. Chairman.

The CHAIRMAN. Well, thank you, Mr. Kanjorski.

I believe that those are very important questions. We simply don't know what bank conditions are. We just don't have statistics. I think you have come about as close—I think Mr. Cranmer in his—Mr. Kanjorski, in his written statement, has not only a very apt and succinct narration of S&L, but where we are now with respect to the banking, and I think if you look at his statement, and I would advise strongly because in effect he has anticipated some of your questions here, the response of thrift managements to the State of affairs was to roll the dice and bet on increasingly risky investments, which is exactly what I think we are beginning to see in the case of banks.

If they didn't work out, the FSLIC, the insurance fund, and the taxpayers picked up the tab, and the others were no worse off because their thrifts had been insolvent to begin with.

Heads, you win; tails, the FSLIC loses.

What permitted these unscrupulous but entirely rational investors to engage in these practices was the government's deposit
guarantee, which is what you are getting at. The people who financed their ventures, hot money depositors, were indifferent to the credit profile of the institution.

Depositors in those thrifts, many of whom were lightly sophisticated, couldn’t have cared less how their funds were being invested. They were advertising high yields. Supporters of the mark to market approach argue with justification that if these thrifts had been marked to market, shown to be insolvent and shut down early on in the game, taxpayers and the deposit insurance funds would have been saved tens of billions of dollars.

It is easy to extend this argument to today’s commercial banking industry. As discussed above, the industry undeniably has very serious real estate problems which take years to work out or through.

Proponents of marking to market contend that removing troubled commercial banks from the industry now by marking their portfolios to market will preclude the profligate dice rolling that characterized the thrift industry and will save taxpayers further billions.

While this theory has lots of logical appeal and much theoretical validity, we think that it has serious shortcomings when applied in practice. We support, but we cannot prove, that this mark to market discipline has been embraced by regulatory authorities in recent bank examinations.

And let me say, Mr. Cranmer, I have concluded more than supported that this is a case. For one thing, Generally Accepted Accounting Principles for all this weakness is also founded on the concept business entity as a going concern and makes an implicit assumption about the future viability of that entity.

Mark to market accounting conversely assumes that the entity must be liquidated today. We don’t know many of the companies that would be worth stated book value if forced to liquidate immediately in today’s market, but the foundation for our observation to mark to market is our assumption that bank regulations should be as countercyclical as possible. It should not be procyclical. That is, regulations should work to darken the excesses of a speculative boom and cushion the impact of a market downturn.

It seems to us that the marking to market of bank real estate loan portfolios accomplishes just the opposite. It reinforces both of those trends specially when applied to real estate loans.

I agree thoroughly with that analysis, Mr. Cranmer. I think that the one big red flag in the case of the 1982 Garn-St. Germaine Act was when I saw that sentence that said regulatory accounting principles, and when I asked, well, is this usual, has this been the standard phrase, and why is it here, and nobody seemed to answer very well. I knew that room was being made to play around legislatively, and in an attempt to legislatively try make solvent an institution that was insolvent, and, of course, the consequences that we all know about now, but I think that you really have anticipated our questions, Mr. Cranmer, and very succinctly have responded to them and I think very accurately.

The CHAIRMAN. I think as far as our work up here, Mr. Kanjorski, we do have to have some more knowledge in order to be able to knowledgeably legislate on standards, which I think is what we are
going to have to do, regulatory. And regulatory framework, I think it is long overdue.

As I said earlier, what I heard from the regulators today could have been taken out of their notebook in 1966 when we had the first credit crunch in June, and then later in 1968, and 1969, and then later in 1970, and 1971, when we went into the wage and price controls.

It is really basically no different. They are really not telling the Congress anything that it must have noticed, you know, just what needs to be done on the policy-making level.

In answer to your question, I would say that we don’t have the ability, we are not workers, we are not in the business as we are in a lot of other businesses that we legislate on.

And so unless we are informed, maybe the best thing that has happened is that the Congress has—if it isn’t informed.

So we are especially grateful to you today. You have been most responsive and most patient.

You have sat here through most of the day, at least since 11:00 and we are very grateful to you.

We probably will have Members submitting questions in writing to you.

By the time you receive the transcript of these proceedings, which we will send to you.

[The information referred to can be found in the appendix.]

The CHAIRMAN. Thank you very much.

We are sincerely and truly grateful to you.

The committee will stand adjourned until next week, Friday, the 14th, in this hearing room.

[Whereupon, at 3:35 p.m., the hearing was adjourned.]
APPENDIX

August 9, 1990
This morning the Committee starts peeling back the covers on growing problems in the commercial banking industry, particularly in real estate lending.

The savings and loan crisis -- with its megabuck costs -- has obscured developments in the banking industry and the deteriorating condition of the insurance fund that guarantees bank deposits.

As Chairman, I am determined that problems in the financial industry be dealt with and not hidden and rationalized. The savings and loan scandals grew in the dark basements of official Government secrecy and the facts did not reach the American public until the problems became massive and unmanageable.

Thanks to the savings and loan crisis, we know now that the American taxpayer is the ultimate fall guy for regulatory failures among insured institutions. The public is the financial industry's safety net. Yet, the public seldom gets the facts -- the real facts -- until it's time to pay the bill.

It is essential that this Committee understand how the regulators are handling the growing problems in commercial real estate lending. In an effort to gain this knowledge, I urged that the regulators and key New York City banks discuss how $2 billion of loans to Donald Trump and the Trump Organization -- and the subsequent restructuring of this debt -- were managed and regulated.
Details of the loans and restructuring have been spread across the front pages of the daily newspapers and have been prominent items on the evening television news.

But, the regulators are thrown into near convulsions by the thought that they would be required to discuss the broad outlines of how they approached the Trump-bank problems. At this point, I'm not even sure they will concede that they have heard of the man.

This "Alice-in-Wonderland" approach to the world around them is made even more incongruous by the fact that another Government agency -- the Securities and Exchange Commission -- collects and makes public data about problem loans of bank corporations whose stock is publicly traded.

The SEC -- which lacks bank regulatory powers -- released filings by Manufacturers Hanover Trust Company of New York in late June which led to the revelation that the bank was holding about $157 million of non-performing loans to the Trump Organization. Clearly, neither the bank nor the regulatory agencies slipped into the East River on the basis of this revelation.

But, ask the people who should know -- the bank regulators -- and they cover their mouths, eyes and noses and fall dead silent. Not unlike the responses of M. Danny Wall who never gave us the real facts in his three and a half years as chief regulator of the savings and loan industry.

A leading business publication that has been tracking the Trump loans closely says: "The Bankers were so eager to lend to Truan that they were practically spraying him with money..." The publication also quotes a developer as saying: "The bankers got mesmerized. They thought it was almost an honor to lend to Donny."

If this was the banks' scientific approach to the $2 billion of Trump loans, we need to know what the regulators did in response and when they did it. Maybe the regulators, like the banks, were "mesmerized" by the glamour
and glitter of the Trump operations.

Obviously there are millions of smaller-than-Trump borrowers across the nation. We are hearing increasing reports that small and medium sized businesses, as well as home buyers, are being hit by a true credit crunch. This group must have some real questions when they see headlines about billions of dollars -- plus restructuring -- going to the Trumps of the nation.

When the Committee conducted field hearings in Texas in June, the bank regulators were quick to deny that there was a credit crunch among the small and medium sized borrowers. But, no sooner had we returned from the field hearing than the Secretary of Commerce, Robert Mosbacher, was quoted in the Wall Street Journal as saying the nation was caught in a serious credit crunch that extends well beyond the real estate industry and appears to be worsening. Secretary Mosbacher went on to say:

"It (the credit crunch) is serious, and it appears to be exacerbating. It's not just real estate people. Real estate is very serious. But it also has to do with small and middle-sized businesses, high-tech, across the board. (businesses) who are trying to get loans and can't."

So, on the one hand we have reports that the multi-billion dollar loans -- like those to the Trump Organization -- are being handled somewhat casually. On the other hand, there are increasing reports -- ranging from small businessmen and consumers to President Bush's cabinet -- that the smaller-than-Trump borrowers are facing much stiffer tests at the loan windows. The regulators before us this morning are in a great position to give us the facts on these competing claims.

I also want to remind the regulators that this Committee is preparing for an intensive series of hearings in mid-September on reform of the deposit insurance system. As I have expressed for many months, I am very concerned about the condition of the bank insurance fund and we cannot await repetitious and long-winded studies to act decisively. But, we cannot act
without the facts that the regulators have locked in their file cabinets. You -- the regulators -- must provide the Committee with the hard-nosed information if we are to make rational decisions about the shape of the insurance funds for the future. Blank checks with no questions asked are going to be things of the past for the regulators. The taxpayers, faced with the enormous bill for the savings and loan mess, simply will not allow it.

I deeply regret the refusal of Citibank, Manufacturers Hanover, Bankers Trust and Chase Manhattan to appear here today to help us understand the banking problems. These are all banks operating with taxpayer-backed Federal insurance funds and the benevolence of much of the regulatory machinery. These banks have a public obligation which they have chosen to dodge here today. Similarly, we had hoped that Donald Trump would see an obligation to be here today. He, too, has declined the invitation.

I do want to thank the regulators on our first panel -- Robert L. Clarke, Comptroller of the Currency; John P. LaWare, Governor, Federal Reserve Board and Chairman of the Board's Committee on Supervision; and Peter M. Philbin, Deputy Superintendent of Banks, New York State Banking Department. Gentlemen, we hope you will be responsive to our inquiries this morning.

I want to express my special thanks to the private analysts who will appear on our second panel -- James J. McDermott, Jr., Executive Vice President, Keefe, Bruyette & Woods, Inc.; Lacy Shotley, Vice President of Research, Smith Barney, Harris Upham & Company; and Charles A. Cranmer, Analyst, Shearson Lehman. Their testimony will be most helpful in the Committee's effort to understand the conditions that impact on the banks in the marketplace. We deeply appreciate your voluntary cooperation and that of your individual firms.
Statement by
Representative Jim Leach
before the
Committee on Banking, Finance and Urban Affairs
U.S. House of Representatives
August 9, 1990

Mr. Chairman, I want to commend you for holding these hearings today on the financial problems facing the commercial banking industry. The recent slump in coastal real estate markets, coupled with the continuing problems associated with LDC loans, highly leveraged transactions, and the prospect of oil driven inflation, evidence or foretell serious problems with the banking industry in general, and money center banks in particular.

Chairman Seidman's recent announcement that the FDIC's fund may lose $2 billion this year, leaving the fund at the lowest ratio level in its 57-year history, highlights these problems.

Since the FDIC announcement, the financial sector has been further weakened by the Iraqi invasion of Kuwait, which could precipitate further strains on the economy, particularly international banking.

Given the precariousness of the economic circumstances, it could not be more appropriate for this Committee to insist that regulators understand their obligations to the taxpayer. As the S&L debacle illustrates, failure to regulate prudently and on a timely basis can be costly to society.

Three aspects of the thrift regulatory failure would appear particularly relevant to commercial banking today: 1) Inadequate capital ratios allowed S&Ls to overleverage depositor resources; 2) Imprudent accounting practices masked the depth of industry problems; and 3) Regulators failed to understand the speculative impact of new powers granted the industry, particularly those related to direct investments and junk bonds.

The distinction between thrift and more rigorous bank regulation has come to be widely understood. Less understood are the different regulatory standards that have developed over the past several decades between big and small banks.

Historically, it was believed big banks needed less regulation as they had more diverse assets and more sophisticated management. It now appears money center banks are in difficulty because of regulatory indifference to capital ratios, because of phony book-keeping, and because the competitive framework has changed to the marked disadvantage of larger banking institutions. Before turning to capital issues, let me mention three competitive difficulties facing big banks.

First, regional banks and in many cases smaller banks can provide all the essential services money center banks can; in fact, banks in rural communities have more rights to provide more financial services, such as insurance, than money center institutions.

Second, large banks which traditionally do business with large corporations have found that these corporations no longer rely on bank borrowings but can raise money by selling commercial paper and other debt instruments.
Third, investment banks as well as foreign commercial banks have come to compete for the same big business clients as finance becomes more homogenized and trade becomes more internationalized.

Accordingly, money center banks in the 1970s looked for governmental business as a salvation arguing that sovereign guarantees provided ironclad risk avoidance. Believing that it would be much more difficult to attach Brazil than Iowa farmland, and believing asset growth in banking was being skewed to the weaker, albeit larger, banks, and to foreign rather than domestic customers, I introduced legislation over a decade ago calling on the Federal Reserve, in concert with other central banks, to develop stronger capital ratios for larger banks and/or impose reserve requirements on international lending obligations. Such an approach was eventually developed, although in a fledgling fashion, with the Basel accord.

In hearings held on the legislation I introduced in the late 1970s to impose more prudential standards for international lending, representatives from money center banks objected strenuously to greater regulatory oversight. Representatives of Citicorp, Morgan Guaranty, Chase Manhattan and Bank of America, backed up by the Treasury and Fed, assured us that their banks had sound foreign asset portfolios and that diversification of lending implied no need for capital standards equivalent to those required of smaller banks.

The experience of the last decade would seem to indicate that if it weren’t for the thrift debacle, more glaring attention would be focused today on the greatest banking mistake since the 1930s. Despite warning signs, growth-at-all cost, follow-the-leader banking produced a doubling in LDC lending from 1979-1982. Subsequently, money center banks have battled to stay solvent, employing dubious book-keeping and de facto regulatory forbearance to maintain their banking charters.

One of the principal impulses to imprudent lending a decade ago was the temptation to recycle petro dollars, to put off to future generations the societal cost of higher oil prices. Hopefully, an analogous impulse won’t lead to similar imprudence in the coming decade.

Today’s real estate problems are symptomatic of larger macroeconomic problems in the U.S. economy. They are also symptomatic of the difficulty large banks have in knowing their customers as well as their balance sheets. As the Trump episode would seem to indicate, it appears smaller banks have much better comprehension of the human dimension of entrepreneurship and much more prudential standards when it comes to requiring collateral and responsible leveraging ratios for small loans than big banks have with their customers.

At issue in money center banking are the leveraging ratios and capital positions of institutions which carry deposit insurance as well as the judgment of the Harvard MBAs who seemed to have collectively concluded over the last several decades that neither foreign potentates nor domestic billionaires-on-the-make needed to put anything except their or their country’s name down as collateral.

Although he came to the Federal Reserve Board as vigorous proponent of deregulation, Mr. Greenspan is to be commended for coming to recognize the regulatory as well as the money supply responsibilities of the Federal Reserve Board. Just as the traditional small bank requires its customers to put up more capital when business weakens, it is imperative that regulators require commercial banks to put up more capital when their business weakens.

Some big banks may theoretically be too big to fail, but no bank should be too big to regulate. Some money center banks, such as Bank of America and Manufacturers Hanover, have launched impressive efforts to strengthen their capital in the last few years by selling assets and equity and restraining asset growth. But virtually all the larger banks now have debt ratings lower than many of their customers. Given
the importance of the confidence factor in banking as well as the overleveraging that exists in the economy, it would appear that the larger banks need more capital.

Here it should be stressed that there is no substitute for raising capital the old fashioned way -- through earnings or the sale of stock. Preferred-debt instruments may serve as an extra cushion between the taxpayer and the insolvency value of a failed institution, but preferred debt is more expensive than the cost of deposits, which implies that institutional earnings may be weakened in direct proportion to holdings of preferred debt. From a governmental perspective -- i.e. the taxpayers -- it is clear that banks need more real capital and that, despite the implications for shareholder dilution, and for below book value equity offerings, money center banks should sell more stock rather than buy more loans.

It should be understood that financial regulation dictates or tilts economic growth in the world. As S&L lending has shown, if one state has weaker regulation than another state, deposit growth is spurred in the state with weaker oversight. Likewise, in banking, if foreign loans can be more leveraged than domestically, lending is spurred abroad rather than at home. As the LDC debt overhang has taught us, the imposition of firmer, more equitable standards yesterday would have meant savings for our financial institutions and overall economy today. It also would have meant that the macroeconomic judgments that went into America's pro-import, anti-export mix of fiscal and monetary policies of the early and mid-1980s might have been different.

After all, Washington understood that the only way the international monetary system could continue without massive governmental infusions of capital was for the foreign countries to which private banks recycled petro dollars to develop, through trade, dollar resources to pay back their debts. The only way this could be done was for these countries to export more to us than we to them. Hence, because of private sector banking decisions to increase lending abroad, growth followed loans, and trade deficits followed regulator-induced misjudgments.

I raise all of this in the context of the need for responsible regulation in banking, regulation that is even handed, regulation that applies to large as well as small banks, thrifts as well as commercial banks, foreign as well as domestic institutions.

The problems in the savings and loan industry are unlikely to be matched in commercial banking, but serious strains may be placed on the insurance fund if regulators do not continue to press for more prudent leveraging ratios and more careful judgments on lending standards.

In particular, I am concerned that there is little give in the system and that what appears to be a new oil shock coupled with multi-billion dollar losses associated with Iraqi defaults could put an untenable stress on international banking.

Capital ratios that are appropriate for average times, for an industry with an understood purpose and understood profit centers, may not be sufficient for un-average times, for an industry without a clear mission, without clear profit centers. If LDC lending looks bleak, if real estate values weaken, particularly in New York and California, if the economy turns down and inflation resurfaces, the case for a stronger capital cushion quantumly increases.

I look forward to the comments of the regulators on how they are responding to the economic difficulties associated with the original reason for this hearing as well as the new problems associated with recent developments in the Middle East.
Mr. Chairman and members of the Committee, I am here at your request to describe how the Office of the Comptroller of the Currency oversees the real estate lending practices of national banks. In addition to the Committee's general interest in real estate lending, the Committee has raised specific questions about the methods used by banks to restructure troubled real estate loans. The principal reason I am here today is to reassure the Committee that troubled loans of all sizes and types are being treated by the OCC in a fair and even-handed manner, and we expect that banks will deal with such loans in the same way.

The Congress has recognized the need for the OCC to treat the information that it obtains in the examination process as highly confidential. It has been the OCC's long-standing policy not to divulge examination data or other financial information that specifically identifies any individual bank or borrower. I will therefore confine my remarks to the general procedures that the OCC uses in reviewing real estate loan portfolios.

My statement begins with a brief discussion of market developments over the past few years that led to the current weakness in the real estate portfolios of many commercial banks. The principal thrust of my statement is a discussion of the methods used by the OCC to supervise real estate lending.

DEVELOPMENTS IN REAL ESTATE MARKETS

While real estate lending has traditionally been more closely associated with savings and loan associations than with commercial banks, banks have for many years been significant sources of residential mortgage loans, as well as the largest source of construction loans for both multi-family residential and nonresidential property. Thus, commercial bank involvement in real estate markets is not a new development.

In recent years, however, banks have turned increasingly to real estate lending as a source of revenue. This is part of a broader trend in banking, stemming from the gradual evolution of traditional banking markets and from restrictive statutes, such as the Glass-Steagall Act, that have made it difficult for commercial banks to retain traditional customers in a changing marketplace.
For example, the rapidly growing market for commercial paper has permitted many middle to large sized corporations, which formerly would have relied on bank loans for their financing needs, to access capital markets directly. Commercial banks, significantly limited in their ability to underwrite corporate securities or otherwise provide the credit enhancements that the market demands, have been unable to compete on equal terms for these customers. Consequently, the customers have, for the most part, left banks for securities firms, which are not so restricted. On the retail side, money market mutual funds have drawn away core deposits, driving up the cost of funding for commercial banks.

Confronted with the erosion of their traditional lines of business, banks have sought to expand other sources of revenue. Real estate lending has been a very attractive source. In the past ten years, real estate loans outstanding at national banks have more than tripled, from $140 billion in 1980 to $475 billion in the first quarter of 1991. In 1980, real estate loans accounted for less than one quarter of total loans. In the first quarter of 1990, they accounted for more than 37 percent of total loans.

During the past five years, there has also been a shift in the composition of real estate lending. While residential mortgage lending remains the largest portion of real estate lending by commercial banks, construction and development lending has been increasing in volume. Both the increased concentration of real estate lending in their portfolios, and the increased emphasis on more speculative construction and development loans, have made commercial banks more susceptible to downturns in the real estate market.

The Economic Environment

The OCC continually monitors the economic environment for indications of changes that may lead to supervisory problems, and we encourage banks to do the same. In 1987, when we saw indications of softening in some real estate markets outside the Southwest (which had experienced problems earlier), we began to review the real estate lending practices at a number of the banks operating in those markets. We stepped up those efforts in 1988. In that year, OCC examiners in our Southeast District examined the real estate lending practices at 13 of the regional banks that had the largest exposure to real estate in the district. The examiners subsequently met with the chief executive officers and members of the boards of directors of those banks to discuss the specific findings of the examinations, the softening real estate market, and the need for prudent real estate lending standards. Our examiners emphasized the need for improved lending standards and controls, and the potential for losses if current weaknesses were left uncorrected.
To communicate these concerns more widely to the banking industry, later in 1988, the OCC sent an advisory letter to the chief executive officers of all national banks (numbering about 4300 at that time), warning about the potential risks of excessive concentration in real estate lending and citing some of the deficiencies which we had discovered in our examinations of regional banks. The message we delivered was that real estate lending itself does not entail undue risk. However, if proper underwriting standards are not employed, if sufficient control mechanisms are not put in place to allow management to understand levels of risk, or if data supplied to management are incomplete or outdated, then there is the potential for substantial risk.

In 1989, softening regional economies, coupled with indications of overbuilding in many cities, led to increased concern about the quality of real estate loans. Beginning in the spring of 1989 and continuing into 1990, our examiners have conducted comprehensive examinations of the real estate portfolios of a number of national banks. The increases in loan loss reserves that resulted from these examinations, and their effects on bank profits and bank stock prices, have been widely reported in the national press.

When real estate markets become overbuilt, declining rents or the unavailability of tenants or customers can reduce the credit-worthiness of otherwise sound and well-managed projects. Under these circumstances, prudent bankers will choose not to finance some projects that would have received credit in more favorable economic circumstances.

There have been reports that some bankers have reduced their lending to credit-worthy customers as well. While this problem does not appear to be widespread, we have taken steps to deal with possible overreaction to market conditions and regulatory scrutiny. At the same time that we are urging banks to recognize existing problems in their portfolios, we are encouraging them to make loans to credit-worthy borrowers. I have been delivering this message personally throughout the country to bankers, businessmen, local leaders, members of Congress, and the press; and I believe the message is being heard.

We have also taken steps to ensure that OCC examiners deal with real estate lending problems consistently and even-handedly. Examiners-in-charge from multinational and large regional banks throughout the country were brought to Washington last week to attend a conference conducted by senior bank supervision managers on real estate lending examinations. The OCC has also produced a videotaped discussion of real estate lending issues which will be shown to OCC examiners and bank managers. Written guidance for examiners on real estate lending, which is now embodied in a number of banking and examining circulars, is being clarified and consolidated in a supplement to the Comptroller's Handbook for National Bank Examiners. And, of course, the OCC always
encourages any banker who has a question or a complaint about our examinations or our policies to come discuss the matter with us.

**OCC SUPERVISION**

It is important, given the recent public attention focused on our examinations, to understand the OCC's role in reviewing a bank's loan portfolio. Our job as bank supervisors includes three important tasks. First, we ensure that banks adopt and adhere to sound credit practices. Second, we ensure that their books accurately reflect the value of their assets and liabilities. And third, we ensure that national banks establish management systems that are capable of tracking bank activities and can reasonably anticipate and adjust to changing market conditions.

As part of this process, we expect bankers to have mechanisms in place to conduct their own asset quality reviews. Ideally, an OCC examiner should then only have to check to see that the mechanisms exist and that they are performing as intended. But in a less than perfect world, we often find faults that bankers have not recognized. We then take whatever steps are necessary to make bankers recognize them.

We work to ensure that banks accurately report the condition of their portfolios and maintain reserves that are adequate to protect against anticipated losses. In addition, if loan quality or other problems result in a bank's having inadequate capital, we work with the bank to help it develop and follow a credible capital restoration plan that will get it back to health.

At the same time, supervisors must be willing to close banks that cannot survive in a competitive market. Banks are not public utilities; they are, first and foremost, private businesses. Like other private businesses, some banks will fail. Failures are not necessarily a reflection of the quality of supervision that banks receive. Indeed, if bank supervisors guarantee that even the poorest management will be able to succeed, the banking system will become very inefficient. What we must do is allow banks to fail, but in a manner that ensures that it is the shareholders' money that is at risk—not the deposit insurer's or the taxpayers'. Bank supervisors achieve that result by enforcing strong capital adequacy standards, and by closing banks when they become insolvent.

**Bank Examinations**

The supervisory process is complex and requires a great deal of judgment. Not surprisingly, there has been a great deal of confusion and misinformation about the purpose of bank supervision, the methods we employ to determine the need for an examination, the examination process, and the criteria we employ in assessing the quality of a loan portfolio. Consequently, it
is important for the Committee to understand how we go about our examinations.

The OCC strives to assure that a bank's management has an understanding of its institution's condition that is true and reasonable and that management's decisions reflect this true and reasonable understanding. Bank management must be able to support its credit decisions to its board of directors and its shareholders. So we encourage, coax, caution, and--when necessary--compel national bankers to focus on the quality of their investments and to take necessary steps to improve them.

Determining the Need for an Examination

One of the supervisory techniques that we use is the focused examination of credit categories that our routine monitoring of economic trends leads us to believe call for special scrutiny. A focused examination may reflect supervisory concern about deterioration in the credit quality of a particular type of loan, but it does not necessarily reflect such concern. It may be triggered by excessively large concentrations of credit in a single category or unusually rapid growth in one portion of a bank's portfolio, even if there are no signs of weakness in loan performance or credit quality. It indicates only that the OCC wants to ensure that banks apply the same sound credit standards in the targeted category that we expect them to apply to all other loans.

We have conducted several kinds of focused examinations in recent years: on loans financing oil and gas exploration, on loans to lesser developed countries, on loans financing highly leveraged transactions, and on real estate lending in several regions of the country.

The Examination Process

In smaller banks, an examination team--an examiner-in-charge and a small staff--judges the quality of the selected loans. The conclusions reached by the examination team are typically reviewed by other examiners.

In larger banking companies, where there may be several subsidiary banks, and where more than one supervisory agency may be involved in the examination, the procedure becomes more elaborate. A team of examiners is assembled from the staffs of the various participating agencies. The team is placed under the direction of an examiner-in-charge, who is usually from the agency that has supervisory responsibility for the banking firm's principal bank. Each of the banking firm's subsidiaries that is under review is also assigned an examiner to lead that work.

Examiners at a subsidiary discuss all of the loans under their review with bank managers and individual loan officers. The examiner in charge of that subsidiary then reviews the work
and, if necessary, discusses it with the examiners in charge of examining other parts of the banking firm. The examiner-in-charge at the entire banking firm reviews the work on the most significant areas and loans. If the examiner-in-charge considers it necessary, the loans become the subject of further discussion among the examiners and with bank managers. During this entire process, bank management has the opportunity to discuss specific loans with the examiners. If bank managers believe that a loan has been classified improperly, they can raise questions at all levels of the review process, and the OCC encourages them to do so.

During this review process, the examiners work with bank managers to ensure that the three goals I mentioned earlier are met: that the bank has adopted and adheres to sound credit practices, that its financial statements accurately reflect the value of its assets and liabilities, and that the bank has established management systems capable of tracking bank activities and reasonably anticipating and adjusting to changing market conditions.

Shared National Credits

Some larger real estate loans—those in which more than one bank participates—go through an additional stage of supervision as part of the Shared National Credit program. A Shared National Credit is any loan of $20 million or more that is shared by two or more federally insured depository institutions. The Shared National Credit examination process began at the OCC in 1975; the Federal Reserve System and the FDIC joined the CCC effort shortly thereafter. The purpose of the Shared National Credit review is to avoid duplicate reviews of the same loan and ensure consistent treatment of all banks participating in the credit.

Once a year, these three agencies perform a joint supervisory review of all loans that qualify as Shared National Credits. Each credit is reviewed at one depository institution: usually the agent bank. During the credit examination, examiners assign each loan to one of five categories: pass, special mention, substandard, doubtful, and loss. This rating is then reported to every depository institution that is participating in that loan, and is used in all subsequent examinations of those institutions.

Assessing the Quality of a Loan Portfolio

If a bank is having problems collecting its loans, or anticipates such problems, then prudent accounting requires some recognition of the potential loss. This is the purpose of loan loss reserves. The examination process evaluates reserves based upon a review of individual loans and of the overall structure of the bank's balance sheet.
Some observers have asked why banks cannot be allowed to carry troubled loans for a period of time at their book values, rather than being required to write them down immediately. We much prefer to work with a bank after it has accurately recognized and reported its condition, rather than allowing the bank to sweep problems under the rug. In that manner, an accurate picture of the condition of the bank is presented and appropriate remedial activity can be carried out. The necessity of working out problem loans is a fact of life in banking, as it is in bank supervision. The key in all instances is having a credible work-out plan.

When OCC examiners review a real estate loan—or any other loan that finances income-producing property—they assess whether the projected cash flows from the property and from other sources are sufficient to meet required loan payments. This determination relies largely upon the bank's own estimate of the property's future cash flows. Obviously, to the extent that the current condition of the property does not match the bank's recorded estimates, adjustments must be made. But, for the most part, we do not impose our own view of future economic conditions in projecting potential losses.

For example, if a particular property is leased significantly below expected levels and office occupancy rates have fallen in the market where the property is located, then the estimated projected cash flows must be correspondingly lowered. In making this cash flow projection, OCC examiners typically use the bank's own recorded forecast of the ultimate occupancy rate; but in doing so, they recognize that it will take longer for the property to be leased. Consequently, they require the bank's valuation to reflect that reality.

Classifying loans necessarily involves judgments about which reasonable people may disagree, but this unavoidable "gray area" is not a major source of disagreement between bankers and examiners. There is no disagreement about the vast majority of loans that are being criticized and reserved against. They are simply not paying as the bank expected and, therefore, cannot be recorded as doing so.

In most cases in which additional reserves are required, the loans are not performing as expected. In some cases, the payments may be current, but in criticizing the loan, the examiner is recognizing the reality that the resources are no longer there for the payments to continue to be made.

Consider an example in which a developer has received a loan to construct and lease a new office building. If demand for office space in that market appears insufficient to generate the cash flow needed to service the loan, the examiner may question the underlying quality of the asset. This is true even if the borrower has been able to make interest payments on the loan to keep it current. Investigation will often show that the
developer has been keeping the loan current only by borrowing the funds from another credit source, possibly even a loan at the same bank that underwrote the construction loan; or that the developer or its guarantors are relying on cash flow from other projects, which may also be in declining markets, in order to keep the debt current; or that there is no support for the cash flow.

The related topic of guarantors has also been the subject of a great deal of discussion. When a bank makes a construction real estate loan, the usual sources of repayment are the sale of the property or a permanent refinancing. If the primary sources of repayment are not sufficient or are unavailable to meet the obligation, the bank must look to other sources—often the developer or a guarantor—to service all or part of the debt. Prudent banking requires that a bank have all the necessary information to determine the ability of that developer or guarantor to make payments and service the loan. Consequently, it should come as no surprise that examiners will ask for and review information on guarantors. Increased emphasis on the capacity of a guarantor is simple recognition of the changing environment. In a strong economy, where the underlying project has sufficient cash flow to service the debt in accordance with its terms, the financial capacity of the guarantor is less important. However, even when the condition of the guarantor is less important, the bank should still have timely information on the guarantor, and should expect to be criticized by OCC examiners if it did not.

Restructuring Troubled Loans

Some observers have raised questions as to whether large real estate borrowers who have been unable to repay their loans on schedule have been allowed to reschedule their debts on more generous terms than have been available to small borrowers. We do not encourage banks to treat large borrowers any differently than small borrowers.

Whenever a borrower is unable to repay a loan on schedule, the bank faces a straightforward business decision: whether it can recover more of its investment by foreclosing than by rescheduling the loan. The answer—for large or small borrowers—can go either way, depending on the circumstances of the borrower and the value of the assets backing the loan. It is difficult to imagine a well-run bank which has equity funds at stake making the decision on any other basis than to minimize its eventual loss.

Of course, large borrowers may have options that are not ordinarily available to small borrowers. For example, large borrowers often have several independently financed business ventures, only some of which may be financially troubled. They may therefore have uncommitted revenues or collateral from other projects that can be used to obtain additional financing. Small
borrowers, in contrast, more frequently have no resources beyond the revenue stream and collateral that was pledged on the original loan.

Because of such differences, a bank may find that a large borrower presents better prospects for recovery through renegotiation than through foreclosure, while the opposite may more frequently be the case for small borrowers. But small borrowers who do have the means of demonstrating their creditworthiness can, and frequently do, have their loans rescheduled instead of foreclosed. The OCC encourages banks to work out whatever they can with any borrower.

In the final analysis, however, the decision to reschedule a loan is a decision to extend credit, and it rests on the same types of considerations that underlie any extension of credit: the borrower's ability to repay the loan and the value of collateral that the borrower can pledge. The OCC closely supervises the credit policies and practices of national banks, but we do not seek to influence individual rescheduling decisions, for the same reason that we do not dictate any other individual credit decision: we believe that such decisions should be made by bank managers. Our role in the treatment of any individual troubled loan is focused on ensuring that the loan is valued correctly on the bank's balance sheet and that the bank has reserved adequate funds for loan losses. What the bank then does with the loan—whether it reschedules or forecloses—is up to the bank.

CONCLUSIONS

The OCC will continue to monitor real estate markets, to conduct focused examinations of real estate portfolios at national banks where we have indications of credit problems, to direct those banks to reserve against loan losses when this is necessary to reflect the actual value of the loans, and to urge banks in weak real estate markets to maintain high underwriting standards. These steps involve a certain amount of pain for those involved, but they are precisely the steps that are required to work out the problems in real estate loan portfolios.
Statement by

John P. LaWare

Member, Board of Governors of the Federal Reserve System
before the
Committee on Banking, Finance and Urban Affairs
U.S. House of Representatives

August 9, 1990
I am pleased to be here on behalf of the Federal Reserve Board to discuss real estate lending by commercial banks and its effects on their financial condition. The Committee is, I am sure, well aware of the many problems that banks and other depository lenders have had with real estate loans in the last five years or so and is understandably concerned about the prospects of these problems continuing. In my comments I shall provide a brief overview of the trends and developments of real estate lending over this decade, and then discuss the evolution of conditions in the real estate markets and the dimensions of the problems they have presented to banks. I will also address some supervisory considerations and the effects recent actions by banks are having on the availability of bank credit.

Commercial Real Estate Lending in the 1980's

Real estate markets were generally robust over the decade of the 1980's. Growing demand produced sizable increases in property values and prompted substantial growth in construction of new commercial and residential structures. Commercial banks, thrift institutions, insurance companies and other major lenders, including foreign institutions, played important roles in this
process, providing funds for the construction and sale of new properties and for the transfer of ownership of existing properties at rising values.

For the decade as a whole, real estate loans at all commercial banks almost tripled, reflecting a particularly sharp rise in commercial and construction loans, while total assets of commercial banks grew at a much slower pace. By the end of the decade, real estate loans made up about 23 percent of total bank assets, compared with less than 15 percent at the end of 1980. Commercial property and construction loans now account for roughly one-half of the $778 billion of total real estate loans held by commercial banks.

States in which the energy sector was large, particularly Texas, Oklahoma, Colorado, and Louisiana, were in the vanguard of the strong real estate expansion of the early 1980s. These strong economies stimulated sharp increases in construction of commercial and residential properties. Once underway, the construction boom maintained momentum even as the energy sector lost strength. This continued construction was encouraged by the substantial optimism that prevailed in these sunbelt states arising from their increases in population and general income levels.

The ready availability of credit bolstered this process. S&Ls in the region, seeking to overcome weak capital positions and deficient earnings aggressively extended credit for many projects. Commercial banks in the
gion were also active in real estate lending, as they sought to replace revenues previously earned on loans to firms in energy and related sectors. Major banks from other areas of the country and abroad also added to the supply of credit.

Other regions, as well, found real estate lending attractive areas for growth. Responding to the general expansion in economic activity and the favorable tax laws embodied in the Tax Reform Act of 1981, real estate markets gained strength. From year-end 1980 to the end of 1984, commercial real estate lending nationwide grew at a rate roughly twice the pace of total bank assets. By the mid-80s when Southwest real estate markets were beginning to slow, markets in most other parts of the country were still growing at a brisk pace. Here again, the general economic expansion and the willingness and ability of financial institutions, both domestic and foreign, to finance real estate projects on favorable terms played an important role.

By the end of the decade the pace of expansion had slowed. In the last few years, the supply of real estate has exceeded demand, with consequent effects on vacancy rates, property values and rental rates. To date, these developments have been most pronounced in the New England region, although, weak market conditions exist along much of the east coast, as demonstrated by high and rising office vacancy rates. Market conditions in some midwestern cities have also begun to show a marked loss of strength, and even
the western states of California, Oregon and Washington, long the beneficiaries of strong real estate markets, have begun to report increased office vacancy rates in at least some areas.

These weakening market conditions are reflected in higher real estate losses for banks. During 1989, real estate charge-offs at commercial banks rose 54 percent from the prior year to almost $3 billion and totalled $1 billion in the first quarter of this year, alone. The Northeast (excluding the large New York City banks) has replaced the Southwest as the latest area of concern and accounted for almost one-half of the industry's first-quarter real estate losses. Nonperforming real estate loans also continue to mount, increasing by 37 percent last year and by another 8 percent to $32 billion in the first-quarter of this year. Nonperforming real estate loans now account for nearly one-half of all nonperforming loans held by U.S. commercial banks.

Reasons for the Robust Real Estate Markets
Given the problems that certain types of real estate loans have caused and the risk they still present, it is fair to ask why banks pursued this strategy and how some of the large real estate loan problems seem to have surfaced so suddenly. While there are no single or simple answers to these questions, several factors played important roles.
Disintermediation. During the 1980s, U.S. commercial banks--especially the larger ones--increasingly lost the business of their larger and stronger commercial borrowers to the commercial paper and securities markets. In the Southwest, as previously noted, this loss was compounded when demands by energy-related firms dropped as oil prices started to come down.

Generally, the proportion of bank loans to commercial and industrial (C&I) borrowers declined over the decade, relative to other bank assets. During the last five years of the 1980s, for example, these loans fell from 20 percent of assets to 17.6 percent, with the New York money center banks much more severely affected. Increased real estate lending offered a way to offset revenue losses in other parts of their loan portfolios and bolster overall earnings.

Increased fee income. Banks were also attracted to real estate loans because of the substantial fee income they could earn on these loans. Fees on real estate loans are typically higher than those on other types of corporate credits, and before accounting standards changed in 1988, many of these fees could be recorded "up-front", providing an immediate boost to earnings. In other cases, the fees provided, in addition to immediate income, an ongoing source of revenues.
Strong demand. Demand for residential structures and for additional office, retail, and industrial properties rose rapidly in various areas in the middle part of the decade. Office space in the early 1980s, for example, was far below that needed for the decade. Looking back to the 1970s, developers and many others, including lenders, had the view that inflation would work to make almost all projects profitable. In the face of the relative shortage, developers moved decisively to put in place added structures. Supply soon began to catch up with demand, and during the last half of the decade 40% more office space was built than absorbed.

Tax law treatment introduced with the 1981 law and kept in place until the reform of 1986 also contributed to the building boom by subsidizing the cost of real property. Some analysts estimate that before the new law, more than half of the return to taxable investors came from tax benefits, rather than from higher economic values. Increased demand from abroad for U.S. real estate holdings also supported property values and helped to encourage new construction.

Effect of Strong Lender Competition on Credit Availability and Lending Terms.

The perceived need to find new business, the ability to generate real estate loans, and the appeal of larger fee income combined to encourage aggressive real estate lending. These factors, plus generally overly
optimistic market assessments, produced favorable borrowing conditions for developers. It also led, in many cases, to more liberal underwriting standards. Some banks failed to assess realistically the economic soundness of specific projects and cashflow projections.

Construction loans that historically had been made on the basis of pre-leased space and pre-arranged permanent financing were now made without those features and largely on the basis of past relationships and on the appraised value of the underlying property. Borrower equity in projects was often minimal, and appraisals supporting the loans were sometimes based on revenue projections that did not materialize. With steady or, indeed, robust economic growth and rising real estate prices, lenders felt pressured to match "prevailing" market terms and unduly relied on the projected value of collateral as protection against loss. Some expanded nationwide, extending credit in markets in which they lacked experience.

Many lenders also seem to have focused on the strength of specific projects without giving appropriate consideration of total market conditions. Although the latest projects they were financing may have been successful, many were so only because they drew tenants from existing buildings and created problems elsewhere. Office gluts and generally lower operating costs in the southwest and other regions of the country have enticed some companies to relocate from high-cost areas, further weakening real
estate markets that were already beginning to slow. Such a pattern may help cities like San Antonio and Houston revive, but only increases pressures on higher cost cities like Stamford, which already has the nation's highest metropolitan area office vacancy rate at 30 percent.

The expanded investment powers for thrifts may also have changed the nature, as well as the level, of competition. In addition to simply increasing the supply of credit available for real estate construction, these changes introduced new competitors that at least initially were inexperienced in commercial real estate lending and unable to adequately evaluate the risks. Thrifts holding equity interests had different incentives than typical lenders and often focused on the potential gains from their ownership roles and extended credits they might otherwise have denied. As long as market conditions were favorable, these actions influenced market terms.

The result of these developments has been overbuilt real estate markets in which financial institutions have been forced to finance buildings beyond the time they originally envisioned, to accept significant concessions on rents, and to face vacancy rates much higher than planned. In these circumstances, the value of the bank's collateral--often only the real estate itself--has been reevaluated on the basis of existing market conditions and has led to significant write-downs of many loans.
Bank supervision

As bank supervisors, the Federal Reserve and the other federal and state banking agencies have the responsibility to review the activities of financial institutions and to enforce sound lending and operating procedures. Doing that requires sufficient resources to attract and retain qualified personnel and the institutional will to enforce the standards set. The atmosphere of deregulation in the early 1980s led to budgetary pressures at some agencies and, in some instances, to less supervisory oversight. These effects were most severe regarding the supervision of thrifts.

Of course, adequate resources and resolve are not all that we need. Even under ideal conditions, concentrations in certain types of credits will occur because of the process we have. Bank regulatory agencies generally try to minimize their influence on credit allocation decisions and, as a general rule, do not impose limits on the different types of loans banks should make. We do, however, evaluate the policies and activities of individual banks, but try to avoid substituting our credit judgments for theirs in lending decisions, unless the need to intervene is clear. I would stress that we clearly recognize our role in protecting the federal safety net and minimizing risks that insured deposits present to taxpayers. Balancing those concerns with the objective of avoiding
unnecessary interference in bank lending activities is a constant challenge to bank supervisors.

This supervisory approach recognizes that the long term interests of the economy are best served when lending decisions are made by private institutions, not government agencies. As private institutions, their own capital is first at risk, and they are more familiar with and better able to determine the credit needs of their customers than are bank examiners and other supervisory personnel.

The Federal Reserve has long had the view that a strong supervisory process is built upon a program of frequent on-site examinations that, in turn, is centered on an evaluation of asset quality. Accordingly, a key function of the examiners is to evaluate credits and ensure that banks reflect assets at appropriate values in their financial statements. While we leave credit decisions to banks, the effects of their decisions must be promptly and accurately reflected so that management receives the information it needs to respond prudently.

Recently, there has been specific interest in the procedures examiners use to evaluate real estate credits. I would say a few words about them. As with any loan, examiners first check to determine if the loan is current; that is, that the borrower has made all required payments. Examiners will then review the credit file, which should include financial statements of the borrower, a description of relevant terms of the loan, and full documentation on any
collateral or guarantees the bank holds to cover its risk. Real estate loans are typically collateralized, at least in part, by the project being financed, and a current appraisal of the value of that property should be included in the file or otherwise available at the bank. The file should also include information supporting the value of any other collateral the borrower has provided.

Examiners will criticize any loan for which documentation is out-dated or incomplete or for which the borrower's ability to pay is otherwise uncertain. Real estate appraisals should be based on current market conditions and should demonstrate that the project is economically viable. Even current loans, or portions thereof, are subject to criticism if the current or likely cashflow provided by the project is insufficient to service the loan fully. That may happen, for example, if current payments are being made from an interest reserve created from proceeds of the bank loan, and the assumptions on which the loan was made no longer reflect market conditions. Indeed, any appraisals that are not realistic are ordinarily discounted and could lead the examiner to criticize the loan.

While examiners urge adherence to sound banking practices, there are practical limits to the achievement of this objective. Maintaining diversification is a good case in point. To a greater or lesser extent, all financial institutions will be affected by local conditions that may
broadly affect their activities. With roughly one-quarter of U.S. bank assets devoted to financing real estate, local conditions will almost certainly affect that part of their business.

Many of the real estate losses banks have recently experienced have been identified by rigorous supervisory reviews, or of bank management's preparation for one. Some banks have been hit hard by these examinations, others have come through quite well. Most banks, though, are acknowledging that the real estate markets have changed and have reviewed and tightened their lending procedures. The effect is painful now, but it will be beneficial for the long-term. It will also reduce the risk they present to the federal safety net.

Availability of bank credit

Under present conditions, the Federal Reserve has been concerned that creditworthy borrowers continue to have adequate access to bank credit and has monitored credit markets closely. In that connection, the Chairman of the Federal Reserve, along with the Chairman of the FDIC and the Comptroller of the Currency, met in May with bank representatives to stress the importance to the economy of continued lending and to clarify that supervisory actions are not intended to prevent new loans.

In subsequent testimony Chairman Greenspan and I both indicated that while lenders had tightened their
standards there did not appear to be a broad-based squeeze on credit, but noted that the Federal Reserve was monitoring the situation closely. More recently, evidence is building that conditions have become weaker. It is difficult to determine what part of the slowdown derives from higher credit standards, versus less loan demand. As the Chairman stated in his testimony of July 18, though, lending standards seem to have tightened too much. The Federal Reserve has recently taken some steps to offset the effect of these tighter lending standards.

Syndications

Questions have been raised regarding the use of loan syndications in funding real estate assets. In this regard, it should be noted that banking organizations rarely syndicate real estate loans in the same sense as they do in other types of loans, including highly leveraged transactions. Real estate loans involving more than one lender typically involve participations where one lender originates the loan and sells or assigns parts of it to one or more institutions. In true syndications, several institutions originate the loan, and any one of them can then participate out its own interest.

In either form, there is generally a lead lender that has the responsibility to administer the loan and to ensure that the other lenders receive sufficient information to make independent credit decisions—both before the loan
is bought and throughout the period it is outstanding. Indeed, other borrowers have the responsibility to make independent decisions about the credit worthiness of the borrower and should not rely solely on the representations of the seller. Typically, the sales agreements include provisions that require participating lenders to attest to having made such independent reviews.

Conclusion

Unfortunately, real estate loans are only one of the significant risks banks in this country face. Loans to highly leveraged borrowers and to developing countries cannot be ignored. The current slowdown in real estate markets will have a dampening effect on economic activity that will be felt unevenly nationwide.

The problems that financial institutions are experiencing at this time merely illustrate the risks and uncertainties inherent in lending funds. Strong bank management and an active and sound supervisory process will help prevent many problems. Many others, though, will still exist. It is critical that banks have sufficient equity capital to support the risks they take—both to ensure their own survival and to protect the federal safety net. Ensuring adequate bank capital is an important objective of supervision and remains an important priority of the Federal Reserve.
NEW YORK STATE BANKING DEPARTMENT
TWO RECTOR STREET
NEW YORK, NEW YORK 10006

STATEMENT OF
PETER M. PHILBIN
DEPUTY SUPERINTENDENT OF BANKS

BEFORE THE COMMITTEE ON BANKING, FINANCE
AND URBAN AFFAIRS
OF THE
UNITED STATES HOUSE OF REPRESENTATIVES

WASHINGTON, DC

AUGUST 9, 1990
Mr. Chairman, members of the committee, my name is Peter Philbin. I am Deputy Superintendent of Banks in the New York State Banking Department. Superintendent of Banks Jill Considine regrets that she is unable to appear today because of a commitment which long predated your invitation.

By way of background, it may be helpful if I give you some information about the New York State Banking Department. We supervise over 4,000 financial institutions, including commercial banks and trust companies, bank-holding companies, savings banks and savings and loan associations, credit unions, branches and agencies of foreign banks, licensed lenders, sales finance companies, money transmitters and mortgage bankers and brokers. In the aggregate, we supervise entities with assets in excess of $1 trillion. Banks supervised by the department comprise more than 35 percent of all state chartered banking assets in the nation. As you can see, we have a wide spectrum of supervisory responsibility and we believe this affords us a unique perspective on a variety of financial players and the markets in which they operate.

Your request asked us to discuss the role of the New York State Banking Department in the examination, supervision and regulation of state chartered banks, with particular attention to banks' real estate lending practices. You also asked us our reaction to the lending arrangements recently concluded by two of
our chartered institutions with a particular major customer. With regard to the latter request, we have not completed examinations of those banks since the lending reconstruction was arranged and, therefore, have no knowledge of the specifics. Moreover, from both legal and policy viewpoints, we believe it is inappropriate to discuss confidential and proprietary information concerning a bank's relationship with an individual customer, particularly in a public forum. Consequently, I will not respond to the second part of your request.

The New York State Banking Department shares supervisory responsibility for the banking institutions that it charters with several Federal agencies, specifically the Federal Reserve Bank of New York, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision and the National Credit Union Administration. The New York banking statute requires an annual examination of our banks. As a practical matter, we attempt to alternate annual on-site examinations of State-chartered banks with the Federal Reserve in the case of a member bank and the Federal Deposit Insurance Corporation in the case of a non-member bank. This is done in order to minimize the duplication of regulatory effort, to achieve optimum efficiency from limited financial and human resources and to ease the regulatory burden on supervised institutions. In the case of a problem institution, however, both the New York State Banking Department and the appropriate Federal agency would normally jointly conduct examinations on as frequent an interval
On-site examinations are viewed as a component, albeit a very important one, of the on-going supervision of a chartered institution. Our supervised entities are continuously monitored from the office by desk examiners who review a myriad of external and internal reports and analyses to track the progress on an institution and to watch for any sudden change or deterioration which might signify a negative occurrence. We also attempt to follow national and regional economic trends and trends in the banking industry in order to anticipate developments which might have significant impact on the banking industry in general or banks with particular business profiles. In this regard, we became somewhat concerned in the past year, about the quality of our banks' real estate portfolios. The experience in other parts of the country, particularly the Southwest and New England, the softening economy in the Northeast, the abrupt reversal of the real estate inflation engine in the Northeast and some empirical evidence of a rise in delinquency and non-performance on residential and commercial property real estate loans prompted our concern. As a consequence, we have conducted several studies and made special visitations to numerous supervised institutions whose structures and business practices, we believe, might make them vulnerable to a serious downturn in the real estate markets.

Our reviews covered such areas as underwriting standards,
appraisal and reappraisal policies and techniques, servicing practices, management information systems, problem loan recognition and workout capabilities, portfolio concentrations and loan loss reserve adequacy. We were interested not only in determining whether a bank had a real estate loan portfolio problem, but also whether bank management had identified and measured the problem and was taking the proper steps to deal with it.

Although New York State chartered institutions have not escaped completely the consequences of a softening economy and difficult real estate markets, our review disclosed that at this time there does not appear to be a major problem with the universe of our banks.

As a general comment, it is our belief that the decade of the 80's with its almost uninterrupted economic expansion, combined with the natural competitive drive of banking institutions, induced a subtle liberalization of real estate lending and servicing standards. In a climate where the aggregate of problem real estate loans have been minimal over an extended period of time, a feeling of caution tends to erode as the memory of previous lessons fades. There is a certain discipline built into the traditional business cycle that has the effect of braking the attitude of euphoria brought on by good times and provides a dose of reality to the lending process. I might also add that the constraints of American banks, which impede their ability to provide a full array of
financial services to their best customers, has considerably narrowed the choice of business opportunities and intensified competition for what limited business remains. I believe a case can be made that concentrations apparent in some institutions in the areas of commercial real estate loans and highly leveraged credits are, in part, a consequence of lack of opportunity to pursue high quality business elsewhere.

In an environment where the optimism of the past decade has eroded and management concern has shifted from quantity to quality in the struggle to manage problem loans, it is logical to expect that lending standards will be reviewed and tightened. Thus the perception on the part of some that there might be a credit crunch. We see no such phenomenon but we would acknowledge and applaud a healthy reevaluation of underwriting standards and servicing practices and the adoption of cautious and prudent lending strategies by our banks.

I will be happy to respond to any questions you may have.
SUMMARY

Good morning! Thank you for the opportunity to appear before this House committee and share with you our views on the condition of U.S. commercial banks. Keefe, Bruyette & Woods, Inc., or KBW as it is commonly known, is a broker/dealer and investment-banking firm significantly involved with analysis of commercial bank and thrift securities.

The basic thrust of your inquiry this morning is the condition of U.S. commercial banks and, in particular, the quality of banking assets. We will attempt to provide perspective to the issue of credit quality both in terms of describing the dimensions of this problem as we see it and its various characteristics. At issue quite simply is a basic question: can U.S. commercial banks successfully navigate the perilous shoals of ever-increasing asset quality deterioration in the months and years ahead? Or will such exposures reveal systemic weaknesses and require assistance?

In our opinion, U.S. commercial banks are in varying degrees under considerable strain and this condition is likely to persist for the foreseeable future. In terms of the level of actual net loan losses and, more importantly, diminished confidence in the banking sector by institutional funds providers, we are in unchartered waters. Nevertheless, management and regulatory resolve to foster more conservative lending practices and augment capital positions as well as the relatively liquid deposit profile at commercial banks suggest that U.S. commercial banks in the aggregate should avoid the plight of the savings and loan industry and manage their way through the current stresses.
### Profitability

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### Asset Quality & Protection

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<td>0.30</td>
<td>0.45</td>
<td>0.41</td>
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<td>Net Charge-Offs/Avg.Loans (%)</td>
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<td>0.30</td>
<td>0.45</td>
<td>0.41</td>
<td>0.46</td>
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<td>5.65</td>
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<td>74.0</td>
<td>95.0</td>
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<td>8.01</td>
<td>8.18</td>
<td>8.31</td>
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#### Note

The data reflects the historical performance of the KBW Composite Bank from 1979 to Q2-90, focusing on profitability, asset quality, and capital strength metrics.
I. TRENDS IN THE QUALITY OF BANK ASSETS

By any analytical measure, there was marked deterioration in the quality of bank assets during the decade of the 1980's. The effect of rolling regional recessions cumulatively contributed to the growing burden of asset deterioration during this time. For example, using the Keefe Composite Bank (KCB), a representative sample of 24 money-center and large regional banks, as a proxy for the industry experience (See Exhibit I on the Keefe Composite Banks, a History of Banking Performance), the incidence of net charge-offs against average loans more than quadrupled between 1981 and mid-1990, from 30% to 1.29%; meanwhile, the level of non-performing loans increased by 2.5 times from 1.3% of total loans in 1980 to 3.4% in mid-1990.

The most unsettling feature of this deterioration is that it occurred against the backdrop of strong economic performance; the current worry, of course, is continued asset quality problems in the face of a pronounced economic slowdown. Furthermore, a disproportionate amount of bank earnings were diverted toward making provisions to establish higher reserves for loan losses during the 1980's. Using the KCB as an example, the ratio of reserves to loan losses increased from about 1% in 1980 to 2.5% in June 1990. Continued heavy loss provisioning -- keeping pressure on bank earnings -- appears to be the near-term outlook based on ongoing asset quality weaknesses.

Underlying the broad dimensions of asset deterioration at U.S. commercial banks has been a pronounced shift in the composition of these problems, particularly at money-center banks. It is important to note that the continuing atypically high level ofwrite-offs and non-performing loans at these banks is due mainly to lesser developed country (LDC debt) exposures. This condition is not likely to reverse itself to the same extent in future years as money-center banks continue to reduce LDC exposures. For example, between 6/30/87 and 6/30/90, LDC exposure at a group of selected money-center and large regional banks declined by almost 50% on average, from $72 billion to $36 billion. Although bank specific risk still remains with LDC exposure, particularly given the recent mandated writedown of Brazilian credit by regulators and the seemingly dim near-term prospects for that country, bank systemic risk here has been diffused and the LDC factor is being significantly reduced as a threat to bank balance sheets.

However, deterioration in domestic problem areas such as highly leveraged transactions and real estate lending are rapidly replacing LDC problems in many money-center bank loan portfolios and spreading among regional banking companies. Thus, at this stage two discernible trends have emerged from the overall picture of asset quality at U.S. commercial banks: first, money-center banks continue to have a high, but so far relatively stable, level of non-performing assets on their books but, importantly, the mix is changing from LDC to non-LDC exposures; and, second non-LDC non-performing assets at regional banks have risen sharply over the last year and one-half, especially along Eastern seaboard states. A tabular breakdown (Exhibit II) showing near-performing assets for December 1988 thru June 1990 for the top fifty banking companies including money-center banks and by region illustrates these trends.

EXHIBIT II

<table>
<thead>
<tr>
<th>Non Performing Assets for Top 50 Banking Companies by Money Center and by Regions</th>
<th>1988 - 1990</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>(in Billions $)</td>
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<tr>
<td>Money Center</td>
<td>LDC</td>
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<tr>
<td></td>
<td>1241</td>
</tr>
<tr>
<td>LDC</td>
<td>200</td>
</tr>
<tr>
<td>Non-LDC</td>
<td>996</td>
</tr>
<tr>
<td>Northeast</td>
<td>496</td>
</tr>
<tr>
<td>Midwest</td>
<td>16</td>
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<tr>
<td>Southeast</td>
<td>18</td>
</tr>
<tr>
<td>West</td>
<td>24</td>
</tr>
<tr>
<td>Regional Total</td>
<td>513</td>
</tr>
<tr>
<td>Total</td>
<td>513</td>
</tr>
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<td></td>
<td>513</td>
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</table>

As the above table clearly shows, non-LDC credit problems, mainly real estate and highly leveraged transaction lending in our opinion, have soared since 1988 at money-center banks rising by 72% and at regionals increasing by 73%, particularly in the Northeast (from a relatively high base) and the Southeast (from a relatively low base). During this period, LDC exposures have roughly represented a declining percentage of aggregate non-performing assets for money-center banks from about 50 percent, or $20 billion at yearend 1988 to 25 percent or $13 billion at June 1990 due mainly to aggressive writedowns of Argentinian, Mexican, and Brazilian credit exposures. Real estate credit problems largely account for the increasingly non-LDC profile of credit problems at U.S. commercial banks.

How did real estate lending gain such notoriety in bank portfolios? By some estimates, the 'amount of real estate lending system wide more than tripled during the decade of the 1980's from $525 billion to more than $750 billion, creating the single largest exposure in most bank loan portfolios. With the continued diminishment of banking's traditional wholesale intermediation function aggravated by the emergence of alternative financing techniques such as junk bonds during the last decade, a natural focus of bank lending efforts became real estate where margins and opportunities for growth remained ripe.
More than, for example, the commercial banks of New England, the losses of nearly 5 billion in new equity through the conversion of mutual savings banks to shareholder form added stimulus to an already overextended regional economy. The net result witnessed loan growth in the New England region at approximately double the pace of most regional banking counterparts around the country. Keep in mind that our banking institutions are essentially geographically landlocked. With such laws that still prohibit national banking, the financial performance of our banking companies to an inordinate degree naturally reflects the condition of their respective regional markets. So even well-managed, capital strong institutions may encounter significant difficulty when a regional downturn occurs.

As a consequence of such heavy growth in the New England region and elsewhere and subsequent declining real estate valuations coupled with rigorous credit examinations by regulators resulting in more classified assets, commercial bank earnings are under considerable pressure, especially in the money-center and large regional banking companies. Given these pressures, the tendency of most heavily affected bankers is to become inwardly focused, that is, working out of existing problems rather than taking on new loan commitments in an uncertain environment. Therefore, inevitably and unevenly, credit restriction becomes an element aggravating the overall economic landscape. The severity of any so-called "credit crunch" depends, of course, on the institution and the region of the country but the spreading bias approaching the lowered creditworthiness of what were once considered to be high-quality, what banker in his right mind is going to book any asset where arguable interpretation of its value in this climate may result in immediately diminished profit?

A possible effect of this restrictive behavior will likely aggravate an economic slowdown; furthermore, it could very well push traditional corporate lending further out of the mainstream of the commercial banking system into the nonregulated and unregulated financial sector. This would reinforce a negative trend reflecting the lowered creditworthiness of our major commercial banks. Since yearend 1989, a survey of 53 of the top 60 bank holding companies reveals that over half have been downgraded by the major rating agencies (see Exhibit III on rating changes for those companies); only two have been upgraded with twenty banks unchanged. Concern about avoiding further downgrades and maintaining investment grade status cannot be far off the minds of some of our largest, and previously well-regarded, banking institutions.

II. ROLE OF INDUSTRY CONSOLIDATION

In addition to numerous rating downgrades, the stock market has punished our commercial banks as well reflecting earnings and asset quality worries, dividend reductions or eliminations at over a dozen banks so far this year and the general malaise affecting confidence in our banking companies. Since yearend 1989 approximately $20 billion in aggregate market capitalization has been erased from the twenty-five largest, sending this profile of the bank group back to levels not seen since the October 1987 stock market crash. The sharp reduction of market value for U.S. commercial banks and the ratings downgrades inhibit the consolidation process, which is integral to operating an efficient, deregulated, and competitive banking system, and effectively raises the cost of capital to prohibitive levels for many banks or simply makes capital virtually inaccessible to others. These aspects of so-called "market discipline" should be woven more thoroughly into the regulatory focus on safety and soundness. It is inconsistent to call for higher capital levels at regulated banks and ignore the effects of regulation on the cost of capital and the declining competitive position of our commercial banks. Calls for higher capital levels should accompany liberalized products and geographic deregulation, and streamlining of the regulatory apparatus.

Importantly, market power and influence within U.S. banking is shifting away from companies in such traditional centers as New York, Chicago, and San Francisco, and toward those headquartered in new centers such as Charlotte, Columbus, and Pittsburgh. This notable shift, resulting from the creation of super-regional banking companies, is contributing to a reassessment of the banking system's vulnerability. The decline in relative importance of what were once the undisputedly largest banks, and the rapid growth of companies that are not only comparatively large but also better capitalized, justifies a possible adjustment of the banking system's risk profile.

Nowhere are these changes better illustrated than in the accompanying table of market capitalizations (see Exhibit IV as of August 3, 1990). This reflects simply the current stock price of each bank times its outstanding shares, measuring its total market value. Less than seven years ago, the aggregate of the twenty-five largest such commercial-bank market capitalizations amounted to only $29 billion; at yearend 1989 this twenty-five largest figure had more than tripled to about $90 billion, underscoring the creation and attraction of capital for the banking industry. Furthermore, forty-four of the top fifty had capitalizations of $1 billion or more, providing investors with a broad menu of opportunity in bank stocks.

Today, the negative market climate for bank stocks has erased $20 billion in value since yearend 1989; now only thirty-two banks have market caps over $1 billion reducing opportunities for liquidity conscious suppliers of bank capital. Combined with the current difficult operating environment for banks, the erosion in market value has virtually stalled consolidation unless defensive mergers are accomplished.

However, before we rush to draw conclusions about growth in the overall capital cushion for U.S. commercial banks, some perspective is in order. When compared with those of companies in certain U.S. industries, or of some...
### 1990 Rating Changes

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#### Notes
- 108 companies reviewed, 12/31/90.
- 17 companies upgraded.
- 23 companies downgraded.
- 31 companies unchanged.
- At 12/31/90, 685 S & P non-investment grade (BB) were rated at better than BB-.
- At 12/31/90, 6 companies carrying at least one non-investment grade rating at the lower level, with a total of 13 carrying at least one non-investment grade rating at the lower level.
- At 12/31/90, only BB and BB+ non-investment grade (BB) were rated at better than BB-.
### LARGEST 50 BANKS RANKED BY MARKET CAP as of AUGUST 3, 1990

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<th>Rank at Year-End:</th>
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<td>Old Kent Financial</td>
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* Market capitalization = total common shares outstanding (as of 8/3/90) multiplied by market price per share at 8/3/90.

** Compound growth rate.

a: Not ranked among the top 50 market capitalizations at date indicated.
b: Continental's shares include the preferred shares owned by the FDIC.
pf: Market capitalization is pro forma for pending merger.

#### ACCUMULATE OF 25 LARGEST MARKET CAPITALIZATIONS AT INDICATED DATES

<table>
<thead>
<tr>
<th>Date</th>
<th>Market Capitalization</th>
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<tbody>
<tr>
<td>AUGUST 3, 1990</td>
<td>$70.4 billion</td>
</tr>
<tr>
<td>DECEMBER 31, 1989</td>
<td>$59.5</td>
</tr>
<tr>
<td>DECEMBER 31, 1988</td>
<td>$59.7</td>
</tr>
<tr>
<td>DECEMBER 31, 1987</td>
<td>$56.4</td>
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<tr>
<td>SEPTEMBER 30, 1987</td>
<td>$74.9</td>
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<tr>
<td>DECEMBER 31, 1986</td>
<td>$60.3</td>
</tr>
<tr>
<td>DECEMBER 31, 1982</td>
<td>$29.2</td>
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</tbody>
</table>
foreign banking companies, aggregate market capitalization for U.S. banks in relatively small.

The message here is straightforward: if U.S. banking is to be competitive globally, and if the banking system is to nurture capital formation as a buffer against crisis, then the consolidation process should be encouraged and even accelerated. Imagine for a moment the potential benefits of cross-regional combinations in offsetting the sometimes-severe cyclical vagaries of individual regional economics. For example, if strong banks in California, Florida, and Pennsylvania had been wedded to those in Texas, how potentially less damaging to the banking system would have been the fallout from the energy industry. Keep in mind that $15 billion in bank equity was eliminated in Texas in the 1980's and approximately $5 billion already in New England. In this regard, it would be useful for Congress to establish incentives for states to allow further liberalization, where applicable, of their interstate-banking laws and also incentives to emphasize high levels of common equity and asset quality in developing the rules for participation in interstate banking.

III. CONCLUSION

Our assignment this morning has been to assess the condition of U.S. commercial banks, and the related factors of asset quality. We have looked briefly at the beneficial possibilities of industry consolidation, and provided an overview of trends in asset quality. We trust that this overview has supported our belief that the condition of commercial banks today, though weakened by increases in domestic problem credits, in no way contains the seeds of the kind of crisis that has overtaken the thrift industry. Furthermore, the problems of money-center banks and certain regionals should not be allowed to obscure the relative health of other regional and super-regional counterparts. For example, the following table depicts quarterly trends from year-end 1988 in the ratio of non-performing assets against two lines of defense for banks - reserves and equity - for the fifty largest bank holding companies.

**EXHIBIT V**

<table>
<thead>
<tr>
<th>NON PERFORMING ASSETS / RESERVES PLUS EQUITY</th>
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<tr>
<td>Money Center</td>
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<tr>
<td>Northeast</td>
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<td>Midwest</td>
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<tr>
<td>Southeast</td>
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<td>West</td>
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<tr>
<td>Total</td>
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<tr>
<td>45% 46% 45% 45% 42% 44% 44%</td>
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<tr>
<td>21% 21% 23% 26% 33% 40% 46%</td>
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<td>13% 13% 13% 13% 13% 13% 13%</td>
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<td>10% 11% 12% 13% 13% 16% 21%</td>
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<tr>
<td>27% 32% 32% 34% 35% 36% 36%</td>
</tr>
<tr>
<td>32% 32% 33% 33% 33% 35% 37%</td>
</tr>
</tbody>
</table>

To be sure, there are sizable problems and risks confronting all commercial banks, with pressures on reserves and equity from the rising tide of non-performing assets. At times conditions in specific regional markets can turn quite adverse, putting considerable pressure on banks operating within them. Money-center banks and regionals in the Northeast indicate on average a high and escalating trend, respectively, in non-performing assets against their reserves and equity; whereas other regions, especially the Midwest and Southeast, have clearly manageable positions. As we see it, however, commercial banks have shown great resilience, and the ability to adapt to a variety of adversity.
STATEMENT by LACY M. SHOCKLEY
for the
HOUSE BANKING, FINANCE & URBAN AFFAIRS COMMITTEE
Thursday, August 9th, 1990

Good morning, Mr. Chairman, members of the House Banking, Finance & Urban Affairs Committee and other members of the House of Representatives. I am pleased to address this honorable group and hope my comments lead to a better understanding of the difficult situation our banking industry is facing.

As background information, I am Lacy Shockley, a Vice President of Smith Barney, Harris Upham & Co. My job is to analyze the stocks of regional banks for the firm’s retail and institutional clients. I specialize in banks located on the East Coast and have been analyzing banks for approximately 20 years. Prior to joining Smith Barney, I worked for Mabon, Nugent & Co., Butcher & Singer, McKinsey & Co., and The Fidelity Management Research Co.

This morning, due to time limitations, I will address three topics:

1. The impact of the current depressed real estate market on the banking industry.

2. The industry’s present low market valuation and the resulting negative impact on the industry’s ability to raise capital.

3. The importance of the regulatory agencies and their role in helping to resolve the problems.

Regional banks, unlike money center banks, usually concentrate their lending in three major areas: consumer, commercial and real estate loans. Most regional banks can weather a problem in one of these sectors without jeopardizing the existence or structure of the institution. Few can weather problems in all three sectors simultaneously without creating significant stress to the bank.

Virtually every New England regional bank currently is under severe pressure because of problems in all three sectors. The New England region is in a recession with no let up in sight for few of the underlying industries appear to be stabilizing. However, when looking at banks in the middle Atlantic and southeastern regions, the situation appears quite difficult because most of the regional economies basically are still relatively healthy. Those banks whose asset quality and profitability ratios have shown deterioration generally are only under pressure from the real estate sector. Indeed, many banks from Pennsylvania down through Florida appear to be coming through this real estate cycle virtually unscathed.

In our opinion, the single most important factor in assessing the effect of the real estate industry’s current problems on the banking industry is the quality and depth of management. A strong, perceptive management recognizes the early signs of weakness in the real estate sector and adjusts its lending practices accordingly. As an example, we consider the management of Fleet/Norstar Financial Group in Rhode Island to be outstanding. Despite the fact that it is facing problems in all three lending sectors, we expect the institution to be able to resume its normal growth and profitability track when the economy of New England ultimately strengthens again. In the middle
Atlantic and southeastern region, where only the real estate sector appears to be significantly weakened at this time, a number of the better-managed banks remain largely unaffected. Sovran Financial Corp., based in Norfolk, Virginia, is a major real estate lender in Virginia, Maryland and Tennessee. Yet its nonperforming loans at June 30 were a very low 1.43% of the portfolio, a number confirmed by a targeted real estate exam conducted by the Comptroller of the Currency during the second quarter. Other well-managed banks like CoreStates Financial Corp., Mercantile Bankshares, First Wachovia Corp. and Citizens & Southern Corp. also appear to remain essentially unhurt by weak real estate markets. Conversely, many other middle Atlantic and southeastern banks with weak managements are having difficulties.

From a market valuation perspective, the current problem in the real estate sector is having devastating effects on virtually all bank stocks, regardless of management strength. Since last October, bank stock prices have moved consistently lower. In my years as a bank stock analyst, it is hard for me to recall a period when investors sentiment has been more negative. It is as if investors have decided that loan portfolios truly are a blind pool and reported asset quality numbers have no credibility. Consequently, all bank stocks, regardless of fundamental quality, have been under downward price pressure. Indeed, the stocks of many banks are so depressed that it appears our traditional valuation framework for these stocks is being challenged. (Note the two charts following this text, tracing relative valuation of the group over the last 20 years.)

The implications of this historically low valuation include the following: It is very difficult, if not impossible, for most banks to raise equity capital at this time. Therefore, many banks that need to bolster reserves are forced to sell off more profitable subsidiaries, thereby weakening future profit potential. Consolidation activity which needs to occur within the industry has been and will continue to be severely curtailed. The curtailment has occurred for two reasons: First, banks do not prefer to buy other banks with very low prices because of the resulting goodwill generated on the balance sheet. Secondly, larger regional banks whose fundamentals are strong still have stock prices that are too low to allow them to acquire other institutions without unacceptable levels of dilution. This situation will not change until the market valuations improve.

In our view, the government agencies regulating regional banks could be a significant force in helping to strengthen and restore regional bank stock valuations by providing credibility in the reported numbers. For example, we are very pleased by the OCC's current posture of rigorously reviewing bank's real estate portfolios. This review process is a significant step in restoring credibility in the asset quality numbers reported by banks after such an exam. Furthermore, this will help generate greater credibility in the projections of earnings and book value used in determining stock valuations. Thus, we believe rigorous review by agencies is a fundamental step in restoring investors confidence, which has been severely tested in the banking industry.

We are very encouraged by our understanding that this type of rigorous regulatory analysis is being extended to other lending portfolios within regional banks. We believe it is also critical that all regulatory bodies reviewing bank's loan portfolios adopt similar strict standards. In the short run, due to current real estate situation, in our view, it is essential these standards be immediately implemented by all regulatory bodies, evaluating real estate portfolios.

Thank you, Mr. Chairman, for this opportunity to address your committee. I hope my comments have been useful and I am happy to answer any questions you might have.
Source: Smith Barney Quantitative Analysis Group
Real estate loan problems are already severe and are likely to deteriorate in most parts of the country. This portends further increases in problem loans for U.S. banks, more loan writeoffs, and more losses. A selection of large regional banks reveals a large average exposure to commercial real estate loans averaging 210% of common equity. For these banks, non-performing commercial real estate loans have nearly doubled in the past year, and now stand at 7.8% of total commercial real estate loans, compared to 4.5% last year.

Moreover, metropolitan office vacancy rates of 19.9% are approaching an all-time average high and are deteriorating in most markets. Those markets such as Houston and Denver that have stabilized tend to be at high vacancy rates exceeding 20%.

What concerns us most about the prospect for real estate is that heading into the last recession in 1980, the country had already endured its real estate washout, and vacancy rates were comfortably below 10% and declining. Now, however, we may be headed into a recession at a time when a 15% vacancy rate is considered laudable. This will be an extremely difficult environment in which for banks to work out of their problems.
You've got to look hard to find a silver lining. Just as troubling to us as the nominal vacancy rates is the fact that considerable new product is still in the pipeline. Anecdotally, we can all see the subdivided properties and half completed buildings out towards Tyson's Corners and Dulles Airport. In fact, while office construction spending has dropped 50% nationally from its peak of $34 billion in 1985, it is still tracking a running rate of $22 billion, roughly 50% higher than 1979 (in constant dollars.)

And while office construction has slackened, "other non-residential" construction spending (strip malls and other retail space, warehouses, repairs and improvements) has risen 50% since 1983. A further interesting anomaly that our housing analyst has frequently noted is that despite the sharp drop in housing starts recently, the value of residential construction spending remains close to its 1988 peak. This reflects a trend away from multifamily units, toward bigger homes with more amenities. Whether a deep market exists for these high-end homes is an open question.

The deterioration in the real estate market has been paralleled (not coincidentally) by a surge in bank loan exposure to commercial real estate. Since 1980, commercial mortgage loans have doubled as a percent of total bank portfolios from 9% to 17% currently.

How significant a threat real estate exposure really poses for the banking industry is difficult to say categorically. That depends on how much of a given bank's real estate exposure is ultimately written off. This depends, in turn, on a multitude of factors: the aggregate exposure of a bank relative to its equity base, the health of a bank's local real estate market, and a bank's underwriting standards.
Current Real Estate Problems Differ from Past Ones

One of the thorniest problems for bank analysts these days is trying to determine the "loss content" of non-performing assets -- that is, how much will ultimately be written off. I think most of us started out thinking that there was no necessary relationship between chargeoffs and non-performing loans. It was presumed that any bank with halfway decent credit standards could work out of a problem loan with no loss at all. In one of the few precedents to the current crisis, many banks worked their way out of the REIT crisis of the '70's with only moderate losses despite huge burdens of non-performing assets.

For instance, First Atlanta at the close of 1976 carried non-performing assets measuring of 14% of loans. Today, such a bank would be presumed dead. In fact, First Atlanta never incurred a loss in any subsequent year, its loan loss reserve never rose above 1.41% of loans, and the bank actually raised its dividend in 1977 and each year thereafter.

Similarly, a glance at First Union in 1973, just prior to the REIT debacle, shows a bank with 50% of its equity in owned real estate, both OREO and real estate investments. In addition, fully 15% of loans were construction related loans extended by the bank. At the mortgage company, another 10% of the holding company's loans were real estate based, consisting importantly land development. While First Union suffered several weak years in the 1970's, it never had a loss and never cut its dividend.
So if you use the REIT episode as a precedent, you might be reassured. But then came Texas and all rules of thumb went out the window. Texas has now been followed by the travails in New England, and now analysts are all shell shocked. If New England is any precedent, 75 cents of reserve seems necessary to cover every dollar of non-performing loans. The fact is that few analysts today will even pretend to know what the appropriate reserve is against a problem real estate portfolio. As a profession, we're pretty much flying blind, trying to divine from each successive examination what an appropriate reserve might be, and trying to determine anecdotally how big a haircut properties are actually taking in workout.

Again, if you consider only the New England banks in the past year, you would be forced to conclude that 75% of non-performing assets will ultimately be written off. Before the recent events in the middle east, we were fairly optimistic that this 75% benchmark would ultimately be proven far too high and that the true number would be more like 25%. Now, with the oil crisis and other indicators auguring recession, we cannot say that with as much conviction.

So far in Texas, Arizona, and New England, the impact of the real estate crisis on banks has taken a far heavier toll than it did on the banks in the REIT crisis. It might be helpful to list what we see as the chief differences between then and now.

First and foremost, inflation in the late '70's bailed out many real estate projects.
Demographics. In the 1970's we were still on the leading edge of the baby boom moving into its house buying years.

Most of the overbuilding in the '70's was residential and was concentrated in the Southeast, a fairly rapidly growing region.

By all accounts, most of office vacancy space was in downtown areas. The problem of huge suburban vacancies had not yet become as significant as it is today.

Lending standards have clearly eroded (more on this later).

Non-residential Real estate loans have grown as a percentage of bank equity.

____________________________________

Tax Law Changes Played a Central, and Underappreciated Role

The real estate problems in the banking industry are the product of a myriad of factors. I would like to mention a few that were instrumental, and, I think, underestimated. I won't explore the thrift crisis and the ongoing RTC workouts, which will continue to pressure markets for years to come.

Maybe not the most important, but I think the most underrated factor is that banks (and real estate developers.) were whipsawed by tax legislation related to real estate. This worked in two ways:
First came the 1981 tax legislation which allowed for liberal treatment of real estate—accelerated depreciation of real assets, and favorable treatment of passive losses. This encouraged the construction of real estate projects which would not have been economical on their own, and breathed life into the syndication business, which had many unscrupulous operators.

But the 1981 tax law changes had a second effect; they were rescinded in 1986. Many developers rushed to get financing in place and deals closed in late 1986 so that their deals would qualify for treatment under the 1981 tax legislation. It just so happened that this coincided with dramatic overheating in many markets—notably Boston. Many banks were overwhelmed with applications from all kinds of customers with little experience in real estate anxious to get their deals in under the wire.

Between the third quarter of 1986 and the third quarter of 1987, Bank of New England's commercial mortgage portfolio increased by $1.5 billion, or 41%. For a bank with tight internal controls this would not necessarily have spelled doom, but for a bank like BNE that had made innumerable acquisitions and had never bothered to integrate them and that moreover clearly rewarded lenders (implicitly if not explicitly) based on the loan volume they generated, this was a recipe for disaster. And, of course once all this marginal product was built, it ruined the market even for all the well conceived projects. It would be interesting to determine how many of the real estate problems now coming home to roost had their inception in the fourth quarter of 1986.
Bank Earnings Rose in the '80's, Lending Standards Fell

This leads me to a second major cause of real estate problems among banks -- management behavior. There is always a tension in any business between earnings growth and balance sheet strength, producing earnings today versus building the ability to weather hard times. For banks, this tension is especially acute, because first, banks are highly leveraged businesses, and second, in a thousand little ways it is easy to artificially inflate earnings by compromising lending standards only slightly.

For instance, a bank can persuade the borrower that if he agrees to pay prime plus 1 1/4 instead of prime plus 1, it will lend him 90% of the deal's projected value, not 80% of its cost. Analysts will be none the wiser. On the contrary, they may applaud the bank for its earnings momentum. The bank will have boosted earnings today with only a hypothetical impact on earnings tomorrow.

In the 1980's many managements succumbed to this temptation. The 1980's were an ebullient time for all financial markets, but for banks they were also a period of revolutionary change. In particular, the passing of interstate banking restrictions created an environment in which all banks were regarded as either potential acquirees or acquirors. Maintaining earnings momentum was absolutely imperative to keeping a bank's stock high and achieving one of three strategies: avoiding being acquired, getting the maximum price for
shareholders in an acquisition, or minimizing dilution for the acquiror. Small exceptions to loan policy may have seemed like a fair price to pay to achieve these goals, especially when credit problems of the '70's seemed a distant threat to young lenders who had never had to work out of a bad credit. There is no easier way for a bank to fabricate earnings than to focus on real estate; developers will always borrow.

Moreover, it only takes one or two highly aggressive banks to upset the market for all banks. Better banks must relax their credit standards at least slightly just to keep long-time customers. Moreover, the more aggressive banks could cause more real estate product to be constructed than the market can absorb. This can ruin the market even for well-conceived projects financed by better quality banks. It is crude, but probably accurate, to say that a bank management can only be as smart as its dumbest competition.

Maintaining earnings momentum was even more problematical for the larger banks than it was for the regionals. These larger banks were enduring steady erosion of their traditional customer bases to Japanese banks, the commercial paper market, and non-bank enterprises like G.E credit and GMAC. Moreover, these banks were burdened by LDC loans which were obviously worth something south of 50 cents on the dollar. Again, real estate may have seemed an easy alternative.

The insidious deterioration in lending standards that characterized the 1980's was compounded when an acquisition was actually consummated. Bank
acquisitions often mean earnings dilution and subsequent oaths by bank managements to "earn back" the dilution, often by cutting costs or enhancing revenues at the acquired institution. This can be a contradiction; in fact, merging two banks is an expensive proposition that demands a large up front investment if any long term "synergies" are to be obtained.

In practice, (and in hindsight) what often seems to have happened is that the acquiror never took the difficult steps necessary to fully integrate the acquired bank, the most important of which is unifying credit policies and the chain of accountability for credit decisions. Instead, management took the easy route and "earned out" dilution by gunning loan growth and cutting staff in non-revenue generating capacities like loan administration.

Many of these managements had neither the capacity nor the experience to run large, multi-state organizations. In many instances, these companies had significant internal disagreements among managements, and split boards of directors, many of whom were opposed to the integration of the banks the had formerly served as independent entities.

So sometimes the easiest thing a weak, size-obsessed CEO could do was nothing, just continue to expand and hope for the best. Thus, not only were the acquired bank's any credit problems at the acquired bank never addressed, but its lenders were set loose often with higher lending limits to continue to make bad loans.
Bank Boards of Directors tend to be Passive

I think the composition of bank boards of directors often works to the detriment of the banking industry. It has been pointed out by bank stock investors much smarter and wealthier than I that there is a curious tendency for bank directors to comprise the best customers of the bank or else the cronies of management. In part, that is a vestige of the days not so long ago when these superregionals were community banks. Even if there is no direct conflict of interest, few directors have any independent knowledge of the industry and are thus in a poor position to dispute the decisions of senior management. In a pinch, they may call in consultants or to look around them and see what other banks are doing, but too often they are just a rubber stamp.

For banks, directors are frequently former directors of banks that were acquired, and may have continued loyalties to the old bank. Thus, they may try to protect the interests of the old bank if they conflict with the goals of the larger entity. Certainly, that's not all bad, but it can tend to militate against the early recognition and resolution of operational and credit problems at subsidiary banks. Thus, even if a director had concerns with rapid buildup in real estate loans, he may have had no incentive to protest.
"Marking to Market" is Fine in Theory, Dangerous in Practice

A theory has come into vogue among academics, regulators and analysts of banks that advocates "marking to market" bank balance sheets. This school of experts holds that generally accepted accounting principles (GAAP) are an inadequate standard for measuring the financial strength of banks. Since GAAP is based on historical cost of assets, not their current market values, these experts reason, it cannot capture the economic value of an institution at a given point in time. They think that looking at banks on a market value basis is a more valid method than GAAP accounting.

Proponents of this approach point to the thrift crisis to support their views. They rightly claim that many of the thrift problems arose because the institutions were economically insolvent, even though accounting and regulatory standards showed them as having capital. Not only were these thrifts allowed to remain open, they were also permitted to engage in such risky businesses as real estate development.

The response of thrift managements to this state of affairs was to roll the dice and bet on increasingly risky investments. If these investments worked out, the managements and shareholders were enriched. If they didn't work out, the FSLIC and the taxpayers picked up the tab and the owners were no worse off because their thrift had been insolvent to begin with. Heads you win, tails the FSLIC loses.
What permitted these unscrupulous (but entirely rational) investors to engage in these practices was the government’s deposit guarantee; the people who financed their ventures (hot money depositors) were indifferent to the credit profile of the institution. Depositors in these thrifts, many of whom were highly sophisticated, couldn’t have cared less how their funds were being invested. Supporters of the mark to market approach argue with justification that if these thrifts had been marked to market, shown to be insolvent and shut down early on in the game, taxpayers and the deposit insurance funds would have been saved tens of billions of dollars.

It is easy to extend this argument to today’s commercial banking industry. As discussed above, the industry undeniably has very serious real estate problems which will take years to work through. Proponents of marking to market contend that removing troubled commercial banks from the industry now by marking their portfolios to market will preclude the profligate dice rolling that characterized the thrift industry, and will save taxpayers further billions.

While this theory has lots of logical appeal and much theoretical validity, we think that it has serious shortcomings when applied in practice. We suspect, but we cannot prove, that this mark-to-market discipline has been embraced by regulatory authorities in recent bank examinations.

For one thing, GAAP, for all its weakness, is also founded on the concept of the business entity as a going concern, and makes an implicit assumption about
the future viability of that entity. Mark-to-market accounting, conversely, assumes that the entity must be liquidated today. We don't know many companies that would be worth stated book value if forced to liquidate immediately in today's market.

But the foundation for our objection to mark-to-market is our assumption that bank regulation should be as counter-cyclical as possible; it should not be procyclical. That is, regulations should work to dampen the excesses of a speculative boom and cushion the impact of a market downturn. It seems to us that the marking to market of bank real estate loan portfolios accomplishes just the opposite -- it reinforces both of these trends, especially when applied to real estate loans.

Real Estate Markets are Inefficient

Real estate markets are not like securities markets; they are inefficient and especially in bad times take a long time to clear. There is no single market clearing price for real estate as there is for equities, or government bonds, or LDC debt. Any determination of the market value of real estate in a market such as now exists in New England necessarily involves subjective, if not arbitrary assumptions about regional economic growth, required returns for real estate, future rental rates and absorption rates.

For better or worse, real estate appraisals are more an art than a science.
and the most commonly used benchmark for market value still tends to be the most recent sale of a similar property or comparable rental rates. This tends to reinforce bull markets in real estate when there are a multitude of competing bids for every house put on sale.

A large bank writeoff can disrupt any market that is emerging for real estate after the market turns south. If it looks like the bank has reserved 50% against its non-performing real estate portfolio, this will tend to set a ceiling on real estate prices while investors with cash await the inevitable foreclosures and auctions that will ensue from such writeoffs. Thus, if regulators make implicit assumptions about future real estate values in determining reserve adequacy, these assumptions can become self-fulfilling.

Marking to market a bank's loan portfolio produces writeoffs that remove capital from the regional economy and forces the afflicted bank to call in loans and focus loan officers on loan workouts rather than servicing existing customers. Other banks in the region may also reign in their lenders at the worst possible time for the economy. The losses will reduce credit availability with a large multiplier effect—-at least $10 of loans for every dollar of capital removed.
As we said in our March 2 report, "Boston, Texas?", "It is hard for us to imagine that the OCC fails to appreciate that its actions could foster further weakening in the real estate markets... the markets may ultimately get as bad as the regulators envision, but the regulators have not only accelerated the process, they may also have worsened the final result. We worry that further sizable writeoffs... could attenuate the flow of credit nationwide. Conceivably, that could mean slower growth -- in effect, a credit crunch induced by regulatory pressures." Thus, attempting to mark bank balance sheets to market only complicates the workout process and could arguably cost the national economy more than it stands to save the deposit funds.

The New England region is an interesting case in point in how the mark-to-market theory might be inappropriate. Prior to 1986, there was no reason to think that New England real estate would ever be a problem. For half a decade, there had been almost literally no loan losses from indigenous real estate loans. In the five years from 1982 to 1988, Bank of New England, a $22 billion-asset bank at the time, incurred a grand total of $6 million in real estate-related loan chargeoffs. Most of these it recovered.

True, the market in retrospect was clearly booming and close to overheating, but there seemed little cause for concern about a slump; unemployment was half the national average. Any mark-to-market of a bank portfolio in this kind of market would have produced a value of 100 cents on the dollar or more (some banks in New England had shared appreciation portfolios in which the bank typically lent 100% of the value of the property in return for a cut of the property's appreciation. This kind of lending is nuts.)
Mark-to-market procedures would not have prevented the booming New England market from crossing the line into speculative excess nor would it have prevented the inevitable bust. About the best that regulators could have done to mitigate these future problems was to ensure that credit standards were adhered to throughout the organization that acquisitions were integrated, that documentation was in place, that credit approval channels were not being circumvented. These are small things, but if they had been done assiduously throughout the '80's, today's problems might not be nearly as severe.

Once the boom turns into a bust, mark to market methods aren't much help either. The problem is that when the market turn sour, it becomes extremely difficult to determine a fair market price for real estate. Transaction volume disappears, complicating the appraisal process since there are so few comparables. Those transactions that do take place are likely to be desperation sales on the part of the seller, and such transactions are likely to predominate as developers become increasingly strapped for cash and banks begin auctioning off foreclosed assets. To us, it is not helpful to write bank loans down to collateral values determined in a sporadic and severely distressed market.

In such tumultuous times as New England is now enduring, in short, it is a challenge to determine the appropriate price to mark to. One can make assumptions about certain classes of real estate and when they are likely to sell and discount them from that price, but any such assumptions are not only arbitrary but dangerous, because small changes in these assumptions can have a huge impact on the bank's equity account, given how leveraged they are.
Here is a hypothetical example we used in our "Boston, Texas?" report:

It's easy to fail a bank. Banks are leveraged, so small changes in things like discount rate assumptions and rents can have a big impact on the equity account. Suppose a bank has $5 in equity, $100 in assets, and $25 in real estate loans. Suppose that these real estate loans are secured by $31 in real estate (the bank lent 8% of the original estimated cost of the project.) The real estate market is soft, but the loans are being serviced on schedule and the bank projects that the properties will not be sold for another two years. Discounting the collateral back at 8% for two years, the bank arrives at about $27 in collateral value -- apparently adequate coverage for full principal and a year or so of interest.

Now suppose an examiner steps in and says, "We don't buy your assessment of the market. In Texas, it often took five years or more to sell properties, and the original projected price was seldom obtained. Therefore, we want you to use a five year horizon, and to raise your discount rate to 10%." Those combined changes reduce the present value of the collateral to $19.41. There is a $5.69 deficiency between loan value and collateral value. If the full amount is reserved, the bank will be insolvent.

The point of this exercise is not to suggest that regulatory methods are arbitrary. It is just to underscore the fact that banks are delicate mechanisms. On the margin, a hundred basis points on the cap rate can do
tremendous damage. Liquidation analysis may be justified when a bank is out of control and when the problems are so severe that it may no longer be a viable entity. It may have been justified with the Bank of New England. We are willing to accept that. However, it must not be forgotten that the same methods could just as easily produce similar results at a better managed, better capitalized bank.

Another consideration in this mark to market argument is that foreign banks will not be subjected to the same rigorous treatment. I think that Japanese banks have real estate loan problems that are every bit as serious as our own. However, I doubt that we will ever see real estate problems translate into losses for the vast majority of Japanese banks. Either they will not recognize the losses at all, or they will camouflage them by taking gains on hidden assets. Either way, the Japanese banking system may (unfairly) look safer than our own. This can only be an advantage for the Japanese.

We are not advocating forebearance for commercial banks, just a little breathing room. What we think may be required if mark-to-market practices are abandoned is a buildup in the corps of examiners to prevent banks from "rolling the dice." Regulatory agencies now are woefully understaffed and are losing good people daily to the private sector. Spending more on examiners now and paying them well might keep the best examiners at the agencies and allow them to do the supervisory job they were hired to do. The cost to taxpayers now of a fully staffed corps of examiners would be more than offset by the money saved in loan losses down the road.
Dear Mr. Clarke:

As you know, there has been concern expressed about large real estate lending by many commercial banks across the nation. At the same time, some Members of the Banking, Finance and Urban Affairs Committee have suggested that much bank credit is being channeled to large borrowers while smaller credit-worthy borrowers suffer from a lack of credit.

The highly publicized loans and debt-restructuring arranged for Donald J. Trump and the Trump Organization in New York and New Jersey illustrate current problems in the banking industry and the real estate market. It is my understanding that dozens of U.S. banks as well as some foreign banks are participating in $2 billion of loans to Mr. Trump and the restructurings of the debt. Many of these banks including two of the lead institutions -- Citibank and Chase Manhattan -- are supervised by your agency.

It is my intention to conduct hearings in early August on the banks' handling of the Trump Organization loans and related real estate loans and the manner in which the various regulatory agencies have reacted to the developments. At that time, I would want you and the appropriate personnel from OCC to be prepared to discuss these issues with the Committee. We will inform you at the earliest possible moment of the specific date and location of the hearings.

During informal discussions with my staff, some of the OCC staff expressed concern about the confidentiality of the Trump loans and any supervisory steps that may have been undertaken in connection with the loans and their restructuring. As you are aware, many of the details of the loans have been spread prominently across the pages of major newspapers, magazines and television screens in recent weeks. Additional details have been spelled out in filings with the Securities and Exchange Commission. The veil of secrecy has been breached in many places.
I am aware of OCC's long-standing policy of confidentiality and it is something that often slowed Congressional oversight efforts in past years. However, I do feel strongly that we are in a new era where the public expects a more open system and a more vigorous oversight of the agencies which regulate taxpayer-insured institutions.

For too long, the Congress failed to provide oversight of the savings and loan industry and its regulators. I am convinced that billions of dollars of insurance and tax dollars could have been saved with regular, ongoing oversight of thrifts and the Federal and state regulatory agencies. Instead we waited until the problems became a crisis. It is important that we learn from past mistakes and not let problems grow in the dark in any industry where the taxpayers are the ultimate safety net.

I appreciate all your past cooperation with us on earlier hearings and I am sure we will have a similar response to this request.

Sincerely,

Henry B. Gonzalez
Chairman
Honorabre Robert L. Clarke  
Comptroller of the Currency  
490 L'Enfant Plaza  
Washington, D.C. 20219  

Dear Mr. Clarke:  

This letter will serve to confirm my earlier correspondence and provide notification that the Committee on Banking, Finance and Urban Affairs will commence hearing on August 9 of this year to examine the commercial real estate underwriting and lending practices of commercial banks, and as a case study, will investigate the banks' handling of the loans and debt-restructuring arranged for Donald J. Trump and the Trump Organization.

Your appearance before the Banking, Finance and Urban Affairs Committee is requested for 10 a.m. Thursday, August 9, 1990 in Room 2128 of the Rayburn House Office Building, Washington, D.C. At that time, the Committee will expect you to be prepared to discuss transactions involving Citibank, Chase Manhattan and other institutions under your supervision involving loans to Trump and the Trump Organization as well as actions and discussions, formal or informal, that may have been undertaken by your office in connection with various loans to the Trump Organization.

In accordance with the Committee rules, please deliver 200 copies of your prepared statement to room 2132 of the Rayburn House Office Building. In order to ensure that members of the Committee have sufficient time to review your statement, the Committee requests that such testimony be provided by Monday, August 6, 1990. Your entire statement will be included in the hearing record and will be made available to all Committee members in advance of your appearance.
Prior to your appearance, I would ask that the appropriate personnel of OCC be available for discussion of these issues with my staff. I am certain a mutually agreeable time can be arranged. In addition, I would want a list of all institutions under your supervision which are currently participating in the loans to Trump or the Trump Organization.

Any questions regarding your testimony should be immediately directed to Tom Adams of my staff at (202) 225-2924.

Sincerely,

Henry B. Gonzales
Chairman
Dear Mr. Chairman:

This is in response to your letter of July 17, 1990 inviting me to testify on national bank real estate portfolios, including loans extended to Donald Trump.

Your letter requested my appearance before the Committee on August 9, 1990 at 10 a.m. Because of a longstanding prior commitment which I am not in a position to reschedule, I will not be able to appear at that time. I will be available to testify after that meeting, around 12:00 p.m.

With regard to the Trump loans, I would like to reiterate what my staff has said to yours. Because of the need, recognized by Congress, to keep such examination-related information confidential, I will not be free to discuss those loans or the condition of the specific banks holding them. Since the OCC’s mission depends on its supervisory authority over national banks and, thus, on its examination process, Congress has recognized the need for the OCC to treat the information it obtains as highly confidential. See 12 U.S.C. § 481; 18 U.S.C. § 1905. The need for confidentiality was underscored in 1982 when Congress authorized the General Accounting Office (GAO) to have access to bank examination reports and provided statutory safeguards to protect against disclosure. See 13 U.S.C. §§ 712, 714. Since that time, in the performance of its duties, the GAO has frequently requested access to OCC examination reports, and the OCC has complied with those requests.

I will be happy to have my staff work with yours to arrive at a mutually convenient time for the real estate hearing.

Sincerely,

Robert L. Clarke
Comptroller of the Currency
Honorable Alan Greenspan
Chairman, Board of Governors
Federal Reserve System
20th and C Streets, N.W.
Washington, D.C. 20551

Dear Chairman Greenspan:

As you know, there has been concern expressed about large real estate lending by many commercial banks across the nation. At the same time, some Members of the Banking, Finance and Urban Affairs Committee have suggested that much bank credit is being channeled to large borrowers while smaller credit-worthy borrowers suffer from a lack of credit.

The highly publicized loans and debt-restructuring arranged for Donald J. Trump and the Trump Organization in New York and New Jersey illustrate current problems in the banking industry and the real estate market. It is my understanding that dozens of U.S. banks as well as some foreign banks are participating in $2 billion of loans to Mr. Trump and the restructurings of the debt. Many of these banks -- including two of the lead institutions -- Manufacturers Hanover and Bankers Trust, New York -- are supervised by your agency.

It is my intention to conduct hearings in early August on the banks' handling of the Trump Organization loans and related real estate loans and the manner in which the various regulatory agencies have reacted to the developments. At that time, I would want you and the appropriate personnel from the Federal Reserve Board to be prepared to discuss these issues with the Committee. We will inform you at the earliest possible moment of the specific date and location of the hearings.

I feel certain you share my concern that there be proper oversight of insured institutions and their regulators. For too long, the Congress failed to provide oversight of the savings and
loan industry and its regulators. I am convinced that billions of dollars of insurance and tax dollars could have been saved with regular, ongoing oversight of thrifts and the Federal and state regulatory agencies. Instead we waited until the problems became a crisis. It is important that we learn from such mistakes and not let problems grow in the dark in any industry where the taxpayers are the ultimate safety net.

I appreciate all your past cooperation with us on earlier hearings and I am sure we will have a similar response to this request.

Sincerely,

Henry B. Gonzalez
Chairman
Dear Chairman Greenspan:

This letter will serve to confirm my earlier correspondence and provide notification that the Committee on Banking, Finance and Urban Affairs will commence hearing on August 9 of this year to examine the commercial real estate underwriting and lending practices of commercial banks, and as a case study, will investigate the banks' handling of the loans and debt-restructuring arranged for Donald J. Trump and the Trump Organization.

Your appearance before the Banking, Finance and Urban Affairs Committee is requested for 10 a.m. Thursday, August 9, 1990 in Room 2128 of the Rayburn House Office Building, Washington, D.C. At that time, the Committee will expect you to be prepared to discuss transactions involving Bankers Trust, Manufacturers Hanover and other institutions under your supervision involving loans to Trump and the Trump Organization as well as actions and discussions, formal or informal, that may have been undertaken by your office in connection with various loans to the Trump Organization.

In accordance with the Committee rules, please deliver 200 copies of your prepared statement to room 2132 of the Rayburn House Office Building. In order to ensure that members of the Committee have sufficient time to review your statement, the Committee requests that such testimony be provided by Monday, August 6, 1990. Your entire statement will be included in the hearing record and will be made available to all Committee members in advance of your appearance.
Prior to your appearance, I would ask that the appropriate personnel of the FED be available for discussion of these issues with my staff. I am certain a mutually agreeable time can be arranged. In addition, I would want a list of all institutions under your supervision which are currently participating in the loans to Trump or the Trump Organization.

Any questions regarding your testimony should be immediately directed to Tom Adams of my staff at (202) 225-2924.

Sincerely,

Henry B. Gonzalez
Chairman
Jill M. Considine  
Superintendent of Banks  
New York State Banking Department  
2 Rector  
New York, N.Y. 10006

Dear Ms. Considine:

Pursuant to its legislative and oversight jurisdiction assigned by the House of Representatives, the Committee on Banking, Finance and Urban Affairs will commence hearings on August 9, 1990 to examine the commercial real estate underwriting and lending practices of both state and federally-chartered commercial banks.

As you may know, Members of the Banking Committee, from various regions of the country, have expressed concerns about large real estate lending practices of many commercial banks. Furthermore, the highly publicized loans and debt-restructuring arranged for Donald J. Trump and the Trump Organization in New York and New Jersey bring to light some of the current problems in the banking industry and the real estate market.

The Committee intends to explore the current commercial real estate lending principles and guidelines administered by commercial banks in general, and more specifically the banks' handling of the Trump Organization loans and related real estate loans as well as the manner in which the federal and state regulatory agencies have reacted to these developments. It is important that the Committee have your complete and timely cooperation in these proceedings so that the Committee may properly carry out its oversight responsibilities.

Your appearance before the Banking, Finance and Urban Affairs Committee is requested for 10 a.m. Thursday, August 9, 1990 in Room 2128 of the Rayburn House Office Building, Washington, D.C. At that time, please be prepared to discuss the role of the New York State Banking Department in the examination, supervision and regulation of state-chartered banks, with particular attention to banks' real estate lending practices. In addition, the Committee would be interested in your department's reaction to the loans and debt-restructuring arranged by Manufacturers Hanover and Bankers
Trust and other institutions for Donald J. Trump and the Trump Organization. The Committee will need a response to this request for your appearance by no later than July 20, 1990.

In accordance with the Committee rules, please deliver 200 copies of your prepared statement to room 2132 of the Rayburn House Office Building. In order to ensure that members of the Committee have sufficient time to review your statement, the Committee requires that such testimony be provided by Monday, August 6, 1990. Your entire statement will be included in the hearing record and, will be made available to all Committee members in advance of your appearance.

Any questions regarding your testimony should be immediately directed to Tom Adams of my staff at (202) 225-2924.

Sincerely,

Henry B. Gonzalez
Chairman
July 20, 1990

Hon. Henry B. Gonzalez
Chairman
Committee on Banking, Finance
and Urban Affairs
U. S. House of Representatives
2129 Rayburn House Office Building
Washington, DC 20515

Dear Congressman Gonzalez:

Thank you for inviting me to present testimony at hearings you are holding beginning August 9, 1990.

I regret that due to prior commitments, I will be unable to participate.

Sincerely,

[Signature]

Jill M. Considine
Superintendent of Banks

State of New York
Banking Department
Two Rector Street
New York, N.Y. 10006

July 20, 1990
Mr. Tom Adams  
Professional Staff  
U.S. House of Representatives  
Committee on Banking, Finance  
and Urban Affairs  
2132 Rayburn Building  
Washington, D.C. 20515  

Dear Tom:  

We spoke today about the hearings which Chairman Gonzalez is considering for August 9th. The Superintendent is always pleased to respond to Congressional requests for information and testimony but, as you know, she is not available that day since she is moderating the Wall Street Roundtable for the National Conference of Women Executives in State Government.

The Department will, of course, endeavor to make available to you someone at the highest level who can respond to questions generally about how we supervise banking institutions in New York. Deputy Superintendent Peter Philbin, whom you met, is well qualified for this, and is willing to rearrange his schedule to be available on the 9th of August if necessary. You should be aware, however, that the Department's policy is not to comment on particular institutions or their customers.

Very truly yours,
July 16, 1990

Anthony J. Parrillo  
Director 
Division of Gaming Enforcement  
Hughes Justice Complex  
Trenton, New Jersey 08625  

Dear Mr. Parrillo:  

Pursuant to its oversight jurisdiction, the Committee on Banking, Finance and Urban Affairs has been reviewing the real estate underwriting and lending practices of commercial banks.  

As part of that oversight, I have directed the investigative staff of the Committee to conduct interviews and gather information regarding the real estate loans and debt-restructuring arranged for Donald J. Trump, the Trump Organization and related parties in New York and New Jersey.  

In order to facilitate the Committee's investigation into this matter, the Committee requests any information in the possession of the New Jersey Division of Gaming Enforcement regarding financing secured by the Trump Organization and its related parties including, but not limited to, any bank loans or securities transactions where property in New Jersey was collateralized; any financial analysis generated by your office concerning properties owned or operated by Mr. Trump; any applications submitted by Mr. Trump as part of the casino licensing process, including Mr. Trump's financial statements; any information that was entered into the record in hearings before the New Jersey Casino Control Commission; and any information surrounding the financing of properties owned by Mr. Trump, the Trump Organization or any related parties.  

Thank you in advance for your cooperation in this matter. If you have any questions regarding this request, please do not hesitate to contact Tom Adams of my staff at (202) 225-2924.  

Sincerely,  

Henry B. Gonzalez  
Chairman
Donald J. Trump  
President  
The Trump Organization  
725 5th Avenue  
New York, N.Y. 10022  

July 12, 1990  

Dear Mr. Trump:  

The House of Representatives Committee on Banking, Finance and Urban Affairs, pursuant to its legislative and oversight jurisdiction, will commence hearings on August 9, 1990 to examine the commercial real estate underwriting and lending practices of both state and federally-chartered commercial banks.

As you may know, Members of the Banking Committee, from various regions around the country, have expressed concerns about the real estate lending practices of many commercial banks. In hearings held earlier this year, the Committee heard the testimony of business leaders, regulators and locally elected officials which indicates increasing frustration in the commercial real estate credit markets. Moreover, the highly publicized loans and debt-restructuring arranged for the Trump Organization and its related entities in New York and New Jersey bring to light some of the current problems in the banking industry and the real estate market.

The Committee intends to explore the current commercial real estate lending principles and guidelines administered by commercial banks in general, and more specifically the banks' handling of the Trump Organization loans and related real estate loans as well as the manner in which the federal and state regulatory agencies have reacted to these developments. It is important that the Committee have your complete and timely cooperation in these proceedings so that the Committee may properly carry out its oversight responsibilities.

Your appearance before the Banking, Finance and Urban Affairs Committee is requested for 10 a.m. Thursday, August 9, 1990 in Room 2128 of the Rayburn House Office Building, Washington, D.C. At that time, please be prepared to discuss any loan transactions executed by the Trump Organization and its related entities with
commercial banks, including but not limited to Citicorp, Manufacturers Hanover, Bankers Trust, and Chase Manhattan, and any transactions surrounding the issuance of debt securities by the Trump Organization or related entities. Additionally, the Committee requests that you also be prepared to discuss any communications that you or the Trump Organization may have had with either state or federal banking and securities regulatory agencies. The Committee will need a response to this request for your appearance by no later than July 20, 1990.

In accordance with the Committee rules, please deliver 200 copies of your prepared statement to room 2132 of the Rayburn House Office Building. In order to ensure that members of the Committee have sufficient time to review your statement, the Committee requires that such testimony be provided by Monday, August 6, 1990. Your entire statement will be included in the hearing record and, will be made available to all Committee members in advance of your appearance.

Any questions regarding your testimony should be immediately directed to Tom Adams of my staff at (202) 225-2924.

Sincerely,

Henry B. Gonzalez
Chairman
July 31, 1990

Donald J. Trump
President
The Trump Organization
725 5th Avenue
New York, N.Y. 10022

Dear Mr. Trump:

As of July 30, 1990, I have not received a response to my July 12 request that you testify before the Committee on Banking, Finance and Urban Affairs on issues regarding the current state of the commercial real estate market and commercial bank lending practices.

The Committee feels your testimony will be valuable to its understanding of the growing problems real estate developers and commercial banks are experiencing as a result of the depreciation of real estate values across the nation. Additionally, I would hope that you would be able to address the Committee's concerns regarding the availability of credit for commercial and residential development projects.

I want to reaffirm my request that you testify on these issues before the Committee at 10:00 a.m. August 9 in room 2128 of the Rayburn House Office Building, Washington, D.C. With the hearings only ten days away, it is extremely important that we have your immediate reply.

Sincerely,

Henry B. Gonzalez
Chairman
The Honorable Henry B. Gonzalez  
Chairman  
Committee on Banking, Finance and Urban Affairs  
U.S. House of Representatives  
Washington, D.C. 20515  

Dear Mr. Chairman:

Please excuse my tardiness in replying to your request that I testify before the Committee on August 9 concerning the commercial real estate underwriting and lending practices of state and federally-chartered commercial banks.

Let me assure you of my desire to be both cooperative and helpful to your Committee. At the same time, it is my belief that general testimony regarding the underwriting and lending practices of commercial banks is most properly the concern of the banks and bank regulators.

With regard to the recent restructuring of the debt of The Trump Organization, I am sure that you can appreciate my need to protect proprietary business information which, if disclosed, might place me at a competitive disadvantage in the marketplace. In addition, I must respect both the letter and intent of banking laws, rules and covenants governing confidentiality.

In view of the above, I must respectfully decline your invitation to testify. However, because of my desire to assist the work of the Committee, I will make my advisors, who were integrally involved in the recent restructuring, available to your staff to discuss any relevant issues which respect the above concerns. If you desire to pursue this offer, please have your staff contact my advisors, Mr. Stan Ross and Mr. John Robbins of Kenneth Leventhal and Company. They can be reached at (212) 832-6990.

THE TRUMP ORGANIZATION  
725 FIFTH AVENUE - NEW YORK, N.Y. 10022  212-832-2000  TELEX-427715
I see this as the most meaningful way for me to carry out my commitment to be cooperative and thus give your committee access to the most expert and up-to-date information possible on our activities and experiences.

With best regards, I am

Sincerely,

Donald J. Trump
Charles S. Sandford, Jr.
Chairman of the Board
Bankers Trust Company
280 Park Avenue
New York, N.Y. 10017

Dear Mr. Sandford:

Pursuant to its legislative and oversight jurisdiction assigned by the House of Representatives, the Committee on Banking, Finance and Urban Affairs will commence hearings on August 9, 1990 to examine the commercial real estate underwriting and lending practices of both state and federally-chartered commercial banks.

As you may know, Members of the Banking Committee, from various regions of the country, have expressed concerns about large real estate lending practices of many commercial banks. Furthermore, the highly publicized loans and debt-restructuring arranged for Donald J. Trump and the Trump Organization in New York and New Jersey bring to light some of the current problems in the banking industry and the real estate market.

The Committee intends to explore the current commercial real estate lending principles and guidelines administered by commercial banks in general, and more specifically the banks' handling of the Trump Organization loans and related real estate loans as well as the manner in which the federal and state regulatory agencies have reacted to these developments. It is important that the Committee have your complete and timely cooperation in these proceedings so that the Committee may properly carry out its oversight responsibilities.

Your appearance before the Banking, Finance and Urban Affairs Committee is requested for 10 a.m. Thursday, August 9, 1990 in Room 2128 of the Rayburn House Office Building, Washington, D.C. At that time, the Committee will expect you to be prepared to discuss any transactions Bankers Trust may have executed with Donald J. Trump and the Trump Organization. The Committee will need a response to this request for your appearance by no later than July 20, 1990.
In accordance with the Committee rules, please deliver 200 copies of your prepared statement to room 2132 of the Rayburn House Office Building. In order to ensure that members of the Committee have sufficient time to review your statement, the Committee requires that such testimony be provided by Monday, August 6, 1990. Your entire statement will be included in the hearing record and, will be made available to all Committee members in advance of your appearance.

Any questions regarding your testimony should be immediately directed to Tom Adams of my staff at (202) 225-2924.

Sincerely,

Henry B. González
Chairman
July 20, 1990

The Honorable Henry B. Gonzalez
Chairman
Committee on Banking, Finance
and Urban Affairs
2129 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Gonzalez,

I regret that I must decline your request to appear before the House Banking, Finance and Urban Affairs Committee on August 9, 1990 "to discuss any transactions Bankers Trust may have executed with Donald J. Trump and the Trump Organization."

Within the standards established by our legal system and by the ethics of fair business practices, our clients and potential clients expect and deserve that we protect the information they provide us with integrity and discretion. We at Bankers Trust have long recognized a responsibility to protect the confidentiality of privileged information entrusted to us by our customers and clients. I enclose an excerpt from the global policy statement of Bankers Trust New York Corporation entitled "Confidential Information, Insider Trading and Related Matters" which sets forth our institution's policy for the protection of client information by all employees of the Corporation.

Sincerely,

Charles S. Sanford, Jr.
U.S. HOUSE OF REPRESENTATIVES

July 24, 1990

Charles S. Sanford, Jr.
Chairman of the Board
Bankers Trust New York Corporation
280 Park Avenue
New York, NY 10017

Dear Mr. Sanford:

I appreciate your prompt reply to my letter requesting testimony from Bankers Trust concerning various transactions involving Donald Trump and the Trump organization as part of a concern about growing real estate lending problems.

As other bankers have suggested, I have no objection to Bankers Trust placing the Trump loans in the context of general real estate problems. This is important to the Committee's understanding of bank and regulatory approaches to the Trump loans and similar transactions.

However, I hope you understand that you will be expected to respond to questions about the Trump transactions as a case history in the broader picture of real estate lending. While I am sure there are areas where some aspects of the transactions need not be placed in the public record, I would not want this to be construed as acquiescence to a blanket agreement of confidentiality. The Committee handles a great mass of extremely sensitive material from day to day and I am confident that this hearing, like earlier hearings, can be handled in a manner that protects the interests of the Committee and public as well as those of the banks and Donald Trump. Again, I would remind you of the obvious: such has already appeared in filings at the Securities and Exchange Commission and in the public media. So, it would not add to anyone's credibility to approach the hearing as if the problems involved in the Trump and similar real estate loans were totally unknown.
Again, I want to reiterate my request that Bankers Trust testify on these issues before the Committee at 10 a.m. August 9 in Room 2128 of the Rayburn House Office Building, Washington D.C.

Sincerely,

Henry B. Gonzalez
Chairman
The Honorable Henry B. Gonzalez  
Chairman  
Committee on Banking, Finance  
and Urban Affairs  
2129 Rayburn House Office Building  
Washington, DC  20515

Dear Chairman Gonzalez,

I have received your most recent letter inviting my participation in a House Banking Committee hearing regarding Bankers Trust Company's lending transactions involving Donald Trump and the Trump organization. Since this most recent letter continues to request that I be prepared to respond to questions regarding specific customer transactions, I must again respectfully decline on the basis of our corporate responsibility to protect the confidential information entrusted to us by our customers and clients.

I regret that I can not affirmatively respond to your request. I am confident, however, that you will recognize that proprietary client information must be protected with absolute discretion and integrity in the banking business where the full disclosure of clients' business activities is essential to the credit review process.

Sincerely,

Charles S. Sanford, Jr.
Dear Mr. Butcher:

Pursuant to its legislative and oversight jurisdiction assigned by the House of Representatives, the Committee on Banking, Finance and Urban Affairs will commence hearings on August 9, 1990, to examine the commercial real estate underwriting and lending practices of both state and federally-chartered commercial banks.

As you may know, Members of the Banking Committee, from various regions of the country, have expressed concerns about large real estate lending practices of many commercial banks. Furthermore, the highly publicized loans and debt-restructuring arranged for Donald J. Trump and the Trump Organization in New York and New Jersey bring to light some of the current problems in the banking industry and the real estate market.

The Committee intends to explore the current commercial real estate lending principles and guidelines administered by commercial banks in general, and more specifically the banks' handling of the Trump Organization loans and related real estate loans as well as the manner in which the federal and state regulatory agencies have reacted to these developments. It is important that the Committee have your complete and timely cooperation in these proceedings so that the Committee may properly carry out its oversight responsibilities.

Your appearance before the Banking, Finance and Urban Affairs Committee is requested for 10 a.m. Thursday, August 9, 1990 in Room 2128 of the Rayburn House Office Building, Washington, D.C. At that time, the Committee will expect you to be prepared to discuss any transactions Chase Manhattan may have executed with Donald J. Trump and the Trump Organization. The Committee will need a response to this request for your appearance by no later than July 20, 1990.
In accordance with the Committee rules, please deliver 200 copies of your prepared statement to room 2132 of the Rayburn House Office Building. In order to ensure that members of the Committee have sufficient time to review your statement, the Committee requires that such testimony be provided by Monday, August 6, 1990. Your entire statement will be included in the hearing record and will be made available to all Committee members in advance of your appearance.

Any questions regarding your testimony should be immediately directed to Tom Adams of my staff at (202) 225-2924.

Sincerely,

Henry B. Gonzalez
Chairman
July 19, 1990

The Honorable Henry B. Gonzalez  
Committee on Banking, Finance and Urban Affairs  
2129 Rayburn House Office Building  
Washington, DC 20515-6050

Dear Mr. Chairman:

Thank you for your recent letter inviting representatives of Chase to appear before the Committee on Banking, Finance and Urban Affairs on Thursday, August 9.

As an institution with many financial products serving a large variety of clients, Chase prides itself on its relationships with those customers. We consider, and have always considered, the information given to us by our customers to be confidential. In keeping with this practice we treat the information given to us in connection with the recent loans and restructuring for the Trump Organization as well as the terms and conditions of the arrangements as confidential. Further, these loan arrangements with Mr. Trump have very explicit confidentiality provisions which preclude the disclosure of information.

For these reasons we feel we must decline the Committee's invitation.

With kind regards,

Sincerely,

[Signature]
July 24, 1990

Willard C. Butcher
Chairman of the Board
The Chase Manhattan Bank, N.A.
1 Chase Manhattan Plaza
New York, NY 10081

Dear Mr. Butcher:

I appreciate your prompt reply to my letter requesting testimony from Chase Manhattan concerning various transactions involving Donald Trump and the Trump organization as part of a concern about growing real estate lending problems.

As other bankers have suggested, I have no objection to Chase Manhattan placing the Trump loans in the context of general real estate problems. This is important to the Committee's understanding of bank and regulatory approaches to the Trump loans and similar transactions.

However, I hope you understand that you will be expected to respond to questions about the Trump transactions as a case history in the broader picture of real estate lending. While I am sure there are areas where some aspects of the transactions need not be priced in the public record, I would not want this to be construed as acquiescence to a blanket agreement of confidentiality. The Committee handles a great mass of extremely sensitive material from day to day, and I am confident that this hearing, like earlier hearings, can be handled in a manner that protects the interests of the Committee and public as well as those of the banks and Donald Trump. Again, I would remind you of the obvious: much has already appeared in filings at the Securities and Exchange Commission and in the public media. So, it would not add to anyone's credibility to approach the hearing as if the problems involved in the Trump and similar real estate loans were totally unknown.
Again, I want to reiterate my request that Chase Manhattan testify on these issues before the Committee at 10 a.m. August 9 in Room 2128 of the Rayburn House Office Building, Washington D.C.

Sincerely,

Henry B. González
Chairman
Dear Mr. Chairman:

Thank you for your most recent letter inviting Chase to testify concerning various transactions involving Donald Trump and the Trump Organization.

Chase would like to be of assistance to the Committee as we have always been in the past. We appreciate the Committee's interest in the general issues involved in real estate lending and the Committee's desire to discuss these issues. At the same time, while wanting to cooperate with the Committee, we continue to have very serious concerns about the assurances of confidentiality Chase provides its customers. As I mentioned in my letter to you of July 19, we have a long standing practice of treating information given to us by loan customers as confidential. We believe that our customers rely on this practice. In addition, the actual arrangements with Mr. Trump are subject to confidentiality provisions that preclude disclosure of information.

Certainly, as you suggest, some information is already in the public record. However, any time a Chase officer is called upon to address sensitive questions such as this in a public forum there is a danger that confidential information may be disclosed.

As you know, Mr. Chairman, we have indicated our concerns in discussions with your staff and trust that this matter can be resolved in the best interest of all parties.

With kind regards,

Sincerely,
John S. Reed  
Chairman and Chief Executive Officer  
citicorp  
399 Park Avenue  
New York, N.Y. 10043

Dear Mr. Reed:

Pursuant to its legislative and oversight jurisdiction assigned by the House of Representatives, the Committee on Banking, Finance and Urban Affairs will commence hearings on August 9, 1990 to examine the commercial real estate underwriting and lending practices of both state and federally-chartered commercial banks.

As you may know, Members of the Banking Committee, from various regions of the country, have expressed concerns about large real estate lending practices of many commercial banks. Furthermore, the highly publicized loans and debt-restructuring arranged for Donald J. Trump and the Trump Organization in New York and New Jersey bring to light some of the current problems in the banking industry and the real estate market.

The Committee intends to explore the current commercial real estate lending principles and guidelines administered by commercial banks in general, and more specifically the banks' handling of the Trump Organization loans and related real estate loans as well as the manner in which the federal and state regulatory agencies have reacted to these developments. It is important that the Committee have your complete and timely cooperation in these proceedings so that the Committee may properly carry out its oversight responsibilities.

Your appearance before the Banking, Finance and Urban Affairs Committee is requested for 10 a.m. Thursday, August 9, 1990 in Room 2128 of the Rayburn House Office Building, Washington, D.C. At that time, the Committee will expect you to be prepared to discuss any transactions Citicorp may have executed with Donald J. Trump and the Trump Organization. The Committee will need a response to this request for your appearance by no later than July 20, 1990.
In accordance with the Committee rules, please deliver 200 copies of your prepared statement to room 2132 of the Rayburn House Office Building. In order to ensure that members of the Committee have sufficient time to review your statement, the Committee requires that such testimony be provided by Monday, August 6, 1990. Your entire statement will be included in the hearing record and, will be made available to all Committee members in advance of your appearance.

Any questions regarding your testimony should be immediately directed to Tom Adams of my staff at (202) 225-2924.

Sincerely,

Henry B. Gonzalez
Chairman
July 20, 1990

The Honorable Henry B. Gonzalez
Chairman, Committee on Banking,
Finance and Urban Affairs
U.S. House of Representatives
2129 Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

This is written in response to your letter of July 12
inviting John S. Reed to publicly testify before the full
Committee on Banking, Finance and Urban Affairs on August 9 about
current commercial real estate lending principles and guidelines
administered by commercial banks in general, and about "every
transaction Citicorp may have executed" with one, specific
customer.

Citicorp is proud of its leadership role with respect to
both commercial and residential real estate lending. We are a
national leader in both areas. Over the years, our efforts have
contributed to economic growth and the modernization of our
industrial plant and have enabled millions of Americans to
realize that part of the American dream represented by home
ownership. Accordingly, we would be most pleased to work with
you and the Committee in the effort to better understand general
real estate lending principles and guidelines.

Insofar as your request involves information given to us by
our customer on a confidential basis and in connection with a
business transaction, however, we will be unable to comply with
your request. It is commonly accepted that banks may not divulge
information given to them in confidence by customers. Moreover,
our customers expect that we will maintain such information in
the strictest confidence. Longstanding internal policy of
Citicorp supports this approach.

Protection for confidential information is well founded. If
bankers are to make safe and sound credit decisions, they need
accurate and complete information about customer finances and
activities. In return, before they give us this needed
information, our customers must have reasonable assurance that
data showing their marketing plans, profit margins, trade secrets
etc. will not be divulged to their competitors. Any breakdown in this reciprocal relationship of trust and confidence would make it more difficult, if not impossible, for banks to make sound credit decisions, on the one hand, and for individuals and businesses to get needed credit, on the other hand.

To conclude, we are willing to help the committee examine general commercial real estate underwriting and lending practices of commercial banks if you desire, and will gladly make available appropriate officers to work with your staff on a mutually acceptable approach to this goal. We must, however, decline to disclose information given to us in confidence by our customers.

Very truly yours,

[Signature]

CEL/amh
Charles E. Long  
Executive Vice President  
Citicorp  
11012 Pennsylvania Avenue, N.W.  
Suite 1000  
Washington, D.C. 20004  

Dear Mr. Long:

I appreciate your prompt reply to my letter requesting testimony from Citibank concerning various transactions involving Donald Trump and the Trump organization as part of a concern about growing real estate lending problems.

As other bankers have suggested, I have no objection to Citibank placing the Trump loans in the context of general real estate problems. This is important to the Committee's understanding of bank and regulatory approaches to the Trump loans and similar transactions.

However, I hope you understand that Citibank's witness will be expected to respond to questions about the Trump transactions as a case history in the broader picture of real estate lending. While I am sure there are areas where some aspects of the transactions need not be placed in the public record, I would not want this to be construed as acquiescence to a blanket agreement of confidentiality. The Committee handles a great mass of extremely sensitive material from day to day and I am confident that this hearing, like earlier hearings, can be handled in a manner that protects the interests of the Committee and public as well as those of the banks and Donald Trump. Again, I would remind you of the obvious: much has already appeared in filings at the Securities and Exchange Commission and in the public media. So, it would not add to anyone's credibility to approach the hearing as if the problems involved in the Trump and similar real estate loans were totally unknown.
Again, I want to reiterate my request that Citibank testify on these issues before the Committee at 10 a.m. August 9 in Room 2128 of the Rayburn House Office Building, Washington D.C.

Sincerely,

Henry B. González
Chairman
August 1, 1990

The Honorable Henry B. Gonzalez
Chairman, Committee on Banking,
Finance and Urban Affairs
U.S. House of Representatives
2129 Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

In your most recent letter to me of July 24, 1990, you have reiterated your request that we testify concerning various transactions involving one, specified customer as part of your concern about growing real estate lending problems.

To testify about our dealings with a specific customer would conflict with our basic responsibility to protect the confidentiality of information given us by our customers. This, in turn, would threaten the trust and confidence which is the essential basis for any satisfactory banking relationship. Accordingly, pursuant to our long-standing policy and as more fully explained to you in our letter of July 20, we must respectfully decline to testify.

We stand by the offer made in my earlier letter to try to be helpful to the Committee with respect to building its understanding of the general lending problems in today's real estate market. As I suggested, I would be pleased to see to it that the appropriate Citicorp/Citibank officers meet with your staff to try to work out an appropriate framework for that purpose, if that would be of interest to you. Revealing information about transactions between the bank and a specific customer, however, would not be part of such a framework.

Very truly yours,

CEL/amh
John F. McGillicuddy  
Chairman and Chief Executive Officer  
Manufacturers Hanover  
270 Park Avenue  
New York, N.Y. 10017  

Dear Mr. McGillicuddy:

Pursuant to its legislative and oversight jurisdiction assigned by the House of Representatives, the Committee on Banking, Finance and Urban Affairs will commence hearings on August 9, 1990 to examine the commercial real estate underwriting and lending practices of both state and federally-chartered commercial banks.

As you may know, Members of the Banking Committee, from various regions of the country, have expressed concerns about large real estate lending practices of many commercial banks. Furthermore, the highly publicized loans and debt-restructuring arranged for Donald J. Trump and the Trump Organization in New York and New Jersey bring to light some of the current problems in the banking industry and the real estate market.

The Committee intends to explore the current commercial real estate lending principles and guidelines administered by commercial banks in general, and more specifically the banks' handling of the Trump Organization loans and related real estate loans as well as the manner in which the federal and state regulatory agencies have reacted to these developments. It is important that the Committee have your complete and timely cooperation in these proceedings so that the Committee may properly carry out its oversight responsibilities.

Your appearance before the Banking, Finance and Urban Affairs Committee is requested for 10 a.m. Thursday, August 9, 1990 in Room 2128 of the Rayburn House Office Building, Washington, D.C. At that time, the Committee will expect you to be prepared to discuss any transactions Manufacturers Hanover may have executed with Donald J. Trump and the Trump Organization. The Committee will need a response to this request for your appearance by no later than July 20, 1990.
In accordance with the Committee rules, please deliver 200 copies of your prepared statement to room 2132 of the Rayburn House Office Building. In order to ensure that members of the Committee have sufficient time to review your statement, the Committee requires that such testimony be provided by Monday, August 6, 1990. Your entire statement will be included in the hearing record and, will be made available to all Committee members in advance of your appearance.

Any questions regarding your testimony should be immediately directed to Tom Adams of my staff at (202) 225-2924.

Sincerely,

Henry B. Gonzalez
Chairman
Dear Chairman Gonzalez:

I have your letter dated July 12, 1990 requesting me to appear before the Banking, Finance and Urban Affairs Committee on August 9, 1990 "to discuss any transactions Manufacturers Hanover may have executed with Donald J. Trump and The Trump Organization". I must respectfully decline your request on the basis of the long respected principle that the business relationships between a bank and its customers are privileged and confidential and accordingly may not be unilaterally divulged by this Institution.

Sincerely,

[Signature]

John F. McGillicuddy
Chairman of the Board &
Chief Executive Officer

July 18, 1990
Dear Mr. McGillicuddy:

I appreciate your prompt reply to my letter requesting testimony from Manufacturers Hanover concerning various transactions involving Donald Trump and the Trump organization as part of a concern about growing real estate lending problems.

As other bankers have suggested, I have no objection to Manufacturers Hanover placing the Trump loans in the context of general real estate problems. This is important to the Committee's understanding of bank and regulatory approaches to the Trump loans and similar transactions.

However, I hope you understand that you will be expected to respond to questions about the Trump transactions as a case history in the broader picture of real estate lending. While I am sure there are areas where some aspects of the transactions need not be placed in the public record, I would not want this to be construed as acquiescence to a blanket agreement of confidentiality. The Committee handles a great mass of extremely sensitive material from day to day and I am confident that this hearing, like earlier hearings, can be handled in a manner that protects the interests of the Committee and public as well as those of the banks and Donald Trump. Again, I would remind you of the obvious: much has already appeared in filings at the Securities and Exchange Commission and in the public media. So, it would not add to anyone's credibility to approach the hearing as if the problems involved in the Trump and similar real estate loans were totally unknown.
Again, I want to reiterate my request that Manufacturers Hanover testify on these issues before the Committee at 10 a.m. August 9 in Room 2128 of the Rayburn House Office Building, Washington D.C.

Sincerely,

Henry B. Gonzalez
Chairman
The Honorable Henry B. Consalas
Chairman
U.S. House of Representatives
Committee on Banking, Finance
and Urban Affairs
2129 Rayburn House Building
Washington, D.C. 20515

Dear Chairman Consalas:

I have your letter dated July 24, 1990 in response to my letter of July 18, 1990 concerning your request that I appear before the Banking, Finance and Urban Affairs Committee on August 9, 1990.

Your initial request was for me "to discuss any transactions Manufacturers Hanover may have executed with Donald J. Trump and The Trump Organization". I advised you that it would be necessary for me to respectfully decline your request on the grounds that such a discussion would be precluded by the "long respected principle that the business relationships between a bank and its customers are privileged and confidential".

In your letter of July 24, 1990 you elaborate on your initial request by noting that you "have no objection to Manufacturers Hanover placing the Trump loans in the context of general real estate problems". Nevertheless, you make clear that I "will be expected to respond to questions about the Trump transactions as a case history in the broader picture of real estate lending". Finally, although you acknowledge that "there are areas where some aspects of the transactions need not be placed in the public record", you conclude in this regard with the statement that you "would not want this to be construed as acquiescence to a blanket agreement of confidentiality".

Under these circumstances, I must once again respectfully decline your request on the grounds stated in my letter of July 18, 1990.

Sincerely,

John F. McGuire
Chairman
Mfrurers Hanover Trust Company
270 Park Avenue
New York, NY 10017-2070

August 2, 1990
August 1, 1990

Charles R. Cranmer
Analyst
Research Department
Shearson Lehman
3 World Financial Center
14th Floor
New York, N.Y. 10285-1400

Dear Mr. Cranmer:

Pursuant to its legislative and oversight jurisdiction assigned by the House of Representatives, the Committee on Banking, Finance and Urban Affairs will commence hearings on August 9, 1990 to examine the commercial real estate underwriting and lending practices of both state and federally-chartered commercial banks.

As you may know, Members of the Banking Committee, from various regions of the country, have expressed concerns about the real estate lending practices of many commercial banks. Furthermore, the highly publicized loans and debt-restructuring arrangements for Donald J. Trump and the Trump Organization in New York and New Jersey bring to light some of the current problems in the banking industry and the real estate market.

The Committee intends to explore the current state of the commercial real estate market, the commercial real estate lending principles and guidelines administered by commercial banks and some aspects of the Trump Organization real estate loans as well as the manner in which the federal and state regulatory agencies have reacted to these developments. We hope the Committee will have your cooperation in these proceedings so that the Committee may properly carry out its oversight responsibilities. We believe your expertise would be most important to the Committee's understanding of these problems.

Your appearance before the Banking, Finance and Urban Affairs Committee is requested for 10 a.m. Thursday, August 9, 1990 in Room 2128 of the Rayburn House Office Building, Washington, D.C. At that time, please be prepared to discuss recent developments in the real estate industry and their effect on the banking community, the impact current commercial bank real estate lending practices may
have on the banking community and the availability of credit, and
the recent down-grading of bank debt issues. The Committee will
need a response to this request for your appearance by no later
than August 3, 1990.

In accordance with the Committee rules, please deliver 200
copies of your prepared statement to room 2132 of the Rayburn House
Office Building. In order to ensure that members of the Committee
have sufficient time to review your statement, the Committee
requests that such testimony be provided by Monday, August 6, 1990.
Your entire statement will be included in the hearing record and,
will be made available to all Committee members in advance of your
appearance.

Any questions regarding your testimony should be immediately
directed to Tom Adams of my staff at (202) 225-2924.

Sincerely,

Henry B. Gonzalez
Chairman
James J. McDermott  
Executive Vice President, Director of Research  
Keefe Bruyette & Woods  
2 World Trade Center  
85th Floor  
New York, N.Y. 10048

Dear Mr. McDermott:

Pursuant to its legislative and oversight jurisdiction assigned by the House of Representatives, the Committee on Banking, Finance and Urban Affairs will commence hearings on August 9, 1990 to examine the commercial real estate underwriting and lending practices of both state and federally-chartered commercial banks.

As you may know, Members of the Banking Committee, from various regions of the country, have expressed concerns about real estate lending practices of many commercial banks. Furthermore, the highly publicized loans and debt-restructuring arranged for Donald J. Trump and the Trump Organization in New York and New Jersey bring to light some of the current problems in the banking industry and the real estate market.

The Committee intends to explore the current commercial real estate lending principles and guidelines administered by commercial banks and some aspects of the Trump Organization real estate loans as well as the manner in which the federal and state regulatory agencies have reacted to these developments. We hope the Committee will have your cooperation in these proceedings so that the Committee may properly carry out its oversight responsibilities. We believe your expertise would be most important to the Committee's understanding of these problems.

Your appearance before the Banking, Finance and Urban Affairs Committee is requested for 10 a.m. Thursday, August 9, 1990 in Room 2128 of the Rayburn House Office Building, Washington, D.C. At that time, please be prepared to discuss recent developments in the real estate industry and their effect on the banking community, the impact current commercial bank real estate lending practices may have on the banking community and the availability of credit, and the recent down-grading of bank debt issues. The Committee will
need a response to this request for your appearance by no later than July 30, 1990.

In accordance with the Committee rules, please deliver 200 copies of your prepared statement to room 2132 of the Rayburn House Office Building. In order to ensure that members of the Committee have sufficient time to review your statement, the Committee requests that such testimony be provided by Monday, August 6, 1990. Your entire statement will be included in the hearing record and, will be made available to all Committee members in advance of your appearance.

Any questions regarding your testimony should be immediately directed to Tom Adams of my staff at (202) 225-2924.

Sincerely,

Henry B. Gonzalez
Chairman
August 1, 1990

Mr. Henry B. Gonzalez
Chairman
Committee on Banking, Finance and Urban Affairs
U.S. House of Representatives
2129 Rayburn House Office Building
Washington, D.C.  20515

Dear Mr. Gonzalez:

It will be my privilege to appear before the Banking, Finance and Urban Affairs Committee on Thursday, August 9, 1990 at 10am to present testimony on recent developments in commercial banking especially as they pertain to real estate exposures and the general condition of our commercial banks.

Sincerely yours,

James J. McDermott, Jr.
Executive Vice President
Director of Research
August 1, 1990

Lacy Shockley  
Vice President of Research  
Smith Barney, Harris Upham & Company  
1345 Avenue of the Americas  
New York, N.Y. 10105  

Dear Ms. Shockley:  

Pursuant to its legislative and oversight jurisdiction assigned by the House of Representatives, the Committee on Banking, Finance and Urban Affairs will commence hearings on August 9, 1990 to examine the commercial real estate underwriting and lending practices of both state and federally-chartered commercial banks.

As you may know, Members of the Banking Committee, from various regions of the country, have expressed concerns about the real estate lending practices of many commercial banks. Furthermore, the highly publicized loans and debt-restructuring arranged for Donald J. Trump and the Trump Organization in New York and New Jersey bring to light some of the current problems in the banking industry and the real estate market.

The Committee intends to explore the current state of the commercial real estate market, the commercial real estate lending principles and guidelines administered by commercial banks and some aspects of the Trump Organization real estate loans as well as the manner in which the federal and state regulatory agencies have reacted to these developments. We hope the Committee will have your cooperation in these proceedings so that the Committee may properly carry out its oversight responsibilities. We believe your expertise would be most important to the Committee's understanding of these problems.

Your appearance before the Banking, Finance and Urban Affairs Committee is requested for 10 a.m. Thursday, August 9, 1990 in Room 2128 of the Rayburn House Office Building, Washington, D.C. At that time, please be prepared to discuss recent developments in the real estate industry and their effect on the banking community, the impact current commercial bank real estate lending practices may have on the banking community and the availability of credit, and the recent down-grading of bank debt issues. The Committee will
need a response to this request for your appearance by no later than August 3, 1990.

In accordance with the Committee rules, please deliver 200 copies of your prepared statement to room 2132 of the Rayburn House Office Building. In order to ensure that members of the Committee have sufficient time to review your statement, the Committee requests that such testimony be provided by Monday, August 6, 1990. Your entire statement will be included in the hearing record and, will be made available to all Committee members in advance of your appearance.

Any questions regarding your testimony should be immediately directed to Tom Adams of my staff at (202) 225-2924.

Sincerely,

Henry B. Gonzalez
Chairman
Date: August 2, 1990

The Honorable Henry B. Gonzalez
Chairman, Committee on Banking, Finance & Urban Affairs
2129 Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman Gonzalez:

I certainly appreciate the opportunity to appear before your committee on Thursday, August 9, 1990. Clearly, the current state of the real estate market is having an extremely negative effect on regional banks that I follow for Smith Barney. I look forward to gaining some insights from participating in your hearings.

Sincerely,

Lacy M. Shockley
Vice President
Dear Mr. Pinkes:

Pursuant to its legislative and oversight jurisdiction assigned by the House of Representatives, the Committee on Banking, Finance and Urban Affairs will commence hearings on August 9, 1990 to examine the commercial real estate underwriting and lending practices of both state and federally-chartered commercial banks.

As you may know, Members of the Banking Committee, from various regions of the country, have expressed concerns about real estate lending practices of many commercial banks. Furthermore, the highly publicized loans and debt-restructuring arranged for Donald J. Trump and the Trump Organization in New York and New Jersey bring to light some of the current problems in the banking industry and the real estate market.

The Committee intends to explore the current commercial real estate lending principles and guidelines administered by commercial banks and some aspects of the Trump Organization real estate loans as well as the manner in which the federal and state regulatory agencies have reacted to these developments. We hope the Committee will have your cooperation in these proceedings so that the Committee may properly carry out its oversight responsibilities. We believe your expertise would be most important to the Committee's understanding of these problems.

Your appearance before the Banking, Finance and Urban Affairs Committee is requested for 10 a.m. Thursday, August 9, 1990 in Room 2128 of the Rayburn House Office Building, Washington, D.C. At that time, please be prepared to discuss recent developments in the real estate industry and their effect on the banking community, the impact current commercial bank real estate lending practices may have on the banking community and the availability of credit, and the recent down-grading of bank debt issues. The Committee will
need a response to this request for your appearance by no later than July 30, 1990.

In accordance with the Committee rules, please deliver 200 copies of your prepared statement to room 2132 of the Rayburn House Office Building. In order to ensure that members of the Committee have sufficient time to review your statement, the Committee requests that such testimony be provided by Monday, August 6, 1990. Your entire statement will be included in the hearing record and, will be made available to all Committee members in advance of your appearance.

Any questions regarding your testimony should be immediately directed to Tom Adams of my staff at (202) 225-2924.

Sincerely,

Henry B. Gonzalez
Chairman
July 31, 1990

Hon. Henry B. Gonzalez, Chairman
House Banking Committee
2129 Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

Thank you for your invitation to testify before your Committee on August 9th. As I indicated last week to Mr. Tom Adams of your staff, I must respectfully decline your invitation to testify. Although the importance and topicality of the subject of your hearings is certainly clear, my associates at Moody's are concerned that, given this issue's topicality, the media's interest and financial pressures faced by certain institutions, our comments could be misinterpreted in the media. Additionally, given the sensitivity of this subject, our testimony on this issue would have required extensive internal consultation, which was not possible in time for next Thursday's hearing.

I hope that this will not inconvenience your committee, and I trust that in the future we will be able to be more helpful.

Sincerely,

[Signature]
Small-Business Borrowers Are Feeling Credit Squeeze

By Lewis Shatz

special Report for The Wall Street Journal

The demand for small-business credit is soaring as businesses and consumers tighten their belts. In New York last month, Information Management Technologies Corp. saw its 3-month credit line to a full 14.5 million in 3 months. This is a 14% increase, the third such increase in 12 years.

The trend is not limited to New York. In San Antonio, the Small Business Administration says it has seen 30% more small-business applications for credit in the past year. In Los Angeles, the information management firm says it has seen a 50% increase in applications for credit in the past year. In Chicago, the Illinois Credit Union League says it has seen a 25% increase in applications for credit in the past year.

The trend is not limited to the U.S. In Canada, the Canadian Association of Small Business says it has seen a 20% increase in applications for credit in the past year. In Britain, the Confederation of British Industry says it has seen a 15% increase in applications for credit in the past year.

The trend is not limited to the Americas. In Asia, the Asian Development Bank says it has seen a 10% increase in applications for credit in the past year. In Europe, the European Central Bank says it has seen a 8% increase in applications for credit in the past year.

The trend is not limited to the developed world. In Africa, the African Development Bank says it has seen a 5% increase in applications for credit in the past year. In Latin America, the Inter-American Development Bank says it has seen a 3% increase in applications for credit in the past year.

The trend is not limited to the public sector. In the private sector, the International Finance Corporation says it has seen a 2% increase in applications for credit in the past year. In the corporate sector, the International Monetary Fund says it has seen a 1% increase in applications for credit in the past year.

The trend is not limited to the current year. In the past year, the trend has continued. In the past year, the trend has accelerated. In the past year, the trend has intensified.

The trend is not limited to the current decade. In the past decade, the trend has continued. In the past decade, the trend has accelerated. In the past decade, the trend has intensified.

The trend is not limited to the current century. In the past century, the trend has continued. In the past century, the trend has accelerated. In the past century, the trend has intensified.

The trend is not limited to the current millennium. In the past millennium, the trend has continued. In the past millennium, the trend has accelerated. In the past millennium, the trend has intensified.

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Credit Crunch

As Banks Get Tough With Borrowers, Fears of a Recession Rise

Stricter Regulation Prompts Tighter Lending Policies. Hurting Small Businesses

No Loan for Mr. Featherstone

By DAVID WENDEL
Staff Writer of THE WALL STREET JOURNAL

WASHINGTON — Fears are growing that a private economy in the U.S. is entering a recession, with many banks and borrowers express serious concern about the impact of this problem on the economy. Meanwhile, the Federal Reserve is being criticized for its lack of action on the situation.

Federal Reserve officials, as well as many bankers and borrowers, express almost identical concerns: That many banks may be overreacting to regulatory pressure and that, if this problem grows, it could choke the economy.

The industry has to be cautious that by tightening our standards we don't create the problem that we're trying to avoid.

A survey of banks in recent years shows a stark contrast to the past, when lenders were more willing to lend.

The results, published in the Journal of Money, Credit, and Banking, found that banks have tightened their lending criteria significantly, with many banks cutting back on loans to smaller businesses.

In the past, banks were more willing to lend to smaller businesses, but now they are more cautious, especially in the face of regulatory pressure.

Banks have been doing business with them, and we were ready to sign the papers. They approved the loan twice, says Hal says. They were ready to sign the papers. They approved the loan twice. He clipped the article and sent it to the banker with the scrawled query, "What happened to it?"

A few days later, the clipping returned with the answer: Yes, the PNC, which helped finance an employee buy one out of Will Burt Corp three years ago, says it won't talk about individual customers, a typical bank policy.

Before Money Crashed

Now, Mr. Featherstone is looking to Cleveland banks for money. For one thing, the employee-owned maker of metal sinks recently qualified as a supplier to the nearby Honda auto plant, but there were no new requirements before bidding on any work.

We're getting a lot of anecdotal evidence that indicates that banks are making a lot of mistakes, says John L.K.B., a Federal Reserve and former chairman of Bank of America National Bank. They're reacting to what they view as more stringent examination standards and therefore are tightening lending criteria.

A recent survey in Fed district banks found that for the most part, "financial institutions are either less willing to extend credit or are actually tightening credit terms." Smaller businesses, as usual, are feeling the pinch first.

A Fed survey of 50 banks in January found that in the past six months, 40% had tightened standards for loans to below investment grade commercial and industrial customers — basically small and medium-size businesses.

Unlike past credit crunches, this one wasn't deliberately engineered by the Fed. Years ago, when there were legal ceilings on interest rates that banks could pay, the Fed would directly choose not to lend, leaving market interest rates. Money would leave banks, and they didn't have money to lend.

That doesn't happen anymore. Interest rates have been deregulated, and variations in international financial markets give many companies many different ways to borrow.

But even if the Fed can't do this, the effect of the economy. Monetary policy will now be more restrictive at current levels of interest rates than it was previously, says the Federal Reserve's Mr. Feathers.

It's also clear to borrowers. In Omaha, ABC Bank, a profitable thrift, which lends against inventory, says Mr. Blah, the chief economist. "Monetary policy will now be more restrictive at the current levels of interest rates than it was previously."

In most respects, the economy is in better shape than we were a year ago. This doesn't have any effect on Arcade's B. But, it does say, "There's no black-box decision to cut back lending to small businesses. They are in our bread and butter. Credit decisions have to be made on the performance of individual companies."

As Banks Get Tough With Borrowers, Fears of a Recession Rise

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Pledging receivables—often small biz customers over—a is the only way the company has been able to cover. Her family's custom built looking der its inventory has always been acceptable collateral to banks. Mr. Voss says. Now, this makes many other small business executives. Mr. Voss finds that for the first time he personally guarantee loans—a addition to pledging nearly all of his company's assets—before banks will even entertain his application.

We'll continue to go on this way with back loans, but growth is very slow without it, he says.

In Bensenville, Ill., Joe McNulty, the president of Artistic Gifts Inc. says that for the past three years Salina Bank has been eager to lend up to 50% of the value of her company's inventory. Now, the bank wants to cut back to 30%. Artistic, with annual sales of about $16 million, values and imports $3,000 different retail gift items and borrows against inventory as well as accounts receivable.

They're really looking at our inventory with a fine-tooth comb, she adds. They're clearly nervous. It's clear that
A Surprise in Chicago

In Chicago, Stephen Stack was surprised when he went to the bank to borrow money for the first time in six years to buy new equipment for his SeamCraft Inc., which makes fabric covers for computers and medical equipment. He wanted $100,000 to buy new equipment and assumed he could pledge the equipment itself as collateral. "What they've been proposing—and I've been resisting—is giving me a line of credit of $100,000 if I give them $100,000 in collateral," he says. He won't consider the bank, which asked him to take over the then-troubled company 14 years ago. Now, he is hunting for a new bank.

For stronger businesses, the banks' newfound conservatism is a headache but not yet a problem. For one thing, big corporations can still borrow in the commercial-paper market.

The abundance of anecdotal evidence of a credit crunch is what worries Mr. LaWare, the Fed governor. The Fed encouraged banks to cut back on loans for highly leveraged takeovers. And Mr. LaWare, for one, figured that real-estate lending was bound to suffer because of market conditions. He didn't count on banks becoming less willing to lend to "legitimate borrowers"—the bread-and-butter plans for inventory and receivables to companies that can't borrow any other way.

"There are small pieces," he says, "but they add up to a big piece of the economy." Adds Ms. McHenry at Artistic Gifts: "It just makes everything a little slower and a little tighter. If every little company is having similar experiences, it's going to hurt everything."

Fine Line

Federal bank regulators insist that they want banks to be more cautious—but not to stop making loans. "There's a potential for bankers to overreact in a situation like this," says Comptroller of the Currency Robert Clarke. Government officials and private economists say the line between appropriate caution and overreaction is a fine one—and they say they can't yet tell whether it has been crossed.

Yet as bank after bank announces an increase in loan-loss reserves of hundreds of millions of dollars following regulatory examinations—as Shawmut, for instance, did just yesterday—other banks are bound to err on the side of caution. "As messages get communicated from management down, the loan officers' instinct is: OK, we’ll be cautious," says Philadelphia National's Mr. Coltman. "They may hold back legitimate requests." Just yesterday, at a regular weekly meeting of senior loan officers, he says he urged caution but also reminded his subordinates that the bank was still looking for "good opportunities.

"It's a very difficult message," he says.
Quicksand
For Banks

Real Estate Loans
Worry Examiners

By MICHAEI QUINT

Banks knew their problems with real estate loans. Federal examiners now suggest that the problems are far more serious than the bankers have admitted.

At bank after bank, groups made known in recent weeks that profiting from conjectural movements in real estate prices has been a major concern of their executives.

But analysts of the problems, speaking in interviews, are saying that the bankers are missing a point.

Over and over again, the examiners have suggested that the problems are not far-off risks but are here and now, making demands on the banks of much more serious kinds.

"Almost none of the banks I've seen have thought about this," a examiner said recently.

"They are trying to blame the examiners for the problems. But we're not blaming them."

An examiner at the Federal Reserve Bank of New York said that the bankers were "focusing on the short-term problems, but ignoring the long-term risks."

"They are seeing the problems on the surface, but not the depth of the problem."}

Problems Grow for Banks
As Examiners Study Loans

Continued From First Business Page

Banks were causing credit to be curtailed, in markets with office vacancy rates of 30 and 35 percent, and with many bank loans already troubled. "If it is any wonder that banks are not taking on significant new risks," he said in a speech to analysts last week.

Officials at the Comptroller of the Currency's office say their standards have not changed. "We are not holding back or adding new risks," Mr. Wilson said, "we are simply applying our old standards to a changed environment."

"One of the banks thought to be most exposed to real estate loans is Fleet/Hartford Financial Group Inc. in Providence, R.I., where an examination is now under way. The Midland Corporation, the Sun Bancorporation and the U.S. Federal Corporation, all of New York, are thought to be vulnerable. The Michigan National Corporation is another heavy real estate lender whose debt ratings are under downward pressure."

"Other banks in the Southeast and Middle Atlantic States have repeatedly increased their real estate lending in recent years, including the Citizens and Southern Corporation of Atlanta, where an examination started last week. A few days before, Moody's Investors Service said its ratings for Citizens and Sovran Financial Corporation were no longer under consideration for upgrading. The two have agreed to merge."


Bankers have been aware for some time that they were taking on new risks in real estate lending. But they have held the line.

"We have never increased our risk in real estate," one examiner said recently. "We have always been careful."

The examiners now say that the bankers have been too careful.

"They have been too cautious," a examiner said recently. "They have been too afraid of the consequences."
Banks Hit by Real Estate Slowdown

Losses From Bad Loans Spreading Even to Prosperous Regions

By Jerry Knight
Washington Post Staff Writer

The system's losses on real estate loans that devastated banks and savings and loans in the Southwest in the mid-1980s spread to the Northeast last year and now threaten even such prosperous areas as metropolitan Atlanta and Southern California, two new studies disclosed yesterday.

In the Northeast, where real estate troubles are now growing the fastest, bank losses on bad real estate loans increased by 77 percent last year and the number of real estate loans that are not being paid on time more than doubled, according to S&L analyst information for recent years in New England, regulators are beginning to target cities and states where bank lending for commercial real estate ventures is expanding rapidly and where office building construction is growing faster than office jobs are being created, said Seidman, citing new FDIC research.

Seidman said the total of banks has grown by 12 percent since 1986, but their lending for real estate has grown by 48 percent. "Unfortunately, nonperforming real estate loans have grown even more—54 percent," said Seidman. On Monday, Seidman met with President Bush to brief him on the health not only of the nation's banks, but also the battered savings and loan industry. The government's bailout of the S&L industry has already left the government with $200 billion worth of hard-to-sell real estate and real estate assets, Seidman estimated.

The FDIC study of real estate and labor markets ranks Washington, D.C., in the middle of three dozen states, but notes that the region's office employment grew 3.3 percent last year—faster than all but half a dozen cities.

Nonetheless, Washington area banks have already begun to feel the impact of a softening real estate market. Yesterday, Signet Banking Corp. of Richmond, the parent company of Signet Bank, joined the ranks of area banks reporting lower profits as a result of a rising number of real estate customers who are falling behind on their loans.

Signet disclosed the problems in reporting that its first-quarter profit declined to $27.1 million ($1.08 per share) from $31.5 million ($1.14) in the first three months of 1989.

The company said its nonperforming assets—which include loans that are no longer paying interest and loans that borrowers have delinquent on—increased to $104.6 million from $25.4 million in the same period a year ago.

A spokesman said the increase was largely the result of problems in the company's real estate loan portfolio, which totaled about $2 billion at the end of the quarter.

The spokesman said the problems were concentrated in the metropolitan Washington area, but projects in Richmond and Baltimore also were

See BANK, F, Col 6.
WASHINGTON-The comptroller said that his office has identified areas of the country where weakening real estate values could hurt banks but that the problems in those areas aren't as bad as the one in New England.

Comptroller Robert Clarke, the top regulator of federally chartered banks, made the disclosure in testimony before the House Small Business Committee. He wouldn't identify the geographical areas.

Mr. Clarke said the comptroller's office planned to talk to bankers in the regions and might do targeted examinations of real estate loans to determine how widespread the problem is. Following targeted examinations in New England banks in the area set aside more than $2 billion for potential losses. The comptroller's office has previously said it is looking at real estate lending in the mid-Atlantic and Southeast regions.

Mr. Clarke said the newly identified problems were not comparable in magnitude to the troubles in New England.

Testifying before the committee, Mr. Clarke and other federal bank regulators reiterated their belief that there isn't a widespread credit crunch induced by tighter bank examinations, as some business groups have charged.

While surveys have shown that banks are tightening credit standards for small and medium-size businesses, the main cause isn't stricter regulation, said Federal Reserve Gov. John LaWare. Those banks that indicated they were taking steps to tighten credit most often cited as reasons their concerns about the general economy and the prospects for particular industries, he said.

Mr. LaWare also cited a recent survey by the National Federation of Independent Businesses which found less borrowing by small firms, but supported the view that during the first quarter these firms had individual difficulties obtaining credit.

Statistics show a moderate drop in lending in New England, particularly in real estate construction, but that's a healthy reaction to the overbuilt markets, the regulators said. Mr. Clarke noted that office vacancy rates in Boston increased to 11.6% in 1993 from 7.5% in 1990.

Though most committee members didn't criticize the regulators, Rep. Richard Neal, D., Mass., said he had heard from small-business people, contractors and banks. "A curtain has been dropped on some of the entrepreneurship we've seen in New England over the last decade," he said.

The regulators did agree that at least some banks have reacted to the tough regulation of the New England banks by tightening lending to credit-worthy borrowers.

Paul Fritts, head of bank supervision at the Federal Deposit Insurance Corp., said, "A banker looks around and sees 10 or 20 bank failures in the last few years and says, 'I don't want that to happen to me.'"

It appears that some banks have reduced their lending to credit-worthy customers, Mr. Clarke said. We are taking steps to encourage the bankers not to overreact.
Mosbacher Says ‘Serious’ Credit Crunch Grips U.S., Isn’t Limited to Real Estate

BY ALAN MURRAY

WASHINGTON — Commerce Secretary Robert Mosbacher said the U.S. is facing a serious credit crunch that extends well beyond the real estate industry and appeared to be worsening.

"It is serious, and it appears to be expanding," he said in an interview. "It’s not just real estate people. Real estate is very serious. But it also has to do with small and middle-sized businesses, high-tech across the board, businesses who are trying to get loans and can’t.

Mr. Mosbacher’s statements were the strongest yet from a top administration official on the nation’s credit squeeze. Treasury and Federal Reserve Board officials have attempted to play down the problem, arguing it is largely limited to the real estate industry and to certain regions of the country.

The commerce secretary also called on the Federal Reserve to bring down interest rates, "I feel it’s monetary policy is on the right side, frankly," he said. "I think it would be a good time to move towards easing."

Fed Chairman Alan Greenspan has done a good job overall, but frankly, inflation pressures have cooled, and the slow growth we’re experiencing, along with this credit crunch, is a good reason to ease.

In a speech on the Senate floor late last night, Senate Banking Committee Chairman Pete Domenici sharply criticized the Fed for being too tight, citing his fears that Fed policy is exacerbating the credit crunch. Noting the slow growth of the economy and the disappointing inflation outlook, the senior Republican on the Senate Budget Committee added: "I say to the Federal Reserve Board, What are you trying to fix? Are you trying to fix inflation? I don’t believe it needs any fixes right now.

Mr. Mosbacher spoke briefly about the credit crunch at a hearing on competitive examination yesterday by the Senate Banking Committee and then expanded on his comments in a telephone interview.

After a separate hearing at the House Banking Committee, Housing Secretary Elinor Brokamp complained about the "serious credit crunch. There is a credit crunch," Mr. Kemp said, "no doubt about it."

Mr. Mosbacher said there has to be some serious attention paid to the credit problem. But he was circumspect about placing blame.

"I’m not saying it’s the banks, or the bank examiners or the Federal Reserve," he said. But he added: "The banks, of course, have a problem. Privately they will tell you they are having a hard time with the bank examiners. I don’t know whether they will tell you that for quote."

Mr. Mosbacher disputed the notion that credit problems are concentrated in certain regions such as New England or Texas. It’s not regional," he said. "It’s pretty much across the whole country.

Since early this year, many U.S. companies have complained of the difficulty of getting banks to approve loans. Banks, in turn, have blamed tightening standards among regulators in the wake of widespread failures and scandals in the savings and loan industry.

Treasury officials continue to argue there is no evidence of a broad, across-the-board credit crunch. Despite anecdotal evidence of a credit squeeze, they say and Federal Reserve officials insist there are no data showing the problem to be widespread. Moreover, Treasury officials have avoided making sweeping public statements on the subject because they don’t want to worsen public concern.

Mr. Mosbacher, however, disavowed arguments by government and private economists that the problem isn’t widespread. I think the economists, when they look at the figures, are missing it," he said.

The Senate Banking Committee plans to hold hearings next week on the credit issue. It has invited Mr. Greenspan as well as Federal Deposit Insurance Corp. Chairman William Seidman and Comptroller of the Currency Robert Clarke to testify.
Trump Effect Seen At Banks

Hanover Classifies $157 Million in Loans As 'Nonperforming'

By Leslie Wayne

The cost of Donald J. Trump's debt problems is beginning to show up on the financial statements of the banks he has dealt with.

Manufacturers Hanover Corporation disclosed in a regulatory filing yesterday that it will classify as nonperforming $157 million of loans to the developer. This shift means the bank is acknowledging it is unable to collect interest on the loans.

The move is expected to be followed by other banks that on Tuesday agreed to defer interest and principal payments on nearly $500 million in loans to Mr. Trump. The banks have said they will shed $15 million in nonperforming assets in the next two months.

Analysts estimated that Manufacturers Hanover's action will lower the bank's quarterly earnings by about $4 million, although they could not speculate how much the bank will ultimately lose in foregone interest payments. Other banks with large outstanding loans to Mr. Trump generally over $100 million, are Chase Manhattan, Bankers Trust and Citibank.

Raphael Sofer, an analyst with Brown Brothers Harriman & Company, said the question of whether to establish loan-loss reserves to underwrite losses on nonperforming loans was a major real estate customer.

Questions of Loan-Loss Reserves

A spokesman for Manufacturers Hanover did not respond to a request for comment.

Panorama's disclosure came in a filing yesterday for a preferred stock offering. Other banks will have to make similar disclosures if they classify Mr. Trump's loans as nonperforming when they report their second-quarter earnings next month.

In its filing, Manufacturers Hanover said its nonperforming assets had increased "principally as a result of problems being experienced by one of the corporation's major real estate customers."

Other banks have not yet taken action on Mr. Trump's loans to him. The banks did not disclose the exact size of their exposure to Mr. Trump's debt problems.

The American Banker, the banking industry newspaper, reported yesterday that Manufacturers Hanover had made loans to Mr. Trump's Grand Hyatt Hotel in Manhattan and to the Trump Regency, a non-casino hotel in Atlantic City, as well as a $150 million loan to Trump's Castle, also in Atlantic City.

Faced with the inability to come up with a $50 million interest payment to holders of Trump's Castle bonds, a group of 76 banks that had lent money to Mr. Trump agreed in principle on Tuesday to a five-year, $100 million bridge loan. This pact included a $20 million bridge loan to help Mr. Trump meet its payments to bondholders - had he been unable to make the payments, bondholders could have foreclosed on the property, which could have raised Mr. Trump's bail

Continued from First Business Page

write-offs, said James McGrath, an analyst with Keefe, Bruyette & Woods Inc. But the extent of the loss will vary from bank to bank, and some lenders may agree to delay payments.

The banks agreed to forgive losses to Mr. Trump on the condition that he agrees to provide short-term cash and reduce his default by the end of the month.

Quarter's Cut Put at $4 Million

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Is it the banks’ turn?

Real-estate loans threaten to make a bad situation worse

Donald Trump’s struggle to save his 88-turning real-estate empire by borrow-ing even more proves the old adage that the more you owe the more reluctant your creditors are to pull the plug. If Trump defaults, the banks that have lent him $3 billion in loans will have to dispose of some of his holdings, surely absorbing heavy losses that would eat into their profits. Moreover, further soften an already soft market.

But the problem is hardly limited to Donald Trump and his lenders. It signals the potential acceleration of a banking crisis brewing for two years that now threatens to break out on a national scale.

"With real-estate values not increasing and even depreciating in some areas, these bad loans, like bad bodies, are floating to the surface,” says Jonathan Lindley, managing director of the Washington office of Ferguson & Company, a Texas-based financial analysis firm. Bank write-offs for bad loans, mostly on real estate, have quadrupled to $42 billion in the past five years.

On the surface, the red ink stemming from soured office properties and other commercial deals do not seem nearly as serious as the $325 billion S&L cleanup. Even comparisons with $60 billion in written-off loans to developing countries appear overblown. Plenty of evidence, however, suggests that the nation’s nearly 13,000 federally insured banks are struggling to avoid a cash crunch that could require another costly taxpayer bailout, particularly if interest rates inch up and leave overextended real-estate developers unable to meet their loan payments. "It’s the largest single issue facing the industry in anybody’s memory,” declares George Salem, bank analyst at Prudential-Bache in New York. "We’re talking about deferrals in real-estate prices on a nationwide basis.”

In a different era, bankers probably could have swallowed the commercial-property slump without undue harm. After all, they have weathered downturns before. But the timing of the crisis poses the biggest danger. Since the early 1980s, lenders have struggled with the Third World debt hemorrhage, the oil bust, a farm recession, a spate of overleveraged corporate buyouts and the savings and loan debacle. Today’s squeeze adds to that stock of IJO’s. The solvency of the system is already impaired, declares Michael Aronstein of Comstock Partners, a New York City investment firm.

Banks everywhere now are feeling the pinch. Losses from bad real-estate deals are cutting into bank earnings and pulling down stock prices and credit ratings. The outlook for bank stocks, says Kyle Legg, an analyst for Alex, Brown & Sons in Baltimore, "is the worst I’ve seen in 10 years.” Eight of the nation’s top 10 banks, including giant Citicorp and Chase Manhattan, have had their credit ratings lowered. Only Bank of America in San Francisco and NCNB in Charlotte, N.C., have managed to escape Moody’s Investors Service has downgraded the debt of 66 banks so far this year, compared with 19 in all of 1989. In many major urban areas, real-estate values are stagnant at best, and most are declining. The vacancy rate in office space has hit 20 percent nationwide, compared with only 4 percent at the start of the 1981-82 recession. Values in some areas are further diluted by the massive amount of foreclosed S&L real estate—13,908 properties with an book value of $14.9 billion—held by the Resolution Trust Corporation. And there’s fire in just beginning.

The worst may be yet to come. In April, William Sedman, chairman of the Federal Deposit Insurance Corporation, released a study identifying 40 areas across the country where commercial-real-estate loan problems could be lurking because of heavy office construction and slow job growth. States considered either in trouble or courting it include Texas, Ar-

US News and World Report

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were battered by uncollectible loans to Brazil, Mexico and Argentina. Meanwhile, lenders were losing their most creditworthy customers, who chose instead to raise their own funds through commercial paper and bonds on the financial markets. Real estate became a major outlet for lendable funds, because banks could charge developers relatively higher rates than they could other borrowers. It also looked like a quick way to shore up sagging earnings. With property values soaring because of a relatively high rate of inflation, stout demand and favorable changes in the 1981 tax law, banks poured billions into office buildings, hotels, shopping centers, condominiums and other commercial projects. From 1986 to 1989, while total bank assets grew 12 percent to $3.3 trillion, real estate loans soared 48 percent to $761.6 billion. In too many cases, rents from those ventures generated too little cash to cover debt service. Yet, even in 1989 after vacancy rates shot up and most of the country could not absorb a continued high pace of construction, real estate loans grew twice as fast as business loans.

Hoping to head off an S&L-like debacle over the last six months, federal regulators have dispatched teams of auditors around the country to sift through the ledgers of banks with heavy exposure to real estate, forcing lenders to reclassify any wobbly loans and change the assumptions for calculating real-estate values. For example, banks now must assume higher vacancy rates than before. Wherever property values have declined, banks must set aside more money to cover potential losses or to reduce the loan. That accounts for the rash of big losses reported by lenders in New England, the Southeast and other soft real-estate markets. In New England alone, banks have had to add an extra $2 billion to their loan-loss reserves. Such write-downs weaken bank profits, erode share prices and make it harder for banks to raise needed capital in equity markets.

While banks earned $62 billion in the first three months of 1990, an improvement over the prior two quarters, it was 19 percent short of the $73 billion netted in the same period a year ago. In some cases, banks have responded by laying off employees and getting out of unprofitable lines of business. Last week, for example, Bankers Trust eliminated 265 jobs, or 15 percent of its professional corporate finance staff. Harry Banker of Chicago said it plans to trim its payroll by 250 people.

The regulatory crackdown is forcing banks to tighten their lending practices. Virtually every large bank has stopped making real-estate loans, especially for speculative projects that lack major leasing commitments. Those banks that continue to lend now demand that developers put up a much as 25 percent of the cost of a project—representing a substantial increase in the upfront cash required.

Many businessmen complain that the increase in bad real-estate loans has made banks overly skittish about all lending, creating a credit crunch for even healthy companies. "Banks are turning quite conservative," says Arnold Daniels, a bank analyst in Rockville, Md. However, Federal Reserve Chairman Alan Greenspan told Congress on June 21 that if there is any credit crunch, it is limited to loans for corporate mergers and risky real-estate ventures. "Significant problems cannot be ruled out in the period ahead," says Greenspan, so it could take several years before all problems stemming from over-building and bad loans are resolved. But the central bank chief of officials insist that "enough credit appears available to fuel economic growth nationally. Others are not so sure, especially in the New England region, where even healthy borrowers are having trouble raising cash.

In 1989, for example, the Bankers Trust New England Corp. of Chicago said it plans to stop making loans to homebuilders in New England. The bank, which has $8.2 billion in assets, said it is "extremely concerned about the health of the real estate business in New England." The bank said it was not concerned about the real estate business in other parts of the country.

In the late 1980s, many banks were eager to lend money to homebuilders in New England because of the region's strong housing market. But in 1990, the housing market in New England has weakened, and many banks have stopped making loans to homebuilders in the region.

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Real Estate Slump

By Edward Kean
Kapital Editor

The decline in the real estate market that has plagued the Northeast and Southwest appears to be spreading to other regions of the country, further clouding the outlook for already depressed bank earnings.

Analysts caution that banks that expanded their real estate lending rapidly during the 1980s may see their earnings hurt for as long as three years as a result of the current real estate woes, which are particularly acute in the commercial area.

"The problem is going to be with us, in one way or another, at least through next year," said James Rosenberg, a banking industry analyst for Shearson Lehman Hutton.

Standard & Poor's has downgraded the credit ratings of about 50 banks this year—about one-third of the banks it rates overall—mostly because of problems with commercial real estate loans, said Tanya Azarch, an S&P banking analyst. "Nor do we think the downgradings are over," she said.

Real estate problems may hurt banks for as long as two to three years and it may take another two to three years for them to recover, said Christopher Mahoney, a Moody's associate analyst.

U.S. regulators see signs that the real estate slump is expanding.

Paul Fritts, supervision director for the Federal Deposit Insurance Corp., told Knight-Ridder that the number of states in which at least 7 percent of bank real estate loans were considered non-current rose to 28 as of March 31 from 20 at the end of 1989. "It does suggest at least there's a growing problem of varying degrees," he said. The states with the worst problems were Rhode Island, Massachusetts, Connecticut, Texas, Arizona, Alaska and New York, he said.

Fritts said it would be "highly unlikely" if the real estate problems did not affect banks' bottom lines.

Commercial banks earned $6.2 billion in the 1990 first quarter—down from a record $7.3 billion a year earlier—a decline the FDIC attributed largely to higher reserves for domestic loans, particularly real estate in the Northeast.

Azarch said banks became too concentrated in real estate lending and relaxed their underwriting standards, particularly around 1986.

At the end of March, real estate loans represented 38 percent of all loans at FDIC-insured commercial banks. Commercial and land development and construction loans accounted for about 47 percent of real estate loans, according to FDIC figures.

Recently, Fritts told a congressional panel the real estate problems have not yet bottomed out in New England and said the FDIC sees some "softness" emerging in California real estate markets.

Comptroller of the Currency Robert Clarke also sees the problems spreading, although Clarke has refused to identify the regions.

"We have found it is a little more broad spread than we might have thought," said a spokesman for the comptroller's office. The agency has discovered soft real estate markets "in places where we didn't necessarily expect it," the spokesman said.

Analysts say the real estate slump, particularly in the commercial area, stems largely from overbuilding during the 1980s. Contributing to that development were favorable tax laws early in the decade that allowed rapid depreciation of real estate. The tax environment for real estate got worse in 1986, when Congress lengthened the depreciation period for real estate and curbed deductions for passive partnership losses.

Also contributing to weak real estate markets is the fallout from the collapse of hundreds of U.S. savings and loans.

The Resolution Trust Corp.'s sell-off of its real estate assets has bolstered the perception that real estate values will be depressed for some time, said Fred Puorro, senior vice president for Thomson Bankwatch, a bank credit rating and consulting firm.

Peter Merrill, president of BFI Golombé, a bank consulting firm here, maintains the real estate problem in not confined to a few regions but exists any place where loans have grown sharply and real estate values have soared.

"That's a lot of the country," he said.

With those real estate problems, he said, "We
think earnings are going to be very disappointing this year as they were in 1989.

Signet Banking, a Mid-Atlantic banking firm, announced recently that it would post "minimal" earnings in the second quarter to provide for an increase in non-performing real estate loans.

Bank stocks have also taken a beating because of the real estate problems, analysts say.

An S&P stock index of 25 banks, including money center and regional institutions, stood at 143.90 recently, down 14.2 percent from 167.66 in early January and down 18.2 from a year earlier. By contrast, the broader S&P 500 index was 12.6 percent above its year-earlier level.

Moody's Mahoney said the problem has affected the Southwest, New England, the Mid-Atlantic region and the Southeast. "The Midwest is a question mark at this point," he said.

But Merrill said problems are starting to crop up in some Midwestern cities—Minneapolis, for example. Indeed, the Minneapolis Fed in a recent economic survey said the area's office vacancy rate is expected to soar in the next few months.

Some analysts see the problems spreading to California, the most populous state, and credit rating firms say they are watching the situation there closely for danger signs.

Carolyn Sherwood-Call, a San Francisco Fed economist, agrees that California's market seems to be "cooling," but said that is to be expected in the wake of the state's real estate boom.

Sherwood-Call said she did not believe California would experience a recurrence of the real estate problems that have plagued New England, Arizona and Texas, saying indicators such as the office vacancy rate, dependence of the economy on construction employment, and the number of housing permits per new resident are not particularly out of line with national trends.

Puorro stressed that in some places, including Florida and California, the real estate problems vary within states. In California, for example, the San Bernardino area is showing strength while Los Angeles or San Jose may be in trouble, he said.

Alex Sheshunoff, who operates a bank information and consulting firm, suggests the impact of the real estate problems will also vary significantly among banks.

Any bank that has focused on commercial real estate lending and loans for leveraged buyouts probably will go through a "tough cycle," but those institutions that have specialized in consumer lending should continue to do well, Sheshunoff said.
**Banks Approve Loans for Trump, But Take Control of His Finances**

**BY RICHARD D. BLYTON**

In a last-minute deal with bankers yesterday afternoon, Mr. Trump, who had apparently avoided missing a payment deadline that could have led to personal bankruptcy, was allowed to continue his personal empire.

For the once-avuncule developer, the deal comes as a breathing space. He has been forced to create management control over his multi-billion dollar empire and is now involved in negotiations that would require him to pay back $560 million of bank debt over the next 18 months.

Yesterday morning, in the first part of a two-stage rescue for the beleaguered businessman, the world's biggest banks, led by Dresdner Bank, approved $63 million in rescue loans. Mr. Trump was told that he must pay back $456 million in 18 months, or he might face bankruptcy.

Management control has been lost, at least temporarily.

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He will have to give monthly, quarterly and annual statements to his creditors, and he will have to explain any significant variances from the budget plan.

Mr. Trump, whose $35 million yacht and $535 million Trump Shuttle once were both for sale, said yesterday that the trouble he had been facing in selling his debt obligations has actually been good for his name and image. For instance, as one banker put it, "There's a certain stampede, but when you come through adversity, I think people respect you more."

"Credit Crunch" cited

Mr. Trump also asserted that a nationwide credit squeeze was one of the causes of his problems. "If the United States didn't do something about the credit crunch," he said, "you will have far worse than a bad recession."

The $63 million loan package.

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On June 15, Mr. Trump failed to make a $6 million payment on the $14.8 billion debt to Finance Trump's Capital in Atlantic City, a $28 million payment as a personal guaranty due to Manufacturers Hanover, that put the developer in technical default on those bonds, but a 18-day grace period allowed him until midnight Tuesday to make the payment.

Mr. Trump has already paid $560 million in credit line to avoid the losses they would suffer if the Trump Organization, the major New Jersey developer, the largest lender of federal government money in Atlantic City and Floor Coverings, was not. Mr. Trump also guaranteed $560 million in credit line to Manufacturers Hanover.

As a result, over the last two weeks several Japanese and European banks, like the banks syndicates holding loans to Mr. Trump's Atlantic City in participation in the new loan package, which will be backed by additional loans on almost every one of the developer's assets.

These banks, which included many of the world's largest commercial lenders, have long awaited additional loans on the properties that Mr. Trump holds. Many of them have delayed approving the deals, in hopes that the large American banks would take them out of the deal entirely by buying the chunks of loans to Mr. Trump that they had originally bought from the New York banks.

First Big Deal 1978

Donald John Trump, one of five children born to a Queens housing developer who made his first big deal in 1982 when New York was at the start of one of its worst fiscal crises, Mr. Trump then 30 years old, persuaded the New York Central Railroad to sell him the dilapidated Grand Central Hotel, which adjoins the Grand Central Terminal, for $60 million. In the deal, he took a $63 million tax abatement from the city. He persuaded bankers to lend him about $560 million and went on to build along with partners, the glittering Grand Hyatt Hotel.

It was the Grand Hyatt, which opened in 1980, that made the young developer a presence in the New York real estate scene and put him in the 2 percent of that industry's most well-known projects. Trump Tower, a 570 Fifth Avenue residence, which was the largest private deal ever to leave New York, was put together by Trump.

Evened Casino Business

The young developer, whose name became synonymous with flamboyant, larger than life, and glittering extravagance, became extremely wealthy throughout the 1980's and eventually went into his Atlantic City casino business. He opened his third Atlantic City casino, the $3 billion Taj Mahal, in April of this year.

Bonds associated with the talks with the Trump casinos were several dollars higher yesterday in light trading.

Algerian banks said they had heard the larger loan package would go ahead and they were willing to re-negotiate the deal. They also said that they were not necessary to get every single condition in the loan, they were willing to improve a substantial lien on the property, and there is also a requirement that Mr. Trump's current bank, Manufacturers Hanover, might come on board. He added...
With $20 million in New York, Donald J. Trump was able to make a $43 million payment and avoid personal bankruptcy. He will not have to give up ownership of any of his assets.

**Trump Tower**
A 68-story building on New York's Fifth Avenue with shops, offices and condominiums.

**Ritz Hotel**
Eighteen-story Manhattan hotel acquired from Westin Hotels.

**Trump Plaza Hotel and Casino**
Atlantic City property bought from Hilton Hotels in 1985.

**Trump Taj Mahal Casino and Resort**
Mr. Trump's newest Atlantic City casino, opened in April.

**Trump Plaza Hotel and Casino**
Built by Mr. Trump and Holiday Corp. The Atlantic City property has been solely owned by Mr. Trump since 1986.

**The Trump Shuttle**

**Trump Plaza**
Manhattan condominium on Central Park South.

**Alexander's**
New York retailer in which Mr. Trump bought a 27 percent stake for nearly $70 million.

**West Side Rail Yards**
Seventy-six acres of undeveloped land in Manhattan.

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Donald J. Trump at the Taj Mahal in Atlantic City.

**Fountaining Hospital Building**
East Side building that the hospital is leaving.

**Grand Hyatt Hotel**
Manhattan hotel owned in equal partnership with the Hyatt Corp.

**Trump Plaza of the Palm Beaches**
Residential condominiums in Florida.

**Mar-a-Lago Estate**
Mr. Trump's mansion in Florida.

**Trump Princess**
Mr. Trump's 262-foot yacht.
Financial Loss

Big Banks Are Plagued By a Gradual Erosion Of Key Profit Centers

Their Corporate, Auto Loans, Dwindle, and Credit Cards

Get Tougher Competition

Wave of Mergers May Loom

By DOUGLAS R. SAKER

Staff Reporter of The Wall Street Journal

NEW YORK -- Bank bashing is big these days.

Flying squads of regulators are forcing banks to dump billions in questionable real estate holdings. Credit ratings agencies are downgrading banks' credit ratings. Investors are dumping bank stocks, driving prices to record lows against the overall market.

While the realestate boom that fueled banks' profits has gone bust, the banking industry is in a way worse shape than it was in its previous period of turmoil. The Wall Street Journal recently reported that some major banks are selling off their investments in junk bonds at a loss. Meanwhile, Lenders are scaling back their lending to businesses that have been hit by the current economic downturn.

Profiling:

While some banks have been hit harder than others, the overall industry is facing a number of challenges. Lenders are finding it more difficult to make loans, which is putting a strain on the profitability of banks. At the same time, banks are facing increased competition from non-bank lenders, such as credit card companies and fintech firms.

In addition, banks are facing increased scrutiny from regulators, who are cracking down on practices such as predatory lending and unfair lending practices.

Despite these challenges, some banks are managing to turn things around. One example is Bank of America, which has been able to cut costs and improve its profitability through a strategic focus on digital banking and other innovative solutions.

However, the overall industry is still facing significant challenges, and it remains to be seen how banks will be able to weather this difficult period. The future of the banking industry is uncertain, but one thing is clear: banks will need to adapt and innovate in order to succeed in the face of these new challenges.
It's very difficult at this stage of the cycle to understand what the losses will be for the banks," says Judith S. Kravath, a bank analyst at Merrill Lynch. He notes that in the 1980 real estate crunch, some banks lost as much as 30% of the principal of their real estate loans—and that was without an overall shrinkage of interstet earnings. ToCompound the dragging down bank profits are the Third World loans. Eight years after the banks began eating out their U.S. bank balances with more than $40 billion of these, many analysts still are not sure of the underlying financial strength of the Third World loans—many of which have been put to work behind a wall of secrecy.

The longer and more complex the procedures are for recouping their loans, the more the banks are being likened to Treasury Department officials trying to reschedule their loan payments. Although the SEC is not yet to issue any guidelines, the banks are under the same scrutiny as banks seeking to reschedule the debt payments. With all the above pre-conditions, it is not surprising that the SEC's response is never far behind. In the meantime, the banks are under pressure to reschedule some of the debt payments.

Source: The New York Times

U.S. Banks' Worrisome Profit Squeeze

Escalating Loan Losses ... Have Cut Into Profitability

Credit Ratings Reduced

As banks financial performance has slowed, credit rating agencies have been more cautious in downgrading bank debt. This is a concern for non-U.S. markets where some lenders are not as yet used to downgrading bank debt. Credit ratings can affect the ability of banks to borrow and raise capital, which is crucial for their operations. The downgrading of bank debt can also affect the cost of funds, making it more expensive for banks to operate. It is essential that banks maintain strong credit ratings to ensure they can continue to operate smoothly and efficiently.

Boch MNC Financial Corp., the parent of the biggest bank in the Baltimore-Washington area, and Midland Credit Corp., based in Edison, N.J., have endured the ignominy of having their debt classified as "junk." In doing so, they have been downgraded by Moody's Investors Service, a major credit rating agency.

Arthur J. Herron, a Boch MNC executive vice president and chief financial officer, says that the downgrading of Boch MNC debt was the result of several factors. The company had been involved in a number of legal disputes and had to pay large settlement amounts. The company also had to deal with the write-down of assets, including real estate loans, which had not performed well. These factors, combined with the overall economic downturn, led to the downgrade of Boch MNC debt.

Boch MNC has been working to improve its financial position and has taken a number of steps to improve its creditworthiness. The company has sold non-performing assets, improved its loan loss reserves, and has taken other measures to strengthen its balance sheet. However, the downgrading of its debt has made it more difficult for the company to raise capital and obtain financing on favorable terms.

Midland Credit Corp., which is a large regional bank, has also been affected by the downgrading of its debt. The company had to pay large settlement amounts in a number of legal disputes, which had a negative impact on its financial position. The company has taken a number of steps to improve its financial position, including selling non-performing assets and improving its loan loss reserves. However, the downgrading of its debt has made it more difficult for the company to raise capital and obtain financing on favorable terms.

Both Boch MNC and Midland Credit Corp. are working to improve their financial position and are taking steps to strengthen their balance sheets. However, the downgrading of their debt has made it more difficult for the companies to raise capital and obtain financing on favorable terms. The companies are working to improve their financial position and are taking steps to strengthen their balance sheets.
DONALD TRUMP
JUST WON'T DIE

By rights this overextended erstwhile billionaire should be bankrupt by now, but his artful deal with his banks—70 of them—makes the Donald look like a survivor. **by Stratford P. Sherman**

Nothing is quite as it seems when you pass through the looking glass into the fiscal fantasyland where Donald Trump resides. His 26th-floor office in Manhattan’s Trump Tower is really only 18 floors above Fifth Avenue. In this area of murk and mirrors, where hope and high finance somehow blend into one, the difference between a billionaire and a bankrupt turns out to be a mere $20 million. That is the sum Trump’s banks lent him in June, saving him at the last possible moment from a default that could have demolished his empire.

Trump’s art of survival is a highly developed craft skill that, like the glass into the looking glass, turns reality upside down. Now that he has an agreement in principle with his banks—they are willing to keep him afloat for now—August 13, a back of-the-napkin, 2 p.m. in his New York City haven, and signed a deal, the Trump image is back with strength and vitality to feed off. But the deal is a farce. In the end, its few survivors had to sell back to the banks. It is a good deal, but it is a false one that thinly veils the plain truth of the situation: the net result is an empty shell.

The details of Trump’s rescue are a matter of public record; the substance of the rescue is a matter of private negotiation. As a businessman he is simultaneously fabulously and foolish. He grew up in real estate, where his abilities neatly match the job. The self-styled master of the art of the deal is a blend of panache and pratfall, a master of the art of the deal is a blend of panache and pratfall, a bonafide promoter. The bonafide conviction that Trump and everything Trump touches are sublime has made this man an unbeatable promoter.

But if he prospers—and of course he claims he will—his company could possibly emerge healthier than any of his brethren from the 1980s era of heedless high leverage.

Trump is a more complicated character than his public image suggests—personally rather and more charming and in business a wilder mix of brilliance and feet-of-lead. He is perhaps the most self-satisfied of the 1980s breed and a mix of brilliance and feet-of-lead. He is perhaps the most self-satisfied of the 1980s breed.
TROUBLE

HIS THREATENED ASSETS

Unless Trump can squeeze more cash from these and other holdings, he may be forced to liquidate some. From top: In a $613 million suit, Michael Cohen needs to win $1.5 million every day to survive. Manhattan's Trump Place condominiums across from Central Park have nearly sold out. But the former Eastern Airlines barely broke even. And Trump's undeveloped 76-acre West Side yards in Manhattan produce no revenue at all.

For over 15 years Trump's expanding collection of business has become a quagmire of fire-striking operations built on need of efficient management. Trump owns three Atlantic Cities casinos, the former Eastern Airlines station in Manhattan, and Trump Tower Plaza, Park Place, and the most famous building in the world. The Trump have been forced to cut back on spending. The Trump's financial situation is dire.

The New York Times has reported that Trump's quarters at his new 88-story Trump Tower were not rented for $1 million per month, as was reported earlier. The Times said the rent was actually for $800,000 per month. The Trump's financial situation is dire.
HIS THREATENED TOYS Trump wants to sell his absurd yacht, Trump Prince. But he may keep his $13m Palm Beach house. Florida law makes it hard for banks to seize houses.

Trump could also lose his $36m Mar-a-Lago compound. A New York judge has threatened to put his 22-room home up for auction to cover a $40m judgment in favor of a dead financier's estate. A final decision could come as early as January.

The mansion, located on Ocean Drive, could be worth between $40m and $60m. The property is currently assessed at $15m. The mansion has 19 bathrooms, 11 bedrooms, and a rooftop terrace with a pool and a fire pit. It also has a helipad and a wine cellar.

Trump is also facing legal battles over his businesses. A former employee has filed a lawsuit accusing Trump's company of fraud. The former employee claims that Trump's company overcharged him for services. The case is currently pending in federal court. Trump's company has denied the allegations and is fighting to have the case dismissed.

Trump's legal troubles have sparked concerns about his ability to pay his debts. He has a net worth of $3.7 billion, according to Forbes. However, a significant portion of his wealth is tied up in real estate. If the courts seize his properties, it could severely impact his financial situation.

Trump has faced financial challenges in the past. In the early 2000s, he was involved in a legal battle over a failed hotel project in Chicago. The project, called Trump International Hotel and Tower, went into bankruptcy and Trump was forced to sell the property for a loss.

Trump's legal troubles also come at a time when his approval ratings are at an all-time low. A recent poll showed that only 41% of Americans have a favorable opinion of Trump. The poll also showed that 56% of Americans believe that Trump is more of a threat to the country than his Democratic opponent, Joe Biden.

In conclusion, Trump's legal troubles could have a significant impact on his financial situation and his political prospects. If the courts seize his properties, it could lead to a financial crisis for Trump and his family. However, Trump has shown resilience in the past and may be able to weather this storm.
even he concedes, "There are certain things beyond Trump's control." Among them are regional slowdowns in Massachusetts and New York that cut the number of passengers on both the Trump and Pan Am shuttles by 5% last year. Similarly, the overall Atlantic City gambling business has risen only 3% this year—a tough time to open the Taj Mahal, which by itself increased the city's gambling capacity 38%.

TROUBLE

HERE'S MORE to this story of woes: The New York real estate market has entered a cyclical slump, and the Tokyo stock market shaved enough last winter to discourage some of the likeliest potential buyers of Trump properties, both large and small. On top of all that says Brian J. Strum, chairman of Prudential's real estate division, "we're going through what might be called a one-industry credit crunch." Credit has been tight, and the S&L crisis has spurred regulations to scrutinize banks' real estate loans particularly harshly.

The crisis came in April, after the junk bond market ground to a halt. It had been slowing for months as Michael Milken, its creator, came to grief. He ultimately pleaded guilty to federal charges. Trump unexpectedly found himself unable to refinance $2 billion of expensive junk bonds and bank loans for which he was personally liable. With major amortization payments coming due in June, Trump foresaw that he wouldn't have enough money. He says he had counted on refinancing that part of his debt, nearly two-thirds of the total. Says he: "I thought capital would be more readily available. It was much harder to get and I had to alter the terms. And all of a sudden—boom—the curtain came down.

In fairness, Trump is one of the most famous of the many developers who have run out of cash. Until a few months ago, bankers were eager to lend to Trump because they were practically sprazing him with money. Says a New York developer who has known Trump for years: "The bankers got mesmerized. They thought it was almost an honor to lend to Donny."

Frank Creamer, head of real estate lending at Citibank, defends his or any lender's lending to Trump in a prepared statement: "While we can't speak for the other banks, we believe our loans were not imprudent. They were consistent with the underwriting standards and based upon the value of the specific assets, giving effect to Trump's proven ability to take existing assets and add substantial value through capital improvements and improved marketing efforts. We believe that over time the long-term values of Trump's assets will prove that we have made the right decision."

The relationship between Trump and his bankers became somewhat surreal. Trump had never intended to repay all the money he'd borrowed according to the terms by which he borrowed it, and some of the bankers didn't expect him to, either. They figured he would find a way to refinance. "Approached by Foote & Co., Trump's bankers uniformly refused to discuss their confidential relations with him unless their names and affiliations remain secret," one that has, however, key bankers confirm much of Trump's story. Says one, echoing Trump: "We understood the risks we took and what it meant for the junk market to dry up. When that financing didn't materialize, the game came down.

Trump found out the hard way that his ability to raise capital had evaporated. Although he was short of cash for his debt payments, he also had costly new projects in mind, including a $200 million plan to build penthouse apartments atop the landmarked Plaza hotel. But every major bank that approached last spring, from Citi to Chase to Manufacturers Hanover, refused to lend a dime. Trump was dumbfounded: "You have to understand, I have a business which is really going well. And all of a sudden you go into a bank where you have a normal banking relationship—and for the first time they say, "No."

It took much of May for the implications of these events to sink in. Trump asked his accounting firm, Arthur Andersen, to prepare a set of cash flow projections for the Trump Organization that outlined the trouble ahead. Then Trump hired Kenneth Lazard & Co., a Los Angeles firm specializing in workouts, to refine the projections, sharing the results with his bankers. The bankers spent weeks improving the projections until further. Their analysis revealed that Trump needed deferrals of interest and principal payments on almost half his bank debt, plus a major infusion of cash.

He makes money

Trump's image may be his most valuable asset. In addition to naming most of his properties after himself, including three casinos, Trump put his name on a best-selling book, a board game that flopped, a gold pen that may retail for $10,000 and a syndicated TV game show that with this fell

Bankers were so eager to lend to Trump that they were practically spraying him with money.

HE MAKES MONEY

Trump's image may be his most valuable asset. In addition to naming most of his properties after himself, including three casinos, Trump put his name on a best-selling book, a board game that flopped, a gold pen that may retail for $10,000 and a syndicated TV game show that
likely alternative was a series of deals that would force him into bankruptcy. Explains Trump in his patented kind: "To the bankers, Listen, fellows, if I have a problem, then you have a problem. We have found you a way out of it's going to be a difficult time for both of us."

No one wanted to lend money. Said a bank lawyer, "The general perception was that there was a hell of a lot of collateral left." And the wised up lenders finally decided that Trump's signature wasn't worth much more than the ink with which it was inscribed. So executives at such money centers as Citic and Chase began discussing the problem with each other as well as with Trump. Before long, everyone agreed that the cash was out for all Trump's banks to pool together and share the risk. Then began that may have been one of the most corporate White House negotiations in U.S. banking history. According to participants on both sides, deciding to bail out Trump as the epicenter of the finest one the banks had ever agreed to was not in the interest of either bank, for financial, economic, or ethical reasons.

This was a decision that none of the banks would have kept the banks away from an asset for years, so they kept it outside. Indeed, the banks wanted to remain informed with Trump to maintain the value of this collateral that knew they had his name and make him to him in a business sense.

"THE HARD PART was getting the banks to agree on the terms. The three deals of Trump on his $60 million from Ed Koch, on the Michigan Avenue property in New York, and the Prudential Center in New Jersey, were all worth millions and millions of dollars. This meant that the banks would have to agree on a series of deals. The banks wanted to know what the interest rate would be, how much of the debt would be forgiven, and what the terms of the loan would be. The banks wanted to make sure that they would not be taking on too much risk when they agreed to lend money to Trump."

"I said to the bankers, 'Listen, fellows, if I have a problem, you have a problem. We have to find a way out.'"
TO: TW
FROM: RANDY
RE: HEARING ON COMMERCIAL REAL ESTATE LENDING PRACTICES
DATE: August 8, 1990

To Robert Clarke: Do you believe there is still a credit crunch in the country, and if so, what is its principal cause, if any? A criticism of the bank examinations performed by OCC is that they contribute to the credit crunch. What is your opinion of that criticism? What steps are the OCC taking to make sure bankers do not over react to your examinations and create a credit crunch?

To Peter Philbin: How many bank failures have there been in New York state and New York City over the past year? Is there any one determinable cause? How much money in real estate loan losses will the N.Y. banking industry suffer this year? What effect are real estate loan losses expected to have on the N.Y. banking industry? In your opinion, what is the general health of the banking industry in New York? How would you compare it to the rest of the nation?
August 15, 1990

The Trump Organization and
The Relationship Bank Group
(Consisting of:
Bankers Trust Company
The Chase Manhattan Bank
Citibank, N.A. and
Manufacturers Hanover Trust)

We have previously issued our Agreed Upon Procedures Report dated June 14, 1990.

**Significant Subsequent Events**

At the request of Donald J. Trump and The Trump Organization ("Trump") and The Relationship Bank Group, we have updated the Donald J. Trump Post-Plan Cash Analysis - Projected Cash Flow Activity for May 1990-April 1991 ("Post-Plan") - Exhibit II ("Exhibit II") for the following significant events which occurred subsequent to June 14, 1990:

1. The Trump Casinos' (as defined in the June 14, 1990 Report) operating results for the period of July 1, 1990 to July 15, 1990 have been adversely affected by various factors, including apparent market-wide economic conditions. The individual Casinos' actual operating financial results, as compared to the Business Plan budgets (as reflected in the June 14, 1990 Report), have experienced a material deterioration in the individual Casinos' operating income (before debt service and capital expenditures). Accordingly, the projected cash distributions to Trump in the amounts of $20.0 and $2.0 million from the Trump Plaza Hotel & Casino and the Trump Castle Hotel & Casino, respectively, and the payment of management fees by the Trump Taj Mahal Casino Resort to Trump Hotel Management Corp. have been eliminated. These distributions and payments will be made as contemplated in the Business Plan budgets when the Casinos' operations provide sufficient cash flow. In view of the current financial operating results, Trump is currently in process of evaluating alternative Casino business plans and business strategies. In the circumstances, there can be no assurance that the operating results of the individual Casinos will improve or that alternative means can be devised to satisfy the obligations presently payable or becoming due in the next year.

Additionally, Donald J. Trump cash balance has been updated to actual at July 31, 1990, and June and July 1990 cash flow has been updated to reflect actual results. We have not quantified the amount of unpaid trade payables and expenses applicable to June and July 1990.

Kenneth Leventhal & Company

August 15, 1990
2. In accordance with the revised Credit Agreement terms, Donald J. Trump's personal expenses were reduced.

3. In accordance with the revised Credit Agreement terms and the First Amendment to Loan Agreement and Aircraft Mortgage and Security Agreement (unexecuted copy) between CIT Group/Equipment Financing, Inc. and Donald J. Trump and affiliated entities, debt modifications for the Trump Palm Beaches (Marine Midland Bank) and Trump Air/Donovan Enterprises, Inc. related loans were agreed, and the Exhibit II was updated as follows:

   Lender                     Restructure Terms (Monetary Only)

   Marine Midland             o $1,000,000 tax reserve required
   CIT                        o Interest only payable quarterly until
                              July 1, 1993 (thereafter principal and
                              interest paid in accordance with amended
                              amortization schedule)

4. The closing of the Credit Agreement to reflect additional loan proceeds of $20.0 million and additional closing costs of $5.1 million. Unpaid legal fees of approximately $7.7 million are payable periodically within one year. Additionally, the $3.0 million letter of credit is disclosed as drawn.

5. The contribution from the Penn Yards 20% partner relating to real estate taxes is to be paid directly to the lender rather than Trump. The contribution required of the 20% partner may be subject to uncertainty.

Procedures Performed

In conjunction with the update of Exhibit II, we have not performed additional procedures other than with respect to Casino operations, in relation to which limited analytical analysis and discussions with Casino management were performed, and with respect to the other issues listed above, we held limited discussions or read the various related documents. The June 14, 1990 Report specified our engagement objective and the related limitations affecting the procedures performed. Neither our engagement objective nor the limitations affecting the procedures performed have been modified.
Conclusion

The accompanying updated Exhibit II must be read in conjunction with the June 14, 1990 Report (a copy of the related accountant's report is attached). Specifically, the June 14, 1990 Report disclosed the following caveats, limitations and uncertainties which continue to be appropriate and applicable:

- Caveats Section
  - Limitations relating to specific issues which were not fully addressed.

- Conclusions Section
  - Specific limitations and uncertainties relating to value estimates, adverse publicity and projected Casino operations, Shuttle operations and "Post Plan" results.

The Business Plan budgets have not been updated for the continuing deterioration of global and local market economic conditions.

We have no responsibility to further update the accompanying Exhibit II for events and circumstances occurring after the date of this letter.
## Post-Plan Cash Analysis

### Post-Plan Cash Budget

#### Pre-Plan Budget - Cash Balance

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#### Projected Cash Flow Activity

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#### Notes

- Adjustments to cash balance as of May 1990.
- Cash inflows and outflows projected for the subsequent 12 months.

### Post-Plan Cash Distribution

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### Post-Plan Significant Subsequent Events

- Adjustments to cash balance as of May 1990.
- Cash inflows and outflows projected for the subsequent 12 months.

### Post-Plan Significant Subsequent Adjustments

- Adjustments to cash balance as of May 1990.
- Cash inflows and outflows projected for the subsequent 12 months.

### Cash Balance - After Post-Plan Significant Subsequent Adjustments

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### Notes

- Adjustments to cash balance as of May 1990.
- Cash inflows and outflows projected for the subsequent 12 months.
### Table: Cash Balance - After Entry Level Reserves and Debt Modifications

|                | Jul 90 | Aug 90 | Sep 90 | Oct 90 | Nov 90 | Dec 90 | Jan 91 | Feb 91 | Mar 91 | Apr 91 | May 91 | Jun 91 | Average
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### Table: Cash Balance - After Debt and Entry Level Reserves

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### Table: Cash Balance - After Entry Level Reserves and Debt Modifications

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**Subject to Change**

**Note:**

A) In addition, $15.0 million of supplemental letter of credit may be drawn.
### Exhibit 16

**Post-Plan Cash Analysis**

**Donald J. Trump**

**Projected Cash Flow Activity for Jan 1990 - April 1991**

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<th>12 MONTHS</th>
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</tr>
<tr>
<td>Cash Balance After Entity Level Reserves, Etc</td>
<td>$24,000</td>
<td>$18,000</td>
</tr>
</tbody>
</table>

**Notes:**

- Notes A & B refer to the schedule of credit facility use and related parties' transactions.
- Notes E refer to the schedule of the projected cash flow activity for Jan 1990 - April 1991.

**See:**

- **Reconciling Accountant's Report**

---

**EXHIBIT 16**

**Projected Cash Flow Activity for Jan 1990 - April 1991**

<table>
<thead>
<tr>
<th>8 MONTHS</th>
<th>4 MONTHS</th>
<th>12 MONTHS</th>
</tr>
</thead>
<tbody>
<tr>
<td>anio</td>
<td>Jan 90</td>
<td>Feb 90</td>
</tr>
<tr>
<td>Balances</td>
<td>$24,000</td>
<td>$18,000</td>
</tr>
<tr>
<td>Capital Transactions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sale of Bond</td>
<td>57,000</td>
<td>51,000</td>
</tr>
<tr>
<td>Sale of A&amp;I</td>
<td>5,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Sale of A&amp;IStock at Debt</td>
<td>51</td>
<td>51</td>
</tr>
<tr>
<td>Total</td>
<td>51</td>
<td>51</td>
</tr>
<tr>
<td>Capital Transactions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sale of Bond</td>
<td>57,000</td>
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<td>51</td>
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</tr>
<tr>
<td>Total</td>
<td>51</td>
<td>51</td>
</tr>
<tr>
<td>Total</td>
<td>51</td>
<td>51</td>
</tr>
<tr>
<td>Cash Balance After Entity Level Reserves, Etc</td>
<td>$24,000</td>
<td>$18,000</td>
</tr>
</tbody>
</table>

**Notes:**

- Notes A & B refer to the schedule of credit facility use and related parties' transactions.
- Notes E refer to the schedule of the projected cash flow activity for Jan 1990 - April 1991.

**See:**

- **Reconciling Accountant’s Report**

---
### Exhibit 11

**POST Plan Task Analysis**
**Order 6, 1, 19**

**Projected Cash Flow Activity for Post Task - April 1991**

<table>
<thead>
<tr>
<th>Post's Entity</th>
<th>Cash Balance</th>
<th>Adjustments and Goals</th>
<th>Task Plan Cash Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>APR 90</td>
<td>625,000</td>
<td></td>
<td>625,000</td>
</tr>
<tr>
<td>APR 91</td>
<td>625,000</td>
<td></td>
<td>625,000</td>
</tr>
<tr>
<td>APR 92</td>
<td>625,000</td>
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<td>625,000</td>
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<tr>
<td>APR 93</td>
<td>625,000</td>
<td></td>
<td>625,000</td>
</tr>
</tbody>
</table>

### Strategic Operations Modifications and Goals

<table>
<thead>
<tr>
<th>Cash Balance</th>
<th>Adjustments and Goals</th>
</tr>
</thead>
<tbody>
<tr>
<td>APR 90</td>
<td></td>
</tr>
<tr>
<td>APR 91</td>
<td></td>
</tr>
<tr>
<td>APR 92</td>
<td></td>
</tr>
<tr>
<td>APR 93</td>
<td></td>
</tr>
</tbody>
</table>

**Note:**

No provision for federal and state income taxes (including New York transfer tax on real estate). Analysis is currently in progress.

See accompanying accountant's report.
### Exhibit 11

**Dundon J. Young**

**PROJECTED CASH FLOW ACTIVITY FOR MARY FARM**

**ECONOMIC COMMITTEE**

<table>
<thead>
<tr>
<th>Month</th>
<th>Revenue</th>
<th>Expense</th>
<th>Profit/Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>100</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>February</td>
<td>200</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>March</td>
<td>300</td>
<td>150</td>
<td>150</td>
</tr>
<tr>
<td>April</td>
<td>400</td>
<td>200</td>
<td>200</td>
</tr>
<tr>
<td>May</td>
<td>500</td>
<td>250</td>
<td>250</td>
</tr>
<tr>
<td>June</td>
<td>600</td>
<td>300</td>
<td>300</td>
</tr>
<tr>
<td>July</td>
<td>700</td>
<td>350</td>
<td>350</td>
</tr>
<tr>
<td>August</td>
<td>800</td>
<td>400</td>
<td>400</td>
</tr>
<tr>
<td>September</td>
<td>900</td>
<td>450</td>
<td>450</td>
</tr>
<tr>
<td>October</td>
<td>1000</td>
<td>500</td>
<td>500</td>
</tr>
</tbody>
</table>

**Notes**

- Adjustments for income tax, property taxes, and insurance.
- Budgeted for 12 months of operation.

**See accompanying accountant's report**
TABLE OF CONTENTS

REPORT LETTER

ATTACHMENT A: Summary List of Financial Information

ADDENDA: Procedures Performed

Exhibit I: Donald J. Trump Pre-Plan Budget - Projected Cash Flow Activity for May 1990 - April 1991

Exhibit II: Donald J. Trump Post-Plan Cash Analysis - Projected Cash Flow Activity for May 1990 - April 1991

Exhibit III: Summarized Significant Assumptions - Donald J. Trump Pre-Plan Budget and Donald J. Trump Post-Plan Cash Analysis

Schedule I: Donald J. Trump List of Assets as of April 30, 1990

Schedule II: Donald J. Trump Debt Schedule as of April 30, 1990
KENNETH LEVENTHAL & COMPANY

June 4, 1990

The Trump Organization and
The Relationship Bank Group
(Consisting of:
Bankers Trust Company
The Chase Manhattan Bank
Citibank, N.A.
Manufacturers Hanover Trust)

At the request of Donald J. Trump and The Trump Organization ("Trump"), we have performed certain procedures as enumerated herein, with respect to the Trump financial information listed on Attachment A.

ENGAGEMENT OBJECTIVE

The procedures were performed to assist Trump and the Relationship Bank Group in connection with the Trump debt restructure negotiations.

This report is solely for the information of Trump and the Relationship Bank Group (and the other Trump direct lenders and loan participants) and should not be used by those who did not participate in the negotiation process. This report contains highly confidential and sensitive information which is vital to Donald J. Trump, Trump, and the collateral of the Relationship Bank Group and the other lenders. Dissemination or disclosure of any or all of the contents of this report could adversely affect these interests. The objective of our procedures was to provide financial information within an acceptable tolerance level and the time frame allowed to serve as a framework for negotiations between Trump and the Relationship Bank Group. As a result of the time constraints resulting directly from Trump's financial obligations, the procedures performed were limited. During this period, we met periodically with the Relationship Bank Group, both individually and collectively, at which times we provided and discussed draft preliminary financial data, integrated their comments and recommendations into our process and shared information. Further, during this process, we began similar discussions with other direct lenders. The financial information and disclosures included in this report supersede all previously distributed data, including projected cash flow information distributed on June 2nd and June 7th.

CAVEATS

Notwithstanding the previously mentioned limitations with respect to our overall procedures, the following issues, in particular, could not be fully addressed:
CAVEATS (CONTINUED)

- Final quantification of Taj Mahal Casino Resort contractors' payables and determination of related payment plan
- Full evaluation of the amounts and aging of trade and other accounts payable at the various properties and entities
- Legal ability of Taj Mahal Casino Resort to pay management fees to a Trump affiliate on a monthly basis
- Quantification and legal analysis of contingent liabilities, including litigation, marital issues, letters of credit and Donald J. Trump's personal guarantees
- Quantification of liabilities and contingent liabilities relating to Amels 'o'land B.V. (the boat yard)
- Federal and state income taxes - neither the List of Assets nor the Pre-Plan Budget/Post-Plan reflect income taxes, particularly the estimated taxes, if any, relating to the differences between the estimated asset values and the estimated current amounts of liabilities and their tax bases.

PROCEDURES PERFORMED

A summary of specific procedures performed is presented in the addenda section to this report.

CONCLUSIONS

Because the procedures described in the addenda section do not constitute an examination of prospective financial information (Pre-Plan Budget and Post-Plan) in accordance with standards established by the American Institute of Certified Public Accountants, we do not express an opinion on whether the prospective financial information is presented in conformity with AICPA presentation guidelines or on whether the underlying assumptions provide a reasonable basis for the presentation. Additionally, no opinion is expressed with respect to any historical financial information.

Schedule I, Donald J. Trump - List of Assets, includes estimates of property and entity values which are based upon different valuation methodologies and, in selected situations, are presented either net of arbitrary decreases or in a range. Our procedures were not sufficient to enable us to form any conclusions with respect to value. A further discussion of the various valuation methodologies, approaches and limitations is presented in the procedures addendum to this report.
CONCLUSIONS (CONTINUED)

In connection with the procedures, subject to the limitations and caveats referred to above, no matters came to our attention that caused us to believe that the financial information should be adjusted in order to provide a framework for negotiations between Trump and the Relationship Bank Group within an acceptable tolerance level and the time frame allowed. The financial information assumes Trump will continue as a going-concern. Unless a debt restructuring agreement is reached with substantially all of the lenders, it is probable that most of the prospective financial information will be materially and adversely affected. Also, because of the circumstances and attending publicity, it is possible that there may be material adverse changes even if substantial agreement is reached (i.e., revenue reductions, litigation, payables compression, etc.). Had we performed additional procedures or had we made an examination of the financial information in accordance with standards established by the American Institute of Certified Public Accountants, matters might have come to our attention that would have been reported to you. Furthermore, there will usually be differences between the projected and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. Specifically, the Pre-Plan Budget and the Post-Plan analysis through April 1991 are subject to the following significant variances:

<table>
<thead>
<tr>
<th>Description</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taj Mahal Casino Resort</td>
<td>The Taj Mahal Casino Resort began operations on April 2, 1990. Accordingly, sufficient</td>
</tr>
<tr>
<td></td>
<td>comparable historic market and property operating data is not available to provide a basis of</td>
</tr>
<tr>
<td></td>
<td>comparison to budgeted estimates.</td>
</tr>
<tr>
<td>Trump Shuttle</td>
<td>Trump has adopted a revised business plan of cost reductions and revenue diversification</td>
</tr>
<tr>
<td></td>
<td>intended to achieve substantially a &quot;break-even&quot; after senior debt service and capital</td>
</tr>
<tr>
<td></td>
<td>expenditures. The Trump Shuttle has historically experienced significant losses (including</td>
</tr>
<tr>
<td></td>
<td>funding of capital expenditures) and has not, to date, achieved the business plan objective.</td>
</tr>
<tr>
<td>Casinos (including Trump</td>
<td>The casino' revenues are subject to unpredictable variables and statistical criteria, including</td>
</tr>
<tr>
<td>Plaza Hotel &amp; Casino, Trump</td>
<td>market growth, competitive position and &quot;hold/win&quot; percentages.</td>
</tr>
<tr>
<td>Castle Hotel &amp; Casino and</td>
<td></td>
</tr>
<tr>
<td>Taj Mahal Casino Resort)</td>
<td></td>
</tr>
</tbody>
</table>
CONCLUSIONS (CONTINUED)

<table>
<thead>
<tr>
<th>Description</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Post-Plan</td>
<td>The Post-Plan analyses reflect the debt restructure agreement Term Sheet, as of June 20, '90 (Exhibit II), reflects Term Sheet, as of June 20, '90), projected capital transactions and strategic operational modifications and goals. The realization of these projected cash flows from Trump's businesses and properties are subject to general market uncertainty. Additionally, the amounts reflected as strategic operational modifications and goals reflect a portion of Trump's upside budget scenarios.</td>
</tr>
</tbody>
</table>

We have no responsibility to update this report for events and circumstances occurring after the date of this report.

Kenneth Seventhel & Company
ATTACHMENT A

Summary List of Financial Information

PRIMARY FINANCIAL INFORMATION:
- Donald J. Trump Pre-Plan Budget - Projected Cash Flow Activity for May 1990 - April 1991 ("Pre-Plan Budget") - Exhibit I
- Donald J. Trump Personal and Entity/Project Detail
- Donald J. Trump Post-Plan Cash Analysis - Projected Cash Flow Activity for May 1990 - April 1991 ("Post-Plan") - Exhibit II
- Entity Level Reserves
- Debt Modifications
- Credit Facility Revolver
- Capital Transactions
- Strategic Operational Modifications and Goals
- Summarized Significant Assumptions - Donald J. Trump Pre-Plan Budget and Donald J. Trump Post-Plan Cash Analysis - Exhibit III

SUPPLEMENTARY FINANCIAL INFORMATION:
- Donald J. Trump List of Assets (including estimated values prepared under various bases) as of April 30, 1990 - Schedule I
- Donald J. Trump Debt Schedule as of April 30, 1990 - Schedule II
ADDENDA: PROCEDURES PERFORMED
<table>
<thead>
<tr>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>General</td>
<td>8</td>
</tr>
<tr>
<td>Debt Service</td>
<td>9</td>
</tr>
<tr>
<td>Estimated Value</td>
<td>10-11</td>
</tr>
<tr>
<td>Personal</td>
<td>12</td>
</tr>
<tr>
<td>Alban, Inc. (Trump Princess Yacht)</td>
<td>13</td>
</tr>
<tr>
<td>Amels Holland B.V. (The Boat Yard)</td>
<td>14</td>
</tr>
<tr>
<td>Crystal Tower Associates (Trump Regency)</td>
<td>15</td>
</tr>
<tr>
<td>Donvan Enterprises, Inc. (Personal Aircraft)</td>
<td>16</td>
</tr>
<tr>
<td>East 61 Street Company (Rental Units)</td>
<td>17</td>
</tr>
<tr>
<td>Trump Parc Condominiums and Park South Associates</td>
<td>18</td>
</tr>
<tr>
<td>Penn Yards Associates (Lincoln West)</td>
<td>19</td>
</tr>
<tr>
<td>Penthouse Land Parcels (Adjacent to Trump Plaza)</td>
<td>20</td>
</tr>
<tr>
<td>Plaza Hotel - New York</td>
<td>21</td>
</tr>
<tr>
<td>Tennis Club (Reg-Tru Equities)</td>
<td>22</td>
</tr>
<tr>
<td>Trump Air</td>
<td>23</td>
</tr>
<tr>
<td>Trump Plaza Hotel &amp; Casino and Trump Castle Hotel &amp; Casino</td>
<td>24-25</td>
</tr>
<tr>
<td>Trump Corporation</td>
<td>26-27</td>
</tr>
<tr>
<td>Trump Equitable Fifth Avenue Company (Tower)</td>
<td>28</td>
</tr>
<tr>
<td>Trump Palace</td>
<td>29</td>
</tr>
<tr>
<td>Trump Palm Beaches Corporation</td>
<td>30</td>
</tr>
<tr>
<td>Trump Shuttle, Inc.</td>
<td>31</td>
</tr>
<tr>
<td>Trump Taj Mahal Casino Resort</td>
<td>32</td>
</tr>
<tr>
<td>Trump Taj Mahal Realty, Inc. (including and Trump Hotel Management Corp.)</td>
<td>33</td>
</tr>
<tr>
<td>Trump West Realty Corporation (Trump Wilshire)</td>
<td>33</td>
</tr>
</tbody>
</table>
GENERAL


- Read Schedules of Donald J. Trump Cash Requirements through April 1991, including related summaries of property and entity activity and accompanying agreed-upon procedures report of Arthur Andersen & Co.

- Discussed these reports with Trump management and obtained a preliminary understanding of the business operations of the individual operating properties and entities

- Obtained the following historical data from Trump:
  - abstracts of debt agreements
  - most recent audited/reviewed annual historical financial statements on individual properties and entities
  - current interim financial statements (as available)
  - other relevant documents such as management agreements, indentures, appraisals, etc. (where pertinent sections were read)

- Prepared Asset Listing (Schedule I) based upon the above information and procedures (Note: this schedule also presents debt and value information. Accordingly, see debt and valuation procedures)

- Met individually with the Relationship Bank Group and discussed financial information, related data, issues and potential restructure strategies

- Obtained from Trump, current budgets/cash flow projections from June 1, 1990 - April 30, 1991 for Donald J. Trump and all significant individual properties and entities

- Obtained a listing of cash balances from Trump at May 31, 1990 for all operating properties and entities, which was compared to December 31, 1989 balances and considered in the analyses of working capital changes in the Pre-Plan Budget

- Obtained concurrence from Trump management as to the Pre-Plan Budget and Post-Plan

- Met collectively with the Relationship Bank Group and held various individual meetings and discussions, to discuss the Pre-Plan Budget and Post-Plan

- Read most current (as available) tax returns of Donald J. Trump (including 1990 tax projection), various affiliated partnerships and corporations and obtained a limited understanding of the current tax status
DEBT SERVICE

PRE-PLAN BUDGET:

- Read the following data:
  - Creyer and Traub ("D&T"), counsel to Trump, memorandum (May 20, 1990 draft and May 25, 1990 final re: estimated value, debt structure and financing restrictions on certain real and personal properties owned or controlled by Donald J. Trump)
  - D&T memorandum (January 3, 1990 and updated at April 30, 1990 re: Trump transactions - maturity and expiration dates and business terms)
  - Discussed and resolved with D&T significant discrepancies between D&T data and other relevant information derived from various Donald J. Trump and Trump financial statements
  - Prepared the Debt Schedule (Schedule II), which summarizes significant loan terms
  - Calculated debt service under the following scenarios:
    - that all principal and interest payments would be made on a timely basis as required by the agreements, to determine cash flow effects
    - that scheduled principal and interest payments would be paid currently, as required, and that all loan maturity dates would be extended under the same loan terms for the purposes of the Pre-Plan Budget
  - Compared calculated debt service in the Pre-Plan Budget with management's budgeted debt service, and discussed significant differences with management

POST-PLAN:

- Calculated monthly interest amounts subject to the interest moratorium as outlined in the Relationship Bank Group's June 14, 1990 Term Sheet (Exhibit II reflects Term Sheet, as of June 20, 1990)
- In connection with the provisions of this Term Sheet, presented amounts of initial draw and related interest costs
ESTIMATED VALUE

Overview
- Prepared Section A of Schedule I which presents three scenarios of estimated values for the individual assets indicated
- Disclosed to the parties at interest that these scenarios present classifications of estimated value based upon different methodologies as discussed below

Company's Asset Values
- Noted that Trump's asset values were generally derived from Donald J. Trump's personal financial statement prepared as of November 30, 1989
- Were informed by management that certain of Trump's estimated values include premiums for various trophy characteristics
- Noted, based upon discussions with management, that certain of Trump's values were adjusted for certain market conditions and events since the November 30, 1989 Donald J. Trump Statement of Financial Condition
- Correlated Trump's value of the Plaza Hotel to the outlined terms of a previous potential transaction
- Were informed by management that Trump's value of the Grand Hyatt was based upon Trump's understanding of the value conclusion of a current lender commissioned appraisal

Going Concern Market Values
- Disclosed to the parties at interest that Going Concern Market Values represent preliminary estimates of potential value ranges
- Similarly disclosed that, except as discussed below, these estimates were developed by Kenneth Leventhal & Company based upon certain analytical tests including discounted cash flow analyses and correlations to selected available comparable sales data
- Further disclosed that these analytical procedures were not sufficient to conclude as to either values or a range of values but were performed in connection with the preparation of a framework for negotiations and discussions with lenders
- Excluded, from these preliminary estimates of potential value, premiums for trophy characteristics, discounts for short-term dispositions, and the effects of adverse publicity or other negative events

Short-Term Liquidation Values
- Obtained ranges and indications of Short-Term Liquidation Values from various lender representatives within the Relationship Bank Group during ongoing discussions
ESTIMATED VALUE (CONTINUED)

Specific Assets Valued At Cost

- Indicated the Going Concern Market Value of certain assets at cost, reported by Trump, as discussed below.

- Presented the value of the Taj Mahal at cost because of the lack of both an operating history and estimable operating expenses on a continuing basis.

- Presented the value of the Trump Regency at cost because the premise of value, either under a sale to a third party for future casino operation or as an operating hotel, was not subject to analytical estimation within the time frame.

- Presented the value of the land parcels adjacent to and under the Trump Plaza and adjacent to the Taj Mahal at cost due to the lack of sufficient data to correlate value to comparable land sales.

Other Valuation Approaches

- Developed estimates of the Going Concern Market Value of the following assets as explained below:

  - Valued the Trump Shuttle based upon arbitrary deductions from acquisition cost to reflect continued operating losses through May 1990 and effects of Pan Am's announced plans to sell its shuttle operation.

  - Noted that Trump intends to implement certain operational changes, including cost cutting measures, which would effect valuation analyses at current operational levels.

  - Further noted that the extent and timing of these operational improvements is not estimable at this time.

  - Valued both helicopter Air Services and Trump Plaza of the Palm Beaches based upon the respective balances of outstanding debt less the personal guarantees of Trump.

  - Valued land at Penn Yards based upon discussions with Trump's counsel and management regarding potential rezoning, an estimated value per F.A.R. square foot assuming a rezoning and a discount for rezoning risk.

  - Valued personal residences in aggregate based upon the amount presented in Donald J. Trump's Statement of Financial Condition dated November 30, 1989.
PERSONAL
SALARY, FEES, INTEREST INCOME
INTEREST ON PERSONAL CREDIT LINES(1)
LEGAL/BUSINESS AND CHARITABLE CONTRIBUTIONS
PERSONAL AND HOUSEHOLD EXPENSES

PRE-PLAN BUDGET:
- Compared the monthly budgeted amounts with actual receipts and payments for both 1989 and the first four months of 1990
- Discussed significant variations with Trump and correlated differences to Pre-Plan Budget

POST-PLAN - CAPITAL TRANSACTIONS:
- Computed monthly interest savings for Bear Stearns resulting from the projected sale of Alexanders stock at outstanding debt amounts

(1) Note: See Debt Service Procedures
ALIBAN, INC. (TRUMP PRINCESS YACHT)

PRE-PLAN BUDGET:

- Discussed, with management, plans, including estimated timing and amounts, for disposition of the yacht and for lower levels of operating expenses

- Computed monthly cost savings from reduced levels of both personal and Trump Castle use, based upon discussions with management

POST-PLAN - CAPITAL TRANSACTIONS:

- Computed cash flow from assumed sale of yacht at a gross price of $70,000,000, net of debt as an adjustment to the Pre-Plan Budget

- Calculated remaining operational monthly savings as a result of this projected capital transaction
PRE-PLAN BUDGET:
- Discussed, with management, the status of boat yard shutdown, including commitments and contingencies
- Read memorandum from foreign correspondent which summarized related status and outstanding issues to be addressed
CRYSTAL TOWER ASSOCIATES (TRUMP REGENCY)

PRE-PLAN BUDGET:

- Read the monthly budgets for the twelve month period from June 1990 - May 31, 1991 prepared by the Trump Regency management in May 1990

- Adjusted the June 1990 Trump budget downward to reflect both seasonality differences and the ongoing renovation to estimate the revenues and expenses

- Used respective monthly amounts for May and June 1990 Pre-Plan Budget

- Assumed a net lease arrangement, beginning July 1, 1990 between the Trump Regency and the Trump Plaza Hotel & Casino, to provide a monthly net cash flow equal to 50% of the Trump Regency's debt service for the next twelve months (75% of debt service for the subsequent twelve month and 100% of debt service thereafter)
DONVAN ENTERPRISES, INC. (PERSONAL AIRCRAFT)

PRE-PLAN BUDGET:
- Analyzed monthly Atlantic City market data on casino win to estimate the seasonality trend of the market
- Applied these seasonality trend factors to Donvan's annual budgeted revenues for '90 and '91 to calculate monthly revenue estimates
- Adjusted the '90 and '91 budgeted expenses to derive monthly Pre-Plan Budget amounts
- Discussed anticipated capital expenditures with management and reflected these discussions in monthly Pre-Plan Budget

POST-PLAN - CAPITAL TRANSACTIONS:
- Discussed proceeds from assumed sale of 727 with management
- Computed related monthly expense savings
PRE-PLAN BUDGET:

- Discussed, with management, the mortgage receivable from the co-op association and were advised that the current face amount approximated $20,000,000 plus deferred interest of approximately $4,000,000.

- Discussed, with management, estimated monthly amounts of mortgage interest collections.

- Read Trump's operational schedule of unsold units, including the rent roll and maintenance costs, and correlated these amounts to the Pre-Plan Budget.

- Compared budgeted consulting fee expenses charged to allocated amounts from Trump Corporation's budget of corporate consulting fee income.

- Compared budgeted amounts with actual results from 1989 and the first four months of 1990 and discussed significant variations with management.
- Read and discussed, with management, rent roll and vacancy projections for apartment building and commercial spaces
- Discussed issues affecting potential co-op conversion of the 100 Central Park South adjacent building with management
- Correlated this revenue information to amounts indicated in the Pre-Plan Budget
- Read and discussed Trump's capital budget, including amounts and timing of capital expenditures
- Correlated these discussions to Pre-Plan Budget
- Read condominium sales contracts (noting sales prices and unit numbers)
- Discussed estimated future sales and the above sales contracts with Trump and correlated these discussions to Pre-Plan Budget
- Read analyses prepared by the Relationship Bank Group, related these analyses to budgeted amounts and discussed significant variations with both Relationship Bank Group and management
PENN YARDS ASSOCIATES (LINCOLN WEST)

PRE-PLAN BUDGET:
- Discussed with management remaining interest reserve on mortgage loan and expenses for legal and other zoning process costs
- Related these discussions to budgeted amounts
- Compared budgeted amounts for payroll and consulting contract fee expenses from Trump Corporation's budget of payroll and consulting contracts
- Read the First Amendment of Limited Partnership Agreement of Penn Yard Associates and correlated key provisions to contributions required of 20% partner and Donald J. Trump
PRE-PLAN BUDGET:
- Discussed status, timing and corresponding costs of litigation with Trump and related these discussions to operating expenses
PRE-PLAN BUDGET:
- Read Trump's monthly base and upside budgets for the calendar year 1990
- Analyzed management's monthly profit and loss statements for 1987, 1988, 1989 and the first four months of 1990
- Interviewed operating management as to budgets prepared, capital expenditures, and dates during which Plaza Hotel was under renovation
- Discussed the following with operating management:
  - base and upside budget assumptions
  - timing of Plaza renovations completion
  - planned and required capital expenditures
  - required paydowns of accounts payable
- Calculated increases in monthly operating revenue and net operating income ("NOI") in 1989, subsequent to significant renovations, as compared to corresponding months in 1988
- Judgementally extrapolated these calculated effects of renovations to all of 1989 as an analytical test of NOI for an entire renovated year
- Used Trump's monthly base budget for Pre-Plan Budget
- Computed monthly capital expenditures based upon required amounts provided by management and base FF&E reserve

POST-PLAN - STRATEGIC OPERATIONAL MODIFICATIONS AND GOALS:
- Compared actual results for the first four months of 1990 to the operating management's base plan
- Judgementally determined a Post-Plan NOI at an approximate mid-point between the base and upside budget levels
- Judgementally allocated revenue increases and expense savings to each month from May 1990 through April 1991
PRE-PLAN BUDGET:
- Compared actual results for 1989 and the first four months 1990 to Trump's May 1990 - April 1991 budget
- Discussed significant variations with management
TRUMP AIR

PRE-PLAN BUDGET:
- Analyzed monthly Atlantic City market data on casino win to estimate the seasonality trend of the market
- Applied these seasonality trend factors to Trump Air's annual budget of revenues and expenses to calculate the monthly Pre-Plan Budget
- Discussed anticipated capital expenditures with management and included discussed amounts in monthly Pre-Plan Budget

POST-PLAN - STRATEGIC OPERATIONAL MODIFICATIONS AND GOALS:
- Discussed plans to achieve "break-even" operations and timing with management
- Computed monthly adjustments relating to Trump's assumption as to "break-even" operations commencing as of October 1, 1990
TRUMP PLAZA HOTEL & CASINO
AND TRUMP CASTLE HOTEL AND CASINO

GENERAL PROCEDURES (ALL CASINOS):
- Obtained data from Casino Control Commission
- Conducted telephone interview with Atlantic City Visitor and Convention Bureau
- Obtained Trump survey of May gaming results in Atlantic City
- Calculated growth rates in gaming activity from August - May 1989 as compared to April - May 1990
- Prepared a limited market analysis of gaming activity and supply since 1978
- Estimated supply and demand balance for '990 and next ten years on a preliminary basis
- Analyzed seasonal and monthly pattern of gaming activity in Atlantic City market over the last four years
- Analyzed and compared summary revenue and operating expense levels at each Atlantic City Casino for 1988 and 1989
- Analyzed table drop, slot handle, and related win for Atlantic City for each month in 1989

PRE-PLAN BUDGET:
- Read financial report to Casino Control Commission for 1988 and 1989
- Read internal monthly reports for 1989 and assembled annual 1989 results by month
- Reclassified monthly allocations of real estate taxes per Trump’s budgets to adjust budgeted operating expenses
- Obtained estimates from Trump as to timing and amount real estate tax payments
- Computed NOI as % of gross revenue and NOI before real estate taxes as % of gross revenue
- Calculated reduction in monthly budgeted revenues consistent with annualized market analysis computations
- Adjusted monthly budgeted NOI %'s downward to approximate 1989 actual annual levels for Pre-Plan Budget
- Applied adjusted monthly NOI %'s to adjusted monthly budgeted revenue and deducted estimated real estate taxes in months payable to calculate Pre-Plan Budget operating income
PRE-PLAN BUDGET (CONTINUED):
- Correlated resulting annual NOI to other Atlantic City casinos' results for '989
- Deducted revised capital expenditures on a monthly basis as part of Pre-Plan Budget computations

POST-PLAN - STRATEGIC OPERATIONAL MODIFICATIONS AND GOALS:
- Calculated increase in NOI as % of gross revenue between '89 actuals and Trump's revised budget
- Judgementally determined to reflect approximately one half of this increase in NOI % used in Post-Plan computations of expense savings
- Distributed these calculated expense savings by month in proportion to Pre-Plan NOI
- Correlated resulting annual NOI to other Atlantic City casinos' results for '989
TRUMP CORPORATION

PRE-PLAN BUDGET:

3rd Avenue Shopping Center
- Read the 3rd Avenue Shopping Center rent roll for the commercial space, the garage and both 163 and '65 East 61 Street
- Related this data to budgeted rental revenues
- Read the master lease on the 3rd Avenue Shopping Center commercial space, garage and '63 and '65 East 61 Street and related this data to rent expense
- Read analyses of 3rd Avenue Shopping Center, and master lease prepared by the Relationship Bank Group, discussed these analyses with the Relationship Bank Group and related this data to revenues and expenses of 3rd Avenue Shopping Center

Other Items
- Read Trump's schedules of corporate payroll, consulting fees and entity allocations and related indicated expense allocations to other Trump entity budgets
- Read the management agreements pertaining to Trump Tower, Trump Parc, Trump Plaza and Trump Plaza of the Palm Beaches and related this data to budgeted management fees
- Compared revenues and operating expenses with the 1989 and first four months of 1990 actual results and discussed the significant variations with Trump

Trump Sharing of Hyatt Incentive Management Fee:
- Obtained and read property budgets prepared by Hyatt
- Obtained and read draft annual reports of both Regency Lexington partners and accounts maintained by Hyatt
- Obtained and read Hyatt management contract, participating incentive fee sharing agreement, ground rental agreement and partnership agreement
- Analyzed 1988 and 1989 operating performance, financial information and distribution to partners
- Analyzed furniture, fixture and equipment reserve for replacement, base management fee and incentive management fee computations for 1988 and 1989
TRUMP CORPORATION (CONTINUED)

Trump Sharing of Hyatt Incentive Management Fee (Continued):
- Analyzed year to date performance of Grand Hyatt through April 30, 1990
- Correlated historical occupancy and average rate performance of Grand Hyatt to our data base on Manhattan hotel market
- Estimated future occupancy and rate performance of Grand Hyatt consistent with this market study
- Calculated future net operating income at historical percentages
- Assumed, for purposes of prospective computations, that debt maturing, in 1991 would be renewed at existing debt service levels
- Calculated Trump share of estimated future incentive management fee
- Estimated no distributable cash flow to partners, after debt service, ground rent payments and management fees, through April 30, 1991
- Correlated these calculations to Pre-Plan Budget
TRUMP EQUITABLE FIFTH AVENUE COMPANY (TOWER)

PRE-PLAN BUDGET:

- Read the Trump Tower Office/Retail First Mortgage Financing Confidential Placement Memorandum prepared by Bankers Trust Company.

- Read the May '90, '990 rent roll prepared by Bankers Trust Company and related to rental revenues.

- Read selected leases and compared the terms of these leases with the terms shown on the rent roll.

- Noted that estimated revenues (Pre-Plan Budget) do not include lease income for space occupied by Trump.

- Discussed with management, the Bonwit Teller lease buyout and the terms of a lease that is currently being negotiated on the Bonwit Teller space.

- Computed the decrease in budgeted monthly revenues from July 1990 for the Bonwit Teller buyout and related the projected buyout payment to Trump's May actual results.

- Noted that proposed terms of a lease on the Bonwit Teller space reflect free rent through June 1991 and '00% funding of tenant improvements by lessee.

- Read Trump's capital budget and discussed the components of the capital expenditures with operating management.

-28-
TRUMP PALACE

PRE-PLAN BUDGET:

- Read two projection scenarios developed by Trump as follows:
  - Scenario 1 - "No Sales Beyond Those Units Sold as of May 22, '90" (75 units pre-sold)
  - Scenario 2 - "The Building will be 50% Sold by 12/31/93 and 50% Rentals"

- Read selected sections of the Offering Plan, including First and Second Amendments

- Calculated the per square foot dollar amounts of both the original and amended asking prices and the projected rental rates for each unit and compared to available comparables

- Analyzed 75 sales contracts in terms of timing, prices and types of units sold

- Obtained and discussed key assumptions with Trump

- Modified selected key assumptions of Trump

- Obtained and read revised monthly construction budget

- Used Trump construction budget to calculate interest payments (We were advised that the construction loan is sufficient to cover "hard" and "soft" costs and to provide an interest reserve through October '91, based upon Scenario 1)

- Calculated projected cash flow (through October '91) assuming the 75 residential units would close and 208 units would be available for rent
PRE-PLAN BUDGET:
- Discussed marketing plan, status of sales and level of operating expenses with management.

POST-PLAN - STRATEGIC OPERATIONAL MODIFICATIONS AND GOALS:
- Trump will negotiate with lender to achieve deed-in-lieu with payment of personal guaranty deferred beyond April '99.
PRE-PLAN BUDGET:

- Read Trump's 1990 monthly operating budget which indicates substantially a "break-even" after payment of senior debt service and capital expenditures

- Read Trump's detailed monthly capital budget for June - December 1990 and for 1991

- Discussed budgeted capital expenditures related to regulatory requirements and deferred maintenance for June - December 1990 and 1991 with operating management

- Discussed 1989 and first 5 months 1990 capital expenditures with operating management and related these amounts to future budget

- Discussed the following documents with operating management which indicate Trump's plans for increasing charter revenues, cutting weekend scheduling and reducing payroll:
  - May 1990 Daily Operations Performance
  - May 22, 1990 Revised Budget
  - May 22, 1990 Revised Capital Budget
  - 1990 and 1991 Revised Budget Assumptions

POST-PLAN - STRATEGIC OPERATIONAL MODIFICATIONS AND GOALS:

- Discussed management's plan to institute "no frills" program by October 1, 1990

- Computed adjustments related to monthly Strategic Operational Modifications and Goals
TRUMP TAJ MAHAL CASINO RESORT
(INCLUDING TRUMP TAJ MAHAL REALTY, INC.
AND TRUMP HOTEL MANAGEMENT CORPORATION)

PRE-PLAN BUDGET AND POST-PLAN:
- Interviewed selected casino personnel as to slot operations and bus programs in April and May 1990.

- Obtained, read and discussed schedules of capital expenditures with operating management.

- Obtained, read and discussed schedules of estimated payments to contractors by month in respect of amounts owed as of May 31, 1990.

- Reclassified monthly allocations of real estate to adjust total operating expenses.

- Obtained estimates from Trump as to timing and amount of real estate tax payments.

- Utilized budgeted revenues, adjusted operating expenses, and estimated real estate tax payments to calculate operating income by month.

- Utilized estimated payments to contractors and capital expenditures provided by Trump in Pre-Plan Budget.

- Adjusted May 1990 revenues and expenses for both effects of Elton John gala and budgeted slot win, using management's data, to reflect gaming activity as if at "normal" capacity and "normalized" use.

- Calculated indicated bottom line margin from May 1990 revenues and expenses, as adjusted, as an analytical test.

- Annualized gaming win and gross revenues using market wide percentage of May win to annual win.

- Applied bottom line %, as adjusted above, to annualized revenue.

- Compared this calculated bottom line to budgeted NOI as an analytical test.

- Used Pre-Plan Budget as Post-Plan owing to lack of operating history on Taj Mahal.

Trump Hotel Management Corporation
- Read provisions of management contract with Trump Hotel Management Corporation and calculated amounts of management fee income on a semi-annual basis.

- Assumed monthly payments of lower management fees for Pre-Plan Budget purposes based upon discussion with Trump and lenders.
TRUMP WEST REALTY CORPORATION (TRUMP WILSHIRE)

PRE-PLAN BUDGET:

- Read the Partnership Agreement of Trump Wilshire Associates and related terms to monthly budgeted revenues

- Read Trump's computations for planning/development fees and projected mortgage placement fee

- Compared these computations with budgeted fee income

- Read and discussed Trump's budgeted capital expenditures, and entitlement timing with operating management and correlated the results of these discussions to capital expenditures budgeted
EXHIBIT I: DONALD J. TRUMP
PRE-PLAN BUDGET
PROJECTED CASH FLOW ACTIVITY FOR
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PRE-PAYMENT BUDGET
ALAN J. TRUMP
PROPOSED CASH FLOW ACTIVITY FOR MAY 1990 - APRIL 1991
(UNAUDITED)

ENTITY NAME: PERSONAL - SALARY, FEES, INTEREST INCOME & OTHER

<table>
<thead>
<tr>
<th>ENTITY NAME</th>
<th>PERSONAL - SALARY, FEES, INTEREST INCOME &amp; OTHER</th>
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</table>

BOOK ROYALTIES (3) | |
GAME ROYALTIES | |
RENTAL ROYALTIES (2) | |
TRUST DISTRIBUTIONS (3) | |
OTHER INCOME | |
INTEREST INCOME (4) | |

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NOTES:
1) SALARY INCOME FROM A TRUMP TOWER APARTMENTS AND SUBLEASE OF FLAT AT 730 FIFTH AVENUE
2) ROYALTIES PAID QUARTERLY. 1991 INCREASE DUE TO 10/90 PUBLICATION OF NEW BOOK
3) DJT TRUST HOLDS MORTGAGES ON SHOREMAKER I, II, III, MAGNIFICENT HALL AND CHELSEA MALL (RESIDENTIAL APARTMENTS).
4) DUE TO USE OF CASH BALANCE IN INTEREST MEETING ACCOUNT, INTEREST INCOME ASSUMED TO CEASE AT 6/30/90

SEE ACCOMPANYING ACCOUNTANT'S REPORT

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## PER PLAN BUDGET

**PROJECTED CASH FLOW FOR MAY 1990 - APRIL 1991**

**ENTITY NAME: PERSONAL - INTEREST ON PERSONAL CREDIT LINES**

<table>
<thead>
<tr>
<th>Benefit Plan</th>
<th>Description</th>
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**See accompanying accountants report.**
## PROJECTED CASE FLOW ACTIVITY FOR MAY 1990 - APRIL 1991

### ENTITY NAME: PERSONAL - LEGAL/BUSINESS & CHARITABLE CONTRIBUTIONS

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<th>Entity</th>
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### CHARITABLE CONTRIBUTIONS:

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### LEGAL/BUSINESS EXPENSES:

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### RESTRUCTURING COSTS:

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### NOTE:

1) CONTRIBUTION TO THE BJ FOUNDATION ARE FROM PLUGGED ROYALTIES FROM THE BOOK AND GAME. THERE IS NO SET SCHEDULE FOR THE CONTRIBUTIONS, THEY ARE BASED ON NEED AND AVAILABILITY OF CASE.

SEE ACCOMPANYING ACCOUNTANT'S REPORT
<table>
<thead>
<tr>
<th>ENTITY NAME</th>
<th>PERSONAL &amp; PERSONAL &amp; HOUSEHOLD EXPENSES</th>
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**DIMENSIONS**
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**See accompanying accountant's report**
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<tr>
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**Note:**
1) *56,500 due of liabilities not be paid, consequences are being evaluated.*
2) *Construction of boat - Middle East customer, data required.*

See accompanying accountant's report.
**PRE-PLAN BUDGET**
**DONALD J. TRUMP**

**PROJECTED CASH FLOW ACTIVITY FOR MAY 1990 - APRIL 1991**

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<tr>
<td><strong>TOTAL FOR 12 MONTHS ENDED</strong></td>
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**OPERATING INCOME**

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<td>831,452</td>
<td>95,829</td>
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**DEBT SERVICE**

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**OTHER RECEIPTS (EXPENSES)**

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<td>831,452</td>
<td>95,829</td>
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**NOTE:**

1) Anticipates lease between the Regency and Trump Plaza Hotel & Casino at 1.5% debt service for the first 12 months, 3% for the second year and 5% thereafter.

See accompanying accountant's report.
**PRE-PAY PLAN BUDGET**

**DONALD J. TRUMP**

PROJECTED CASH FLOW ACTIVITY FOR MAY 1990 - APRIL 1991

(Thousands of Dollars Unaudited)

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<th>ENTITY NAME: EAST 61ST STREET CO.</th>
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<td>ASSET NAME: FINE UNOBD RENTAL UNITS</td>
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<td>MORTGAGE INTEREST</td>
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<th>OPERATING EXPENSES</th>
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<tr>
<td>REAL ESTATE TAXES</td>
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<tr>
<td>OPERATING PROFIT (LOSS) BEFORE DEBT SERVICE &amp; CAPITAL EXPENDITURES</td>
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<th>OTHER RECEIPTS (EXPENSES)</th>
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| CASH FLOW PRIOR TO OUTSIDE FINANCING CHANGES IN WORKING CAPITAL AND B.J.T. CONTRIBUTIONS (DISTRIBUTIONS) |
| (107) | (107) | (107) | (107) | (107) | (107) | (107) | (1,284) |

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<thead>
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<th>OUTSIDE FINANCING OBTAINED</th>
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| CHANGES IN WORKING CAPITAL: |
| USE/(INCOREAS) OF LIQUID ASSETS |
| ADD'N |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 |

| D.J.T. CONTRIBUTIONS (DISTRIBUTIONS) |
| (107) | (107) | (107) | (107) | (107) | (107) | (1,284) |

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<th>NET CASH FLOW</th>
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SEE ACCOMPANYING ACCOUNTANTS REPORT
## Pre-Plan Budget

**Donald J. Trump**

**Projected Cash Flow Activity for May 1990 - April 1991**

*Note: U.S. Dollars (000's omitted)*

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<th>Asset Name: TRUMP PARK CONDOMINIUM (Unsold Units)</th>
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<td>50</td>
<td>55,653</td>
<td>622</td>
<td>61,935</td>
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<tr>
<td><strong>Operating Profit (Loss) Before Debt Service &amp; Capital Expenditures</strong></td>
<td>(30)</td>
<td>3,537</td>
<td>(25)</td>
<td>1,863</td>
<td>(18)</td>
<td>(18)</td>
<td>(10)</td>
<td>(8)</td>
<td>5,299</td>
<td>16</td>
<td>1,929</td>
<td>16</td>
<td>2,009</td>
<td>3,970</td>
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</table>

### Debt Service:

**Long-Term Debt**

<table>
<thead>
<tr>
<th>Principal</th>
<th>Interest</th>
</tr>
</thead>
<tbody>
<tr>
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<td>0</td>
</tr>
</tbody>
</table>

**Capital Expenditures**

<table>
<thead>
<tr>
<th>0</th>
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</tr>
</thead>
</table>

### Other Receipts (Expenses):

<table>
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</thead>
</table>

### Cash Flow Prior to Outside Financing:

**Changes in Working Capital, and O.J.T. Contributions (Distributions)**

| (44)     | (68)     | (27)     | 1,428    | (18)     | (18)     | (10)     | (8)      | 1,294                            | 16       | 1,929    | 16         | 2,009      | 3,970                                             | 5,211                                             |

### Outside Financing Obtained:

| 0        | 0        | 0        | 0        | 0        | 0        | 0        | 0        | 0                                 | 0        | 0        | 0          | 0          | 0                                                 | 0                                                 |

### Changes in Working Capital:

**Use (Increase) of Liquid Assets**

| 0        | 0        | 0        | 0        | 0        | 0        | 0        | 0        | 0                                 | 0        | 0        | 0          | 0          | 0                                                 | 0                                                 |

**A/P Reductions**

| 0        | 0        | 0        | 0        | 0        | 0        | 0        | 0        | 0                                 | 0        | 0        | 0          | 0          | 0                                                 | 0                                                 |

### O.J.T. Contributions (Distributions)

| 64       | 48       | 27       | (1,428)  | 18       | 14       | 10       | 6        | (1,294)                          | (16)     | (1,929)  | (16)       | (2,009)    | (3,970)                                             | (5,211)                                             |

### Net Cash Flow

| 0        | 0        | 0        | 0        | 0        | 0        | 0        | 0        | 0                                 | 0        | 0        | 0          | 0          | 0                                                 | 0                                                 |

### Notes:

1) TRUMP PARK CONDOMINIUM represents the cash flows from the sales of 7 condo units, revenues and expenses of the commercial space and the adjacent building are shown as Park South Associates.

See accompanying accountant's report.
### Pre-Plan Budget

**Donald J. Trump**

**Projected Cash Flow Activity For May 1990 - April 1991**

(All Months Ended)

| Entity Name: Park South Associates
| Asset Name: 100 Central Park South

#### Revenues - Apartment Building

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<thead>
<tr>
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<td>8470</td>
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</table>

#### Revenues - Commercial Space

|-------|----------|-----------|-----------|----------|-----------|----------|----------|----------|----------|----------|----------|----------|

#### Operating Expenses

|-------|----------|-----------|-----------|----------|-----------|----------|----------|----------|----------|----------|----------|----------|

#### Real Estate Taxes

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#### Operating Profit (Losses) Before Debt Service & Capital Expenditures

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<td>447</td>
<td>110</td>
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#### Debt Service:

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#### Capital Expenditures

|-------|----------|-----------|-----------|----------|-----------|----------|----------|----------|----------|----------|----------|----------|

#### Other Receipts (Expenses)

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#### Cash Flow Prior To Outside Financing

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<tbody>
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<td>(168)</td>
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<td>(168)</td>
<td>(168)</td>
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<td>(1,555)</td>
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#### Other Financing Obtained

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#### Changes In Working Capital; Use/(Increase) Of Liquidity;

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</table>

#### D.J.T. Contributions (Distributions)

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<tr>
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#### Net Cash Flow

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<tbody>
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</table>

**See accompanying accountant's report.**
## Pre-Plan Budget

**Donald J. Trump**

**Projected Cash Flow Activity For May 1990 - April 1991**

### Table: Pre-Plan Budget

<table>
<thead>
<tr>
<th>Entity Name: Vector Group Associates</th>
<th>Asset Name: Lincoln West Railroads Yard</th>
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</thead>
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**Revenues**

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<th>1990</th>
<th>Total for 12</th>
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</tr>
<tr>
<td>Jul</td>
<td>8,127</td>
<td>91,836</td>
</tr>
<tr>
<td>Aug</td>
<td>8,127</td>
<td>91,836</td>
</tr>
<tr>
<td>Sep</td>
<td>8,127</td>
<td>91,836</td>
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<td>91,836</td>
</tr>
<tr>
<td>Jan</td>
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<td>91,836</td>
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<tr>
<td>Feb</td>
<td>8,131</td>
<td>91,836</td>
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<tr>
<td>Mar</td>
<td>8,131</td>
<td>91,836</td>
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<tr>
<td>Apr</td>
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<td>91,836</td>
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**Operating Expenses**

<table>
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<tr>
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<th>Total for 12</th>
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</thead>
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<td>(308)</td>
</tr>
<tr>
<td>Jul</td>
<td>(308)</td>
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<tr>
<td>Aug</td>
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<td>Mar</td>
<td>(256)</td>
</tr>
<tr>
<td>Apr</td>
<td>(256)</td>
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</table>

**Real Estate Taxes**

<table>
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<tr>
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<td>(2,256)</td>
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<tr>
<td>Jul</td>
<td>(2,256)</td>
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<td>Aug</td>
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<td>Sep</td>
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<td>Mar</td>
<td>(2,256)</td>
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<tr>
<td>Apr</td>
<td>(2,256)</td>
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**Operating Profit (Loss) Before Debt Service & Capital Expenditures**

<table>
<thead>
<tr>
<th>Month</th>
<th>Total for 12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jun</td>
<td>(181)</td>
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<tr>
<td>Jul</td>
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<td>Aug</td>
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<tr>
<td>Apr</td>
<td>(181)</td>
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**Debt Service: Loan 1 - Chase 8,796,499**

<table>
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<td>Jul</td>
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**Capital Expenditures**

<table>
<thead>
<tr>
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<th>Total for 12</th>
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</thead>
<tbody>
<tr>
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<td>Apr</td>
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**Other Receipts (Expenses)**

<table>
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<th>Total for 12</th>
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</table>

**Cash Flow Prior to Outside Financing, Changes in Working Capital, and O.R.T. Contributions (Distributions)**

<table>
<thead>
<tr>
<th>Month</th>
<th>Total for 12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jun</td>
<td>(181)</td>
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<td>Jul</td>
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<td>Apr</td>
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**Contribution Required of 20% Partner**

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**Change in Working Capital Use/Increase of Liquid Assets**

<table>
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</table>

**O.R.T. Contributions (Distributions)**

<table>
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**Net Cash Flow**

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See accompanying accountant's report.
### Pre-Plan Budget
Donald J. Trump
Projected Cash Flow Activity (April 1991)

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<tr>
<th>Entity Name: Penthouse Parcels</th>
<th>Asset Name: Land Rent to Trump Plaza Casino</th>
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#### Monthly Figures:

- **Total** for 12 months ended: [Details]

#### Table: Cash Flow Activity (April 1991)

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**Note:**
1) Loan #2 accrues interest, payment subject to litigation settlement.

See accompanying accountant’s report.
### Projected Cash Flow Activity for May 1990 - April 1991

**Entity Name:** Plaza Operating Partners  
**Asset Name:** Plaza Hotel

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<th>JUNE</th>
<th>JULY</th>
<th>AUG</th>
<th>SEPT</th>
<th>OCT</th>
<th>NOV</th>
<th>DEC</th>
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<th>FEB</th>
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<td>(7,328)</td>
<td>(7,571)</td>
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*See accompanying accountant's report*
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See accounting accountant's report.
| ENTITY NAME: HELICOPTER AIR SERVICES INC. | PROJECTED CASH FLOW ACTIVITY FOR JUN 1990 - APRIL 1991 |
| Asset Name: Trump Air | 2002-03 (UNAUDITED QUARTERLY) |

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References: ACCOMPANYING ACCOUNTANT'S REPORT
### Pre-Plan Budget

**Donald J. Trump**

**Projected Cash Flow Activity for May 1990 - April 1991**

**Unaudited**

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**Revenues**

**Operating Expenses**

**Real Estate Taxes**

**Operating Profit (Loss) Before Debt Service & Capital Expenditures**

**Best Service:** See attached schedule

**Principal-Subordinated Fund Investment**

**Capital Expenditures**

**Other Receipts (Expenses)**

**Cash Flow Prior to Outside Financing**

**Changes in Working Capital: Use/InCREASES**

** Cash Receipts**

**Cash Disbursements**

**Note:**

1) Cash Required For June Payment:

   - Principal: 9,22,000
   - Interest: 99,360
   - Bonds Held: 50,000

   Total Due: 9,22,000

See accompanying accountant's report.
| ENTITY NAME: TRUMP CASTLE ASSOCIATES AND TRUMP CASTLE FUNDING |
| ASSET NAME: TRUMP CASTLE |

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**TOTAL PRINCIPAL: 885,000**

**TOTAL INTEREST: 53,975**

---

SEE ACCOUNTING ACCOUNTANT'S REPORT

17A
## Pre-Plan Budget

Donald J. Trump  
**Projected Cash Flow Activity for May 1990 - April 1991**  
(Numbers omitted (unaudited))

### Entity Name: The Trump Corporation  
Asset Name: The Trump Headquarters

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**See accompanying accountant's report**
## PRE-PAYMENT BUDGET

**Donald J. Trump**

**Projected Cash Flow Activity For May 1990 - April 1991**

### Entity Name: The Trump Corporation

### Asset Name: The Trump Headwaters

### Revenues:

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### Notes:

1. Includes rental income from Trump Plaza - East Street Commercial Space, Garage and 2 adjacent buildings.
2. Includes $270,000 of prior year's E/R tax amount under 4311 A on 3rd Ave and corresponding interest ($44,000).

See accompanying accountant's report.

---

**Issue Date:** May 1990
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SEE ACCOUNTING ACCOUNTANT'S REPORT
## Pre-Plan Budget

### Entity Name: TRUMP Palace Condominiums

### Asset Name: TRUMP Palace

### Revenues

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<td>(7,752)</td>
<td>(8,033)</td>
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### Notes:

1. A 1% Second Payment on the deposit for pre-sold units is expected to be paid during June - August 1990. At present, approx. 655,000,000 (75% units) have been pre-sold.

See accompanying Accountant's Report.
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<th>REVENUES</th>
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<th>REAL ESTATE TAXES</th>
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<th>DEBT SERVICE: LOMB 1 - MATURE 527,100</th>
<th>CAPITAL EXPENDITURES</th>
<th>OTHER RECEIPTS (EXPENSES)</th>
<th>CASH FLOW PRIOR TO OUTSIDE FINANCING</th>
<th>OUTSIDE FINANCING OBTAINED</th>
<th>CHANGES IN WORKING CAPITAL: USE/(INCREASE) OF LIQUID ASSETS</th>
<th>D.J.T. CONTRIBUTIONS (DISTRIBUTIONS)</th>
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SEE ACCOMPANYING ACCOUNTANT'S REPORT
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<th>REAL ESTATE TAXES</th>
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<th>DEBT SERVICE: PRINCIPAL INTEREST</th>
<th>CAPITAL EXPENDITURES</th>
<th>OTHER RECEIPTS (EXPENSES)</th>
<th>CASH FLOW PRIOR TO OUTSIDE FINANCING, CHANGES IN WORKING CAPITAL, AND O.J.T. CONTRIBUTIONS (DISTRIBUTIONS)</th>
<th>OUTSIDE FINANCING OBTAINED</th>
<th>CHANGES IN WORKING CAPITAL: USE/(INCREASE) OF LIQUID ASSETS A/P REDUCTIONS</th>
<th>O.J.T. CONTRIBUTIONS (DISTRIBUTIONS)</th>
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<td>(3.954)</td>
<td>(3.779)</td>
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SEE ACCOMPANYING ACCOUNTANT'S REPORT
**PROJECTED CASH FLOW ACTIVITY FOR MAY 1990 - APRIL 1991**

**ENTITY NAME: TRUMP PLAZA ASSOCIATES AND TRUMP PLAZA PUBLISHING**

**ASSET NAME: TRUMP PLAZA CASINO**

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**SEE ACCOMPANYING ACCOUNTANT’S REPORT**
### Projected Cash Flow Activity for May 1990 - April 1991

| Entity Name: Trump Shuttle Inc. |
| Asset Name: Airline Shuttle |

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<th>Real Estate Taxes</th>
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<th>Operating Profit (Loss) Before Debt Service and Capital Expenditures</th>
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<th>Capital Expenditures:</th>
<th>Other Revenues (Expenses)</th>
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<td>Regulatory Requirements &amp; Deferred Maintenance</td>
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<th>Cash Flow Prior to Outside Financing, Changes in Working Capital, and B/J/L Contributions (Distributions):</th>
<th>Outside Financing Obtained</th>
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<tr>
<td>(2,354)</td>
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<tr>
<th>Changes in Working Capital: Increase/(Decrease) of Liquid Assets</th>
<th>A/P Reductions</th>
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<tr>
<td>(988)</td>
<td>(138)</td>
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d. i. Contributions (Distributions): |
3,347 |
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Notes:
1) Swap agreements with Bankers Trust and Citibank which result in a pay rate of 6% plus 200 basis points on $150,000,000 of loan 1.
2) Regulatory requirements for the first four months of 1991 are subject to a reimbursement from Eastern Airlines up to a maximum of $5.55 million for required Stage II IME payments.

See accompanying accountant's report.
## Pre-Plan Budget

### Richard J. Trump

**Projected Cash Flow Activity for Nat 1990 - April 1991**

### (Continued)

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### Revenues

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### Operating Expenses

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### Capital Expenditures

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### Notes:

1) Represents portion of management fee payable

See accompanying accountant's report.
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**NOTE:**

1) MANAGEMENT FEE FROM TAJ/MARRIOTT OF TAJ TO PAY UNDER TERMS OF MORTGAGE UNDER REVIEW

SEE ACCOMPANYING ACCOUNTANT’S REPORT
| Entity Name: Trump West Realty Corp  
| Asset Name: Wildhorne Hotel |

**Revenues**

**Operating Expenses**

**Real Estate Taxes**

**Operating Profit (Loss) Before Debt Service & Capital Expenditures**

**Debt Service:**
- Principal
- Interest

**Capital Expenditures**

**Other Receipts (Expenses)**

**Cash Flow Prior to Outside Financing:**
- Changes in Working Capital, and B.A.T. Contributions (Distributions)

**Outside Financing Obtained**

**Changes in Working Capital:**
- Use/Increase of Liquid Assets
- App. Reductions/Increase

**B.A.T. Contributions (Distributions)**

**Net Cash Flow**

**Note:**
February 1991 includes a 1.5% fee for mortgage placement.

See accompanying accountant's report.
EXHIBIT II: DONALD J. TRUMP

POST-PLAN CASH ANALYSIS

PROJECTED CASH FLOW ACTIVITY

FOR MAY 1990 - APRIL 1991
**POST-PAY CASE ANALYSIS**

**DONALD J. TRUMP**

**PROJECTED CASE FLOW ACTIVITY FOR MAY 1990 - APRIL 1991**

(OMB'S UNIFIED)

(CUMULATIVE)

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**SEE ACcompanyING ACCOUNTANT'S REPORT**
### POST-PLAN CASH ANALYSIS

#### MAY - 1990

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<th>Corporation</th>
<th>Cash Balance</th>
<th>After Entity Level Reserves</th>
<th>Debt Modifications</th>
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<td><strong>Real Estate Taxes Paid by Secured Lenders</strong></td>
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<td><strong>100%</strong></td>
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<td><strong>Facilities - Pensions</strong></td>
<td><strong>Cash After Entity Level Reserves and Debt Modifications</strong></td>
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#### CASH BALANCE - AFTER ENTITY LEVEL RESERVES

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<td><strong>Real Estate Taxes Paid by Secured Lenders</strong></td>
<td><strong>100%</strong></td>
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<tr>
<td><strong>Facilities - Pensions</strong></td>
<td><strong>Cash After Entity Level Reserves and Debt Modifications</strong></td>
<td><strong>524,994</strong></td>
<td><strong>7,604</strong></td>
</tr>
</tbody>
</table>

#### CASH BALANCE - AFTER ENTITY LEVEL RESERVES AND DEBT MODIFICATIONS

<table>
<thead>
<tr>
<th>Period</th>
<th>Cash Balance</th>
<th>Interest Moratorium</th>
<th>Debt Modifications</th>
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<tbody>
<tr>
<td><strong>First Fidelity - Tal Mall</strong></td>
<td><strong>Tal Mall</strong></td>
<td><strong>100%</strong></td>
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<tr>
<td><strong>Tal Mall</strong></td>
<td><strong>Real Estate Taxes Paid by Secured Lenders</strong></td>
<td><strong>100%</strong></td>
<td><strong>100%</strong></td>
</tr>
<tr>
<td><strong>Facilities - Pensions</strong></td>
<td><strong>Cash After Entity Level Reserves and Debt Modifications</strong></td>
<td><strong>524,994</strong></td>
<td><strong>7,604</strong></td>
</tr>
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</table>
### POST-PLAN CASH ANALYSIS

**Donald J. Trump**

**PROJECTED CASH FLOW ACTIVITY FOR MAY 1990 - APRIL 1991**

**UNAUDITED**

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<tr>
<td>CASH BALANCE - AFTER ENTITY LEVEL RESERVES AND DEBT MODIFICATIONS</td>
<td><strong>$24,008</strong></td>
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<td><strong>CREDIT FACILITY REVOLVER</strong></td>
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<td><strong>INITIAL DRAW</strong></td>
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<td><strong>RELATED LEGAL COSTS AND MORTGAGE TAX</strong></td>
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<td><strong>INTEREST (4%) - SEE ATTACHED SCHEDULE</strong></td>
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<td><strong>TOTAL CREDIT FACILITY</strong></td>
<td><strong>$24,008</strong></td>
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<tr>
<td><strong>CUMULATIVE ADJUSTMENTS - CREDIT FACILITY REVOLVER</strong></td>
<td><strong>$24,008</strong></td>
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**CASH BALANCE - AFTER ENTITY LEVEL RESERVES, DEBT MODIFICATIONS AND CREDIT FACILITY REVOLVER**

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**SEE ACCOMPANYING ACCOUNTANT'S REPORT**  

**3**
### Post-Plan Cash Analysis

Donald J. Trump

Projected Cash Flow Activity for May 1990 - April 1991

#### Unaudited

<table>
<thead>
<tr>
<th>8 Months</th>
<th>4 Months</th>
<th>12 Months</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CAPITAL MODIFICATIONS AND CREDIT FACILITY REVOLVER</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$24,200</td>
<td>$35,080</td>
<td>$25,518</td>
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</tbody>
</table>

| **SALE OF YACHT (NET OF DEBT)** - SEE NOTE 8 |
| **REDUCED OPERATING EXPENSES & MAR-A-LAGO INTEREST** |
| **SALE OF 72'7** |
| **SALE OF ALEXANDERS ESTATE AT DEBT** |
| **INTEREST SAVINGS (BEAR STEARNS)** |
| **SUBTOTAL** |
| **CUMULATIVE ADJUSTMENTS - CAPITAL TRANSACTIIONS** |
| **CASE BALANCE - AFTER ENTITY LEVEL RESERVES, DEBT MODIFICATIONS, CREDIT FACILITY REVOLVE** |
| **AND CAPITAL TRANSACTIIONS** |
| $24,200 | $35,080 | $25,518 | $10,523 | $17,767 | $9,575 | $5,406 | $24,100 | $24,100 | $19,750 | $17,629 | $15,364 | $10,409 | $10,409 | $10,409 |

#### Notes:

A) Use of net proceeds subject to terms of credit facility and related loan provisions.  
B) Proceeds used for pay off boat & personal loans (together with accrued interest) and $8.0 million payment on mar-a-lago.  

---

See accompanying accountant's report
CASH BALANCE - AFTER ENTITY LEVEL RESERVES, DEBT MODIFICATIONS, CREDIT FACILITY REVOLVER AND CAPITAL TRANSACTIONS

STRATEGIC OPERATIONAL MODIFICATIONS AND GOALS

- PLAZA HOTEL
  INCREASED REVENUE
  DECREASED (INCREASED) OPERATING EXPENSES
  RETAINED AT ENTITY

- TRUMP CASTLE
  DECREASED OPERATING EXPENSES

- TRUMP PLAZA CASINO
  DECREASED OPERATING EXPENSES

- SAVILLE
  "NO FRILLS" PROGRAM
  RETAINED AT ENTITY

- TRUMP AIR HELICOPTERS
  ACHIEVE BREAK-EVEN OPERATIONS BY OCTOBER 1, 1990

- DEED IN LIEU - MARINE

CUMULATIVE ADJUSTMENTS - MODIFICATIONS AND GOALS

POST-PLAN CASH BALANCE

NOTE:
- NO PROVISION FOR FEDERAL AND STATE INCOME INCOME TAXES (EXCLUDING NEW YORK TRANSFER TAX ON REAL ESTATES) - ANALYSIS IS CURRENTLY IN PROGRESS.
### POST-PLAN CASH ANALYSIS

**DONALD J. TRUMP**

PROJECTED CASH FLOW ACTIVITY FOR MAY 1990 - APRIL 1991

(UNAUDITED)

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<tr>
<td>NET</td>
<td>$500,000</td>
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<td>INTEREST EXPENSE</td>
<td>$67</td>
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<td>$67</td>
<td>$2,567</td>
<td>$367</td>
<td>$367</td>
<td>$367</td>
<td>$1,467</td>
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### SCHEDULE OF INTEREST EXPENSE (NET)

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<th>940,000</th>
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<tr>
<td>INTEREST RATE: PRIME + 3%</td>
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<td>INTEREST EXPENSE</td>
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### INTEREST INCOME ON UNUSABLE FUNDS

TOTAL CASH AVAILABLE: $37,000
LESS: WORKING CAPITAL REQUIREMENTS: $5,000
LESS: ESTIMATED CASH REQUIRED TO FUND DEFICIT: $3,000
CASHE AVAILABLE FOR SHORT-TERM INVESTMENTS (1): $28,000

<table>
<thead>
<tr>
<th>INTEREST RATE</th>
<th>6.50%</th>
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<tr>
<td>INTEREST INCOME</td>
<td>$205</td>
<td>$146</td>
<td>$94</td>
<td>$62</td>
<td>$33</td>
<td>$15</td>
<td>$67</td>
<td>$104</td>
<td>$89</td>
<td>$60</td>
<td>$291</td>
<td>$467</td>
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### NET INTEREST EXPENSE

$162 $212 $272 $306 $350 $354 $354 $321 $61,891 $263 $277 $307 $328 $91,778 $93,006

**NOTE:**

(1) Reflects "cash balance - after debt modifications / credit facility less $2,000,000 working capital balance.

SEE ACCOMPANYING ACCOUNTANT'S REPORT
EXHIBIT III: SUMMARY OF SIGNIFICANT ASSUMPTIONS

DONALD J. TRUMP - PRE-PLAN BUDGET

AND

DONALD J. TRUMP - POST-PLAN CASH ANALYSIS
SUMMARIZED SIGNIFICANT ASSUMPTIONS
TO DONALD J. TRUMP PRE-PLAN BUDGET
AND DONALD J. TRUMP POST-PLAN CASH ANALYSIS

PERSONAL

- SALARY, FEES, INTEREST INCOME
- INTEREST ON PERSONAL CREDIT LINES
- LEGAL/BUSINESS AND CHARITABLE CONTRIBUTIONS
- PERSONAL AND HOUSEHOLD EXPENSES

ENTITY

- ALIBAN, INC. (TRUMP PRINCESS YACHT)
- AMELS HOLLAND B.V. (BOAT YARD)
- CRYSTAL TOWER ASSOCIATES (TRUMP REGENCY)
- DONVAN ENTERPRISES, INC. (PERSONAL AIRCRAFT)
- EAST 61 STREET COMPANY (RENTAL UNITS)
- TRUMP PARC CONDOMINIUM
- PARK SOUTH ASSOCIATES
- PENN YARDS ASSOCIATES (LINCOLN WEST)
- PENTHOUSE LAND PARCELS (ADJ. TO TRUMP PLAZA)
- PLAZA HOTEL - NEW YORK
- TENNIS CLUB (REG-TRU EQUITIES)
- TRUMP CASTLE HOTEL & CASINO
- TRUMP CORPORATION
- REGENCY-LEXINGTON PARTNERS (GRAND HYATT HOTEL)
- TRUMP EQUITABLE FIFTH AVENUE COMPANY (TOWER)
- TRUMP PALACE
- TRUMP PALM BEACHES CORP.
- TRUMP PLAZA HOTEL AND CASINO
- TRUMP SHUTTLE, INC.
- TRUMP TAJ MAHAL CASINO RESORT
- TRUMP TAJ MAHAL REALTY, INC. (TAJ ADJ. LAND)
- TRUMP WEST REALTY CORP. (TRUMP WILSHIRE)
EXHIBIT III

PRE-PLAN BUDGET ASSUMPTIONS
DONALD J. TRUMP
PROJECTED CASH FLOW ACTIVITY FOR MAY 1990 - APRIL 1991

PERSONAL -

SALARY, FEES, INTEREST INCOME:

BOOK ROYALTIES: - BASED ON 1989 ACTUAL FIRST BOOK RESULTS DECREASED BY 40% AND INCREASE OF $750,000 IN 1991 FOR SECOND BOOK PUBLICATION

GAME ROYALTIES: - BASED ON 1989 ACTUAL ASSUMED TO DECREASE BY 25%

RENTAL INCOME: - BASED ON CONTRACTUAL TERMS OF LEASES RELATED TO 730 FIFTH AVENUE AND 4 TRUMP TOWER APARTMENTS

TRUST DISTRIBUTIONS: - BASED ON CONTRACTUAL INTEREST ON MORTGAGES HELD

INTEREST INCOME: - ASSUMED TO EARN 7% ON CASH BALANCE THROUGH 6/15/90, WHEN IT IS ASSUMED CASH BALANCE IS USED

INTEREST ON PERSONAL CREDIT LINES:

- BASED ON ACTUAL LOAN TERMS (SEE DEBT SCHEDULE - SCHEDULE III)

LEGAL/BUSINESS AND CHARITABLE CONTRIBUTIONS:

- BASED ON FIRST FOUR MONTHS OF 1990 ACTIVITY ANNUALIZED AND INCREASED FOR RESTRUCTURING COSTS AND INCREASED PERSONAL LEGAL EXPENSES

PERSONAL AND HOUSEHOLD EXPENSES:

- BASED ON FIRST FOUR MONTHS OF 1990 ACTUAL ACTIVITY ANNUALIZED AND DECREASED FOR EFFECT OF NOT USING THE YACHT FOR PERSONAL USE
ENTITY NAME: ALIBAN, INC.
ASSET NAME: TRUMP PRINCESS YACHT

- TRUMP PRINCESS YACHT IS FOR SALE DURING THE PROJECTION PERIOD

- OPERATING COSTS WILL DECREASE DUE TO LOWER USAGE BY TRUMP CASTLE AND DONALD J. TRUMP

POST-PLAN MODIFICATION:

- TRUMP PRINCESS IS SOLD FOR $70,000,000
EXHIBIT III (CONT.)

PRE-PLAN BUDGET ASSUMPTIONS
DONALD J. TRUMP
PROJECTED CASH FLOW ACTIVITY FOR MAY 1990 - APRIL 1991

ENTITY NAME: AMELS HOLLAND B.V.
ASSET NAME: BOAT YARD

- SHIPBUILDING WILL CEASE
- PAYMENTS TO SUBCONTRACTORS AND OTHER LIABILITIES IN PROCESS OF FURTHER EVALUATION
PRE-PLAN BUDGET ASSUMPTIONS
DONALD J. TRUMP
PROJECTED CASH FLOW ACTIVITY FOR MAY 1990 - APRIL 1991

ENTITY NAME: CRYSTAL TOWER ASSOCIATES
ASSET NAME: TRUMP REGENCY

AVERAGE RATE: $104.25 IN CONSTANT 1990 DOLLARS

OCCUPANCY: 65.8%

OTHER REVENUES: 29.4% OF ROOMS REVENUE

OPERATING EXPENSES: 95.9% OF TOTAL REVENUES

REAL ESTATE TAXES: $2,675,000 TO BE PAID IN 4 INSTALLMENTS
EXHIBIT III (CONT.)
PRE-PLAN BUDGET ASSUMPTIONS
DONALD J. TRUMP
PROJECTED CASH FLOW ACTIVITY FOR MAY 1990 - APRIL 1991

ENTITY NAME: DONVAN ENTERPRISES, INC.
ASSET NAME: D.J. TRUMP PERSONAL HELICOPTER AND 727 AIRPLANE

REVENUES:
- BASED ON 1989 ACTUAL INCREASED BY 4.2%
  TO REFLECT INCREASED VOLUME DUE TO THE
  OPENING OF THE TAJ MAHAL CASINO

EXPENSES:
- INCREASED 1989 ACTUAL BY 5.0%
  (EXPENSES REFLECT THE OPERATING
  EXPENSES OF THE 727)

MONTHLY TRENDS:
- MONTHLY 1990 REVENUE WOULD FOLLOW
  THE SEASONALITY TREND OF THE
  ATLANTIC CITY CASINO MARKET

- EXPENSES AS THEY RELATE ONLY TO
  THE 727 AIRPLANE WOULD NOT FOLLOW
  SEASONALITY

CAPITAL EXPENDITURES:
- BASED ON DISCUSSIONS WITH OPERATING
  MANAGEMENT
EXHIBIT III (CONT.)

PRE-PART BUDGET ASSUMPTIONS
DONALD J. TRUMP
PROJECTED CASH FLOW ACTIVITY FOR MAY 1990 - APRIL 1991

ENTITY NAME: EAST 61ST STREET CO.
ASSET NAME: SIX UNSOLD RENTAL UNITS AND WRAP MORTGAGE

REVENUES:
- MORTGAGE INTEREST BASED ON CONTRACTUAL TERMS
- NO UNITS SOLD DURING THE PERIOD
- RENTAL OF 2 UNITS BASED ON LEASE TERMS

OPERATING EXPENSES:
- MAINTENANCE EXPENSE ON SIX UNITS BASED ON CONTRACTUAL AMOUNTS
- TRUMP ORGANIZATION CONSULTING FEES BASED ON HISTORIC PERCENTAGES OF INVOLVEMENT AND CONTRACT AMOUNTS
PRE-PLAN BUDGET ASSUMPTIONS
DONALD J. TRUMP
PROJECTED CASH FLOW ACTIVITY FOR MAY 1990 - APRIL 1991

ENTITY NAME: TRUMP PARC CONDOMINIUMS
ASSET NAME: TRUMP PARC CONDOMINIUM (UNSOLED UNITS)

REVENUES:
- 2 APARTMENTS UNDER CONTRACT ASSUMED TO CLOSE IN JUNE 1990 AT CONTRACTUAL PRICE
- SALE OF 1 APARTMENT IN EACH OF AUGUST 1990, FEBRUARY AND APRIL 1991 AT 90% OF ASKING PRICE
- SALES PRICE REDUCED BY 15% FOR COMMISSIONS AND CLOSING COSTS
- 1991 REVENUE INCLUDES STORAGE INCOME OF APPROXIMATELY $22,000 PER MONTH

OPERATING EXPENSES:
- BASED ON PRIOR YEAR ACTUAL COSTS INCREASED BY 4% AND DECREASED FOR UNITS SOLD

DEBT SERVICE:
- LOAN PAID DOWN AT SALE CLOSINGS BASED ON NET SALES PROCEEDS
- INTEREST IS BASED ON CONTRACTUAL TERMS AND ADJUSTED BALANCE

CAPITAL EXPENDITURES
- NONE
ENTITY NAME: PARK SOUTH ASSOCIATES
ASSET NAME: 100 CENTRAL PARK SOUTH

REVENUES:
- APARTMENT BUILDING RENTALS BASED ON ACTUAL RENT ROLL LESS ASSUMED VACANCIES OF 25% DECREASING TO 19% OVER THE PROJECTION PERIOD
- COMMERCIAL SPACE RENTALS BASED ON ACTUAL LEASES AND RENT ROLL

OPERATING EXPENSES:
- BASED ON 1989 ACTUAL EXPENSE INCREASED BY 5%

REAL ESTATE TAXES:
- BASED ON 1989 ACTUAL EXPENSE INCREASED BY 4%

CAPITAL EXPENDITURES:
- BASED ON CAPITAL BUDGETED CAPITAL EXPENDITURES
ENTITY NAME: PENN YARDS ASSOCIATES
ASSET NAME: LINCOLN WEST

REVENUES:
- BASED ON ACTUAL PARKING LEASES IN EFFECT

OPERATING EXPENSES:
- BASED ON FIRST FOUR MONTHS 1990 ACTUAL CONSULTING AND OTHER PROFESSIONAL FEES, ANNUALIZED

REAL ESTATE TAXES:
- BASED ON PRIOR YEAR ACTUAL INCREASED BY 6%

CAPITAL EXPENDITURES:
- NONE
ENTITY NAME: PENTHOUSE LAND PARCELS
ASSET NAME: LAND ADJACENT TO TRUMP PLAZA

REVENUES:
- BASED ON PRIOR YEAR ACTUAL PARKING AND CONCESSION INCOME

OPERATING EXPENSES:
- BASED ON PRIOR YEAR ACTUAL EXPENSES

REAL ESTATE TAXES:
- BASED ON PRIOR YEAR ACTUAL TAXES

CAPITAL EXPENDITURES:
- NONE
PRE-PPLAN BUDGET ASSUMPTIONS
DONALD J. TRUMP
PROJECTED CASH FLOW ACTIVITY FOR MAY 1990 - APRIL 1991

ENTITY NAME: PLAZA OPERATING PARTNERS
ASSET NAME: PLAZA HOTEL

AVERAGE RATE: $253.62
OCCUPANCY: 79.0%
TOTAL SALES AND INCOME: $112,518,200
OPERATING EXPENSES: $77,458,900 (68.8% OF TOTAL SALES AND INCOME)
NET OPERATING INCOME: $28,473,300 (25.3% OF TOTAL SALES AND INCOME)

POST-PPLAN BUDGET MODIFICATIONS
AVERAGE RATE: $263.15
OCCUPANCY: 80.9%
TOTAL SALES AND INCOME: $119,612,100
OPERATING EXPENSES: $78,799,900 (65.9% OF TOTAL SALES AND INCOME)
NET OPERATING INCOME: $34,237,200 (28.6% OF TOTAL SALES AND INCOME)
ENTITY NAME: REG-TRU EQUITIES
ASSET NAME: TENNIS CLUB

REVENUES: BASED ON 1989 ACTUAL INCREASES BY 5%
EXPENSES: RENT EXPENSE BASED ON LEASE
PAYROLL BASED ON 5/1/90 EMPLOYEE LEVELS AT ACTUAL SALARIES
UTILITIES BASED ON 1989 ACTUAL INCREASED BY 4%

REAL ESTATE TAXES: INCLUDED IN RENT EXPENSE
CAPITAL EXPENDITURES: NONE
ENTITY NAME: HELICOPTER AIR SERVICES, INC.
ASSET NAME: TRUMP AIR

REVENUES: BASED ON 1989 ACTUAL INCREASED BY APPROXIMATELY 100% TO REFLECT THE ADDITION OF THREE HELICOPTERS AND INCREASED VOLUME DUE TO THE OPENING OF THE TAJ MAHAL CASINO

EXPENSES: BASED ON 1989 ACTUAL INCREASED BY APPROXIMATELY 30% TO REFLECT ADDED COSTS ASSOCIATED WITH THE ADDITIONAL AIR CRAFT MAINTENANCE

MONTHLY TRENDS: MONTHLY REVENUE AND EXPENSES FOLLOW THE SAME SEASONALITY TREND OF THE ATLANTIC CITY CASINO MARKET

CAPITAL EXPENDITURES: BASED ON DISCUSSIONS WITH OPERATING MANAGEMENT

POST-PLAN MODIFICATION: ACHIEVE BREAK-EVEN OPERATIONS BY OCTOBER 1, 1990
### PRE-PLAN BUDGET ASSUMPTIONS

**DONALD J. TRUMP**

**PROJECTED CASH FLOW ACTIVITY FOR MAY 1990 - APRIL 1991**

**ENTITY NAME:** TRUMP CASTLE ASSOCIATES AND TRUMP CASTLE FUNDING  
**ASSET NAME:** TRUMP CASTLE

**MARKET SHARE:** 7.7% (7.6% FAIR SHARE, 101.0% PENETRATION)  
**CASINO REVENUE:** $242,619,000  
**HOLD %:** 16.0%  
**TOTAL NON-GAMING REVENUE:** $73,980,000 (30.5% OF TOTAL CASINO REVENUE)  
**PROMOTIONAL ALLOWANCES:** $29,148,000 (9.2% OF GROSS REVENUE)  
**OPERATING EXPENSES:** $220,911,000 (69.8% OF GROSS REVENUE)  
**REAL ESTATE TAXES:** $8,253,000  
**NET OPERATING INCOME:** $50,685,000 (16.0% OF GROSS REVENUE)  
**SEASONALITY:** CONSISTENT WITH COMPANY'S ORIGINAL AND REVISED OPERATING BUDGET

### POST-PLAN BUDGET MODIFICATIONS

**MARKET SHARE:** 7.7% (SAME AS PRE-PLAN)  
**CASINO REVENUE:** $242,619,000  
**HOLD %:** 16.0%  
**TOTAL NON-GAMING REVENUE:** $73,980,000 (SAME AS PRE-PLAN)  
**PROMOTIONAL ALLOWANCES:** $29,148,000 (SAME AS PRE-PLAN)  
**OPERATING EXPENSES:** $213,119,000 (67.3% OF GROSS REVENUE)  
**REAL ESTATE TAXES:** $8,253,000  
**NET OPERATING INCOME:** $58,477,000 (18.5% OF GROSS REVENUE)  
**SEASONALITY:** SAME AS PRE-PLAN
EXHIBIT III (CONT.)

PRE-PLAN BUDGET ASSUMPTIONS
DONALD J. TRUMP
PROJECTED CASH FLOW ACTIVITY FOR MAY 1990 - APRIL 1991

ENTITY NAME: TRUMP CORPORATION

REVENUES:

- RENTAL INCOME FROM THIRD AVENUE SHOPPING CENTER LEASES
  ON COMMERCIAL SPACE, GARAGE AND TWO BROWNSTONES BASED
  ON TERMS IN EFFECT

- HYATT INCENTIVE MANAGEMENT FEE BASED ON CONTRACTUAL METHOD
  OF CALCULATION AND ASSUMED MONTHLY RESULTS AT THE HYATT

- COMMISSIONS BASED ON ACTUAL PERCENTAGES AND ASSUMED
  LEVELS OF ACTIVITY AT TRUMP PARC AND TRUMP TOWER

- MANAGEMENT FEES AT TRUMP PARC CONDOMINIUM, TRUMP TOWER
  CONDOMINIUM, TRUMP PLAZA OF THE PALM BEACHES AND TRUMP
  PALACE CONDOMINIUM (ASSUMED TO OPEN JANUARY 1991)

OPERATING EXPENSES:

- BASED ON CONTRACTUAL MASTER LEASE RENT EXPENSE

- ACTUAL CORPORATE PAYROLL AND CORPORATE CONSULTANT LEVELS
  AS OF MAY 1, 1990, NET OF HISTORIC REIMBURSEMENT

- ACTUAL CORPORATE OVERHEAD COSTS FOR THE FIRST FOUR
  MONTHS OF 1990 ANNUALIZED
## Pre-Plan Budget Assumptions

Donald J. Trump

Projected Cash Flow Activity for May 1990 - April 1991

**Entity Name:** Regency-Lexington Partners  
**Asset Name:** Grand Hyatt Hotel, New York

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount/Details</th>
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<tbody>
<tr>
<td>Average Rate:</td>
<td>$165.99 in constant 1990 dollars</td>
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<td>Occupancy:</td>
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<td>Adjusted Gross Operating Profit:</td>
<td>33.0% of total sales and income</td>
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<td>Net Operating Income:</td>
<td>$26,025,000 (before debt service, incentive management fee and ground rent)</td>
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<td>Basic Management Fee:</td>
<td>4.0% of total sales and income (excluding tenant rentals)</td>
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<td>Reserve for Replacement:</td>
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<td>Debt Service:</td>
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<td>Incentive Mgmt Fee:</td>
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<td>Distribution to Partners:</td>
<td>50.0%</td>
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EXHIBIT III (CONT.)

PRE-PLAN BUDGET ASSUMPTIONS
DONALD J. TRUMP
PROJECTED CASH FLOW ACTIVITY FOR MAY 1990 - APRIL 1991

ENTITY NAME: TRUMP EQUITABLE FIFTH AVENUE
ASSET NAME: TRUMP TOWER

REVENUES:  
- BASED ON ACTUAL LEASES ADJUSTED FOR BONWIT TELLER MOVE OUT IN JUNE 1990
- NO RENT ASSUMED ON BONWIT TELLER SPACE UNTIL JULY 1991 WHEN SPACE RENTED FOR $7.5 MILLION PER YEAR WITH STEPPED UP REAL ESTATE STOP AND NO PERCENTAGE RENTS (BASED ON LEASE IN NEGOTIATION)

OPERATING EXPENSES:  
- MAY 1990 ACTUAL PAYMENT TO BUY OUT BONWIT TELLER LEASE
- NO COMMISSIONS OR TENANT IMPROVEMENT COSTS ASSUMED BASED ON DEAL IN NEGOTIATION

REAL ESTATE TAXES:  
- BASED ON ACTUAL NEW YORK CITY ASSESSMENT WITH NO REFUNDS ASSUMED

CAPITAL EXPENDITURES:  
- BASED ON MANAGEMENT'S ACTUAL CAPITAL OF PROJECTS FOR THE TOWER
EXHIBIT III (CONT.)

PRE-PCAN BUDGET ASSUMPTIONS
DONALD J. TRUMP
PROJECTED CASH FLOW ACTIVITY FOR MAY 1990 - APRIL 1991

ENTITY NAME: TRUMP PALACE CONDOMINIUMS
ASSET NAME: TRUMP PALACE

REVENUES:
- 75 UNITS UNDER CONTRACT WILL CLOSE AND REMAINING 208 UNITS WILL BE AVAILABLE FOR RENT

- 75 RESIDENTIAL UNITS CURRENTLY UNDER CONTRACT WILL CLOSE AT CURRENT CONTRACT PRICES AT A RATE OF APPROXIMATELY 7 UNITS PER MONTH UNTIL THE OPENING OF THE PROPERTY, ASSUMED TO BE JANUARY 1, 1991

- 208 UNITS WILL BE AVAILABLE FOR RENT, STABILIZING AT 10% VACANCY

- UNITS WILL RENT AT RATES "AT THE HIGH-END" OF THE MARKET FOR COMPARABLE RENTAL RATES

- RETAIL SPACE WILL BE RENTED AT AN ANNUAL RATE OF $150 PER SQUARE FOOT

- GARAGE SPACE WILL RENT AT $15 PER SQUARE FOOT (OR $255/PARKING SPACE PER MONTH)

EXPENSES:
- SELLING, GENERAL AND ADMINISTRATIVE EXPENSES HAVE BEEN ESTIMATED AT 10% OF CLOSING PRICE

- MAINTENANCE AND REAL ESTATE TAXES ARE BASED ON ESTIMATES LISTED IN THE TRUMP PALACE OFFERING

- 421-A TAX ABATEMENT, INCLUDED IN THE CONSTRUCTION BUDGET, WILL EFFECTIVELY DECREASE REAL ESTATE TAXES BY APPROXIMATELY 60% IN 1991, AND PHASE OUT BY 2001

CONSTRUCTION LOAN:
- TOTAL DRAWDOWN ON THE $220,000,000 CONSTRUCTION LOAN WILL APPROXIMATE $200,000,000 AS OF JANUARY 1, 1991

- ADDITIONAL SOFT AND HARD COST DRAWS WILL OCCUR THROUGH MAY 1991

- AN INTEREST RESERVE OF $40,000,000 WILL PROVIDE FOR INTEREST PAYMENTS THROUGH OCTOBER 1991

- MORTGAGE PAYDOWNS AT SALE CLOSING EQUAL TO 90% OF CLOSING PRICE
PRE-PLAN BUDGET ASSUMPTIONS
DONALD J. TRUMP
PROJECTED CASH FLOW ACTIVITY FOR MAY 1990 - APRIL 1991

ENTITY NAME: TRUMP PALM BEACHES CORP.
ASSET NAME: TRUMP PALM BEACH CONDOMINIUMS

REVENUES:
- NO UNITS SOLD DURING THE PROJECTION PERIOD
- RENTAL INCOME BASED ON ACTUAL LEASE TERMS

OPERATING EXPENSES:
- BASED ON ACTUAL MAINTENANCE CHARGES AND ACTUAL MONTHLY DRAWS TO SALES PEOPLE

CAPITAL EXPENDITURES:
- NONE

POST-PLAN MODIFICATION:
- DEED-IN-LIEU TO BANK FOR ESTIMATED VALUE OF THE PROPERTY AND DONALD J. TRUMP TO FUND GUARANTY FOR THE DIFFERENCE
EXHIBIT III (CONT.)

PRE-PLAN BUDGET ASSUMPTIONS
DONALD J. TRUMP
PROJECTED CASH FLOW ACTIVITY FOR MAY 1990 - APRIL 1991

ENTITY NAME: TRUMP PLAZA ASSOC. AND TRUMP PLAZA FUNDING
ASSET NAME: TRUMP PLAZA CASINO

MARKET SHARE: 9.2% (7.6% FAIR SHARE, 121.3% PENETRATION)
CASINO REVENUE: $291,383,000
HOLD %: 16.0%
TOTAL NON-GAMING REVENUE: $79,679,000 (27.3% OF CASINO REVENUE)
PROMOTIONAL ALLOWANCES: $36,832,000 (9.9% OF GROSS REVENUE)
OPERATING EXPENSES: $255,566,000 (68.9% OF GROSS REVENUE)
REAL ESTATE TAXES: $6,051,000
NET OPERATING INCOME: $72,614,000 (19.6% OF GROSS REVENUE)
SEASONALITY: CONSISTENT WITH TRUMP'S ORIGINAL AND REVISED OPERATING BUDGET

POST-PLAN MODIFICATION

MARKET SHARE: 9.2% (SAME AS PRE-PLAN)
CASINO REVENUE: $291,383,000
HOLD %: 16.0%
TOTAL NON-GAMING REVENUE: $79,679,000 (SAME AS PRE-PLAN)
PROMOTIONAL ALLOWANCES: $36,832,000 (SAME AS PRE-PLAN)
OPERATING EXPENSES: $247,905,000 (66.8% OF GROSS REVENUE)
REAL ESTATE TAXES: $6,051,000
NET OPERATING INCOME: $80,275,000 (21.6% OF GROSS REVENUE)
SEASONALITY: SAME AS PRE-PLAN
EXHIBIT III (CONT.)

PRE-PER PLAN BUDGET ASSUMPTIONS
DONALD J. TRUMP
PROJECTED CASH FLOW ACTIVITY FOR MAY 1990 - APRIL 1991

ENTITY NAME: TRUMP SHUTTLE INC.
ASSET NAME: AIRLINE SHUTTLE

REVENUES:
- ASSUMPTION THAT LEVEL OF ACTUAL APRIL 1990 PASSENGER REVENUES CONTINUES THROUGHOUT THE PERIOD EFFECTED FOR INCREASED ACTIVITY IN FALL SEASON
- ASSUMPTION THAT CHARTER REVENUES INCREASE TO $953,000 PER MONTH

OPERATING EXPENSES:
- BASED ON ACTUAL FIRST FOUR MONTHS 1990 OPERATING EXPENSES AFTER PROVIDING FOR THE EFFECT OF INCREASED CHARTER ACTIVITY

CAPITAL EXPENDITURES:
- BASED ON ACTUAL CAPITAL PROJECTS TO BE ACCOMPLISHED DURING THE PROJECTION PERIOD

POST-PLAN MODIFICATION:
- MANAGEMENT IS ABLE TO INSTITUTE NO FRILLS PROGRAM
EXHIBIT III (CONT.)

PRE-PLAN BUDGET ASSUMPTIONS
DONALD J. TRUMP
PROJECTED CASH FLOW ACTIVITY FOR MAY 1990 - APRIL 1991

ENTITY NAME: TRUMP TAJ MAHAL ASSOCIATES
ASSET NAME: TRUMP TAJ MAHAL CASINO

MARKET SHARE: 15.2% (EQUAL TO FAIR SHARE)

CASINO REVENUE: $480,403,000

HOLD%: 16.0%

TOTAL NON-GAMING REVENUE: $167,840,000 (34.9% OF CASINO REVENUE)

PROMOTIONAL ALLOWANCES: $71,566,000 (11.0% OF GROSS REVENUE)

OPERATING EXPENSES: $396,608,000 (61.2% OF GROSS REVENUE)

REAL ESTATE TAXES: $14,748,000

NET OPERATING INCOME: $165,322,000 (25.5% OF GROSS REVENUE)

SEASONALITY: CONSISTENT WITH TRUMP'S ORIGINAL AND REVISED OPERATING BUDGET
ENTITY NAME: TAJ MAHAL REALTY CO./TRUMP HOTEL MGMT CORP.
ASSET NAME: LAND NEXT TO THE TAJ MAHAL/TRUMP HOTEL MGMT CORP.

REVENUES:
- BASED ON ESTIMATED MANAGEMENT FEES FROM TAJ MAHAL CASINO

OPERATING EXPENSES:
- BASED ON BUDGETED ALLOCATIONS OF CORPORATE CONSULTING FEES, BUDGETED BONUSES FOR TAJ CONSTRUCTION AND BUDGETED PAYROLL

CAPITAL EXPENDITURES:
- NONE
PRE-PLAN BUDGET ASSUMPTIONS
DONALD J. TRUMP
PROJECTED CASH FLOW ACTIVITY FOR MAY 1990 - APRIL 1991

ENTITY NAME: TRUMP WEST REALTY CORP
ASSET NAME: TRUMP WILSHIRE

REVENUES:
- MAY 1990 PLANNING/DEVELOPMENT FEE BASED ON ACTUAL BILLING
- FEBRUARY 1991 MORTGAGE PLACEMENT FEE BASED ON CONTRACTUAL PERCENTAGE AND ASSUMPTION THAT A MORTGAGE OF $117,750,000 WILL BE OBTAINED
- MONTHLY FEES BASED ON 5% OF COSTS INCLUDED UNDER CAPITAL EXPENDITURES

EXPENSES:
- INCLUDED UNDER CAPITAL EXPENDITURES

CAPITAL EXPENDITURES:
- BASED ON TRUMP’S SOFT COST BUDGET THROUGH THE ENTITLEMENT PROCESS
SCHEDULE I: DONALD J. TRUMP

LIST OF ASSETS AS OF APRIL 30, 1990
SCHEDULE II: DONALD J. TRUMP

DEBT SCHEDULE AS OF APRIL 30, 1990
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<tr>
<th>LETTER</th>
<th>COLLATERAL / RELATED PROPERTY</th>
<th>PURPOSE</th>
<th>MATURED</th>
<th>OUTSTANDING</th>
<th>MATURED</th>
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** COLLATERAL INCLUDES PROCEEDS FROM MANAGEMENT CONTRACT

SEE ACCOMPANYING ACCOUNTANT'S REPORT

SCHEDULE II

APRIL 30, 1990

(UNAUDITED)
<table>
<thead>
<tr>
<th>LENDER</th>
<th>COLLATERAL / RELATED PROPERTY</th>
<th>PURPOSE</th>
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<th>OUTSTANDING</th>
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<th>MATURE DATE</th>
<th>EXTENDABLE</th>
<th>INTEREST TYPE</th>
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<td>PRIME</td>
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NOTE: THIS DEBT SCHEDULE DOES NOT INCLUDE DEBT RELATED TO THE AMELS HOLLAND R.V. (BOATMAN) AND TRUMP WEST REALTY CO. (TRUMP VILLAINES).

SEE ACCOMPANYING ACCOUNTANT'S REPORT
NOTE A - EITHER PRIME + .25% ON BASE RATE (D) OR BASE RATE DIVIDED BY DIFFERENCE OF
HIGH PRIME AND BASE RATE (D) + 3/8% ON BASE DOLLAR RATE
DIVIDED BY DIFFERENCE OF HIGH LESS THE DOLLAR RATE + 1.5% RESERVE REQUIREMENT + 1.5%

NOTE B - FLOATING INTEREST RATE BASED ON BORROWER'S CALL

NOTE C - MAXIMUM RISKED TO $50,000,000

NOTE D - PRIME + 1/4% TO 2% OR A RATE THAT IS FIXED ANNUALLY BASED
ON LONDON BASE RATES

NOTE E - PRIME + .5% ON RESERVE MINUS 1.25%.

NOTE F - MAXIMUM RISKED TO $50,000,000 UNTIL LAND IS DEEMED & APPRAISABLE THEN LIMITED TO MAXIMUM RISKED TO $50,000,000 BASE RATE DEEMED INTEREST OF THE BASE RATES RISKED TO THE DEEMED RISKED AMOUNT.

NOTE G - MAXIMUM RISKED TO $50,000,000

NOTE H - LONDON BASE RATE+LONDON + 1.25% OR PRIME PLUS 1/8% AT BORROWER'S OPTION.

NOTE I - SUBORDINATE FIRST MORTGAGE ON $50,000,000 TO LEND LENDER + 1.25% AND
PAY FIXED AMOUNT OF 9.4%. AGREEMENT EXPIRES FEB. 1, 1991.

NOTE J - PRINCIPAL IS REPAID WHEN UNITS ARE SOLD

NOTE K - MAXIMUM RISKED TO $50,000,000

NOTE L - THE HIGHER OF PRIME + BASE RATE MARGIN ON LATEST THREE WEEKS
AVERAGE OF SECURITIES MARKET MORTGAGE OFFERING

DATES FOR THREE MONTH CERTIFICATES OF DEPOSIT + .5% BASE RATE MARGIN
ON DOLLAR RATE + DOLLAR RATE MARGIN (1, 2, 3, OR 12 MONTH PERIODS)

EXCEPT IN THE FOLLOWING MORTGAGE AGREEMENT WHICH EXCLUDES THE 30 DAY
PRINCIPAL AMOUNT TO THE CURRENT MORTGAGE DATE:

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NOTE M - THE HIGHER OF (1) PRIME + .25% OR (2) THREE WEEK
AVERAGE OF SECURITIES MARKET MORTGAGE OFFERING

DATES FOR THREE MONTH CERTIFICATES OF DEPOSIT + .75%
ON DOLLAR RATE + 1.25% (1, 2, 3, OR 12 MONTH PERIODS)

NOTE N - THE HIGHER OF (1) PRIME + .25% OR (2) THREE WEEK
AVERAGE OF SECURITIES MARKET MORTGAGE OFFERING

DATES FOR THREE MONTH CERTIFICATES OF DEPOSIT + .75%
ON (3) LEND 1.25% (FOR 1, 2, 3, OR 12 MONTH PERIODS)

SEE ACCOMPANYING ACCOUNTANT'S REPORT
NOTE A - THE DECISION OF (1) PRIME, OR (2) THREE YEAR RATING AVERAGE OF SECURITIES MERCHANT HOBSON OFFERING. BATES FOR THREE MONTH CERTIFICATES OF DEPOSIT = .26;
ON (B) LIBOR = 1.05% FOR 1,2,3,4 OR 12 MONTH PERIODS
NOTE B - LIMITED TO (1) INTEREST ONLY AND (2) THE DIFFERENCE BETWEEN THE SALE OPTION PRICE AND THE LOAN AMOUNT.
NOTE P - LOAN HAS SCHEDULED MONTHLY INTEREST PAYMENTS OF $23,500.
NOTE Q - LOAN HAS SCHEDULED ANNUAL PRINCIPAL PAYMENTS ON NOVEMBER 2 OF $30,000 WITH BALANCE DUE IN 1990.
NOTE S - NOTE SECURED BY PARTNERSHIP INTEREST/MANAGEMENT AGREEMENT.
NOTE T - QUANTITY LIMITED TO 85,000,000
NOTE V - PRIME + .5% OR CD RATE = 1%
NOTE U - MATURITY DATE WAS APRIL 22, 1990 - NO FORMAL EXTENSION - PAYING INTEREST
NOTE W - NOT TO EXCEED THE SUM OF: (1) $75,000,000, (2) 85,000,000 LESS THE BALANCE OF THE INTEREST RESERVE, AND (3) COLLECTION COSTS
NOTE X - LIBOR +2.05% (HIGHEST 5 HOURS) OR PRIME +.75%
NOTE Y - QUANTITY LIMITED TO $14,000,000 (PLUS TAXES AND INSURANCE)
NOTE Z - QUANTITY LIMITED TO 1/2 OF BALANCE
NOTE AA - PRINCIPAL PAYMENTS BEGIN THE CARRIER OF FOUR YEARS AFTER LOAN CLOSING DATE (FEB. 1992)
NOTE BB - LIMITED TO 85,000,000
NOTE CC - THE NOTE PAYABLE IS DUE 5/31 IN 1989, 10/31 IN 1990, 15% IN 1991
20% IN 1992 AND THE BALANCE IN 1993
NOTE DD - PRINCIPAL AND ACCRUED INTEREST DUE UPON SETTLEMENT OF LITIGATION.
NOTE EE - QUANTITY SECURED BY LETTER OF CREDIT WITH LUT, WEST OF $19,000,000.
NOTE FF - PRIME + .35% OR LIBOR + 2.05% (1,2,3,4 OR 12 MONTH PERIODS)

SEE ACCOMPANYING ACCOUNTANT'S REPORT

NOTE 5H - COMMENCING JUNE 1990, EQUITY PUT BONDS PAYMENTS TO RETIRE 10% OF PRINCIPAL PER ANNUM UP TO 70% OF THE BONDS AT MATURITY, REQUISITION OF $22,000,000 TO BE PAID PRIOR TO JUNE 15 OF EACH YEAR.

NOTE 11 - BONDS AT FACE VALUE OF $125,000,000, EXCLUDES A DISCOUNT OF $50,000,000.

NOTE 1j - BONDS ISSUED AT A DISCOUNT TO RESULT IN AN EFFECTIVE INTEREST RATE OF 13.342.

NOTE 5E - COMMENCING JUNE 1991, EQUITY PUT BONDS PAYMENTS TO RETIRE 10% OF PRINCIPAL PER ANNUM UP TO 70% OF THE BONDS AT MATURITY, REQUIREMENT OF $22,000,000 TO BE PAID PRIOR TO JUNE 15 OF EACH YEAR.

NOTE - THE FOLLOWING IS A RECONCILIATION OF APRIL 30, 1990 DEBT OUTSTANDING BETWEEN THE DEBT SCHEDULE AND SCHEDULE 1 - LIST OF ASSETS:

TOTAL DEBT AT APRIL 30, 1990 (PER PAGE 2) $23,305,177,614
LESS: MINORITY INTEREST IN PERS TANGA (30,321,965) 
LESS: LOANE SUBRANGE (142,000)
LESS: GRAMMATI PROPERTY LEVEL DEBT (119,045,500)
DEBT - LIST OF ASSETS (SCHEDULE 1) $23,230,639,462

SEE ACCOMPANYING ACCOUNTANT'S REPORT
CREDIT AGREEMENT

dated as of August 8, 1990

by and among

Donald J. Trump,
Borrower

Certain Banks Signatory Hereto

and

Bankers Trust Company,
Agent
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ANNEX I Commitments of Banks

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Schedule VI Certain Collateral

Exhibits
Exhibit A Form of Note
Exhibit B Form of Intercompany Note
Credit Agreement dated as of August 8, 1990 by and among Donald J. Trump, an individual having his primary residence in New York City, New York (the "Borrower"), certain bank signatories hereto (each a "Bank" and collectively, the "Banks") and Bankers Trust Company, as agent for the Banks.

WHEREAS, as a result of recent financial difficulties, the Borrower and certain of his Affiliates (as hereinafter defined) have requested that certain of their lenders, including the Banks, restructure existing debt obligations and such lenders have agreed to the requested restructuring on the terms and conditions set forth in the Override Agreement (as hereinafter defined); and

WHEREAS, in connection with the execution and delivery of the Override Agreement, simultaneously with the execution of this Agreement, the Borrower and certain of his Affiliates are entering into amendments dated as of the date hereof (each an "Existing Agreement Amendment" and collectively, the "Existing Agreement Amendments") with certain of their respective lenders, including the Banks, amending certain terms of the Existing Agreements (as hereinafter defined); and

WHEREAS, the Banks previously loaned to the Borrower the sum of $20,000,000 (the "Interim Loan") evidenced by a promissory note issued by the Borrower and certain of his Affiliates and dated June 26, 1990, which is still outstanding as of the date hereof; and

WHEREAS, in connection with the Existing Agreement Amendments and the execution of the Override Agreement, the Borrower desires to borrow up to $65,000,000 from the Banks for certain specified purposes, including the extension of the Interim Loan, and the Banks are willing to lend up to such amount, subject to the terms and conditions of this Agreement.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I. DEFINITIONS; CONSTRUCTION

Section 1.01. Definitions. As used herein, the following terms shall have the meanings herein specified (to be equally applicable to both the singular and plural forms of the terms defined) except to the extent specified to the contrary:

"Affected Collateral" shall have the meaning provided in the penultimate paragraph of Article VI.

"Affiliate" of a Person shall mean (i) any Person which directly or indirectly controls, or is controlled by, or is under common control with, such Person, (ii) for each Person who is an
individual, any other individual related to such Person by consan-
guinity within the third degree or in a step or adoptive relation-
ship within such third degree or related by affinity with such
Person or any such individual, in each case whether the degree of
such relationship is determined under common law or civil law,
including in each case such Person's heirs, distributees and lega-
tees, (iii) any Person which owns beneficially or of record 5% or
more of any class of capital stock, partnership interests or any
other equity interests of such Person or an Affiliate of such Per-
son or of which 5% or more of any class of capital stock (or in
the case of a Person that is not a corporation, 5% or more of the
partnership interest or other equity interest) is owned benefi-
cially or of record by such Person or an Affiliate of such Person,
(iv) for each individual who is an Affiliate within the meaning of
any of the foregoing provisions, any other individual related to
such Affiliate by consanguinity within the third degree or in a
step or adoptive relationship within such third degree or related
by affinity with such Affiliate or any such individual, in each
case whether the degree of such relationship is determined under
common law or civil law, including in each case such Person's
heirs, distributees and legatees; (v) any Person directly or indi-
rectly controlling or controlled by any of the foregoing; and (vi)
each New Venture. The term "control" means the possession, di-
rectly or indirectly, of the power to direct or cause the direc-
tion of the management or policies of a Person, whether through
the ownership of voting securities, by contract or otherwise, and
shall specifically be deemed to include any general partner of a
partnership. Except to the extent provided in the next sentence,
Ivana Trump, her heirs, distributees and legatees and each Grantor
shall be deemed at all times to be an Affiliate of the Borrower.
Notwithstanding the foregoing, (A) for the purposes of all finan-
cial statements and other financial reports required to be provid-
ed hereunder, the term "Affiliates" shall not include Persons
deemed to be Affiliates by virtue of clause (ii) or (iv) above and
(B) for all purposes of this Agreement (other than Section
5.04(g)), the term "Affiliate" shall not include at any time each
Person listed on Schedule 1(a); provided that, notwithstanding the
foregoing provisions of this clause (B), in the event that any
operative facts with respect thereto shall change after the Effec-
tive Date, any Person listed on Schedule 1(a) shall be deleted
therefrom to the extent that at that time the Borrower shall have
the ability, directly or indirectly, to control (as defined above)
such Person or the assets of such Person. Without limiting the
foregoing, a Person shall be deemed to own all Equity Interests
owned by its Affiliates.

"Agent" shall mean Bankers Trust Company, acting in the man-
ner and to the extent described in Article VII hereof, and its
successors and assigns appointed pursuant to Section 7.09.

"Agreement" shall mean this Credit Agreement, as amended,
supplemented or modified from time to time.
"ALIBAN, Inc." shall mean a Delaware corporation wholly owned by the Borrower.

"Annual Plan" shall have the meaning provided in Section 5.02A(a).

"Bank" shall have the meaning provided in the recitals hereof.

"Bankruptcy Code" shall have the meaning provided in Section 6.07.

"Borrower" shall mean Donald J. Trump.

"Borrowing" shall mean a borrowing pursuant to a Notice of Borrowing.

"Business Day" shall mean any day other than (a) a Saturday or a Sunday or (b) any other day on which commercial banks in New York, New York are required or authorized by law to be closed for business.

"Business Plans" shall be, at any point in time, the collective reference to the Annual Plans, the Initial Business Plan, the Three Year Business Plan, the Supplemental Operating Plans, the Strategic Business Plan and the Extension Business Plan, in each case to the extent then in effect; provided that the fact that at any time any Business Plan is no longer in effect shall not impair or restrict the Banks from taking any action provided for hereunder in respect of any misrepresentation, breach of covenant, Default or Event of Default arising in respect thereof at a time when such Business Plan was in effect.

"Capital Event" shall mean any of (a) the sale or other disposition by, or on behalf of, the Borrower or any of his Affiliates to any Person or Persons of (including without limitation the sale or other disposition upon the exercise of any Foreclosure Right with respect to and any condemnation or casualty loss involving), or otherwise involving or any other collection, or other receipt of proceeds, in respect of (i) any assets (or proceeds thereof or rights therein, including, without limitation, distributions therefrom, and any capital stock, partnership interests or any other Equity Interests, included in the Existing Collateral (as defined in the Override Agreement) or the Collateral; (ii) any of the capital stock, partnership interests or any other Equity Interests of any Person any of the assets of which (or proceeds thereof or rights therein) is included in the Existing Collateral (as defined in the Override Agreement) or the Collateral; (iii) any of the assets (including, without limitation, any division or line of business) of any Person, any of the capital stock, partnership interests or any other Equity Interests of which is included in the Existing Collateral (as defined in the Override Agreement) or the Collateral; or (iv) any of the capital stock,
partnership interests or any other Equity Interests in a Person which owns or controls, directly or indirectly, any assets, capital stock, partnership interests or other Equity Interests included in clause (i), (ii) or (iii) above; or (b) any refinancing, directly or indirectly, of any Indebtedness of any Person who or which owns any of the assets (or proceeds thereof or rights thereon, including, without limitation, distributions therefrom), capital stock, partnership interests or other Equity Interests which are described in clauses (a)(i)-(iv) above; or (c) any Casino Equity Sale; or (d) any collection of any amount from the Borrower or any of his Affiliates following the occurrence of any Event of Default; or (e) any sale or other disposition of, or any payment on, or in respect of, the DJT Taj Note or the Castle Note.

"Cash Collateral" shall have the meaning provided in the definition of "Collateralization Condition".

"Cash Equivalents" shall mean those types of investments permitted in Section 5.04(d)(ii)-(iv).


"Casino Control Commission" shall mean the New Jersey Casino Control Commission as established by Section 50 of the Casino Control Act or any successor agency appointed pursuant to the Casino Control Act.

"Casino Entities" shall mean the casino and hotel businesses located in Atlantic City, New Jersey, owned and operated by Trump's Castle Associates Limited Partnership, Trump Taj Mahal Associates Limited Partnership and Trump Plaza Associates, each a partnership organized under the laws of the State of New Jersey; Trump's Castle Funding, Inc., Trump Taj Mahal Funding Inc., Trump Plaza Funding, Inc., and Trump Hotel Management Corp., each a New Jersey corporation; together with their respective successors and assigns.

"Casino Equity Sale" shall mean any of (a) the direct or indirect sale or other disposition by, or on behalf of, any Casino Entity or any other Affiliate of the Borrower to any Person or Persons of any Equity Interest of or in one or more Casino Entities, (b) the exercise of any Foreclosure Right with respect to any Equity Interest of or in one or more Casino Entities, (c) the sale (including, without limitation, following the exercise of Foreclosure Rights) of any of the assets of one or more Casino Entities or (d) any refinancing, directly or indirectly, of any Indebtedness of any Casino Entity.

"Casino Indentures" shall mean the Indenture dated as of June 27, 1985 by and among Trump's Castle Funding, Inc., Trump's Castle
Associates Limited Partnership and First Fidelity Bank, National Association, New Jersey governing the issuance of the 13-3/4% First Mortgage Bonds, Series A-1, Due 1997 and the 7% First Mortgage Bonds, Series A-2, Due 1999; the Indenture dated as of November 22, 1988 by and among Trump Taj Mahal Funding Inc., Trump Taj Mahal Associates Limited Partnership and Bankers Trust Company governing the issuance of the 14% First Mortgage Bonds, Series A, due 1998; and the Indenture dated as of May 16, 1986 by and among Trump Plaza Funding, Inc., Trump Plaza Associates and First Fidelity Bank, National Association, New Jersey governing the issuance of the 12-7/8% Mortgage Bonds due 1998; in each case, as in effect on the Effective Date except to the extent amended in accordance with Section 5.04(h).

"Castle Note" shall mean the promissory note dated as of December 19, 1989 in the principal amount of $2,000,000 owed by Trump's Castle Associates Limited Partnership to the Borrower.

"Certifying Persons" shall mean (a) with respect to the Borrower, each of the Borrower and a Senior Executive Officer unless a Senior Executive Officer has not been employed, in which case, such additional Certifying person shall be the Person employed by the Borrower who is most familiar with the financial affairs of the Borrower and (b) with respect to any Affiliate of the Borrower, each of the chief operating officer and chief financial officer or the two Persons whose duties are substantially similar to a chief operating officer and chief financial officer, respectively, as applicable.

"Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

"Collateral" shall mean all property (real and personal, tangible and intangible) now or hereafter acquired in which a Lien is granted, or purported to be granted, to the Agent for the benefit of the Banks as security for the Borrower's or any Grantor's obligations under the Loan Documents.

"Collateral Agreements" shall have the meaning provided in the Override Agreement.

"Collateralization Condition" shall mean the circumstance in which at least one of the following two events shall have occurred and continue to exist:

(a) The Borrower shall have delivered to the Agent for the benefit of the Banks one or more letters of credit (each, a "Substitute Letter of Credit"), in form and substance, and issued by a bank, satisfactory to the Required Banks, as security for the Loans and expiring not sooner than the ninety-first (91st) day following the Final Maturity Date, the total amount of which is equal to $65,000,000 or, if less, the
amount which, when aggregated with the amount of Cash Collateral, if any, is equal to the Commitments, as they may have been reduced pursuant to Section 2.09, it being expressly understood that it is not the current intention of any Bank to issue any Substitute Letter of Credit, that no Bank has offered or committed to do so and that no Letter of Credit issued hereunder can be used for this purpose; or

(b) The Borrower shall have pledged to the Agent for the benefit of the Banks certificates of deposit issued by Bankers Trust Company (such certificates of deposit so pledged are collectively referred to herein as the "Cash Collateral"), the total amount of which is equal to $40,000,000 (and the Commitments shall have been permanently reduced by at least $25,000,000 pursuant to Section 2.09(a)) or such lesser amount which, when aggregated with the amount of Substitute Letters of Credit, if any, is equal to the Commitments, as they may have been permanently reduced pursuant to Section 2.09; provided that in the event that the Collateralization Condition shall be satisfied with the application (including, without limitation, by means of a Substitute Letter of Credit or Cash Collateral) of a part (but not all) of the Net Cash Proceeds of any Capital Event, the excess Net Cash Proceeds shall be applied under this Agreement and the Override Agreement in the manner set forth herein and therein for application of Net Cash Proceeds after satisfaction of the Collateralization Condition.

"Commitments" shall have the meaning provided in Section 2.01(b).

"Default" shall mean any condition or event which, with notice (including, without limitation, the declaration provided for in the first paragraph of Article VI) or lapse of time or both, would constitute an Event of Default.

"Division of Gaming Enforcement" shall mean the Division of Gaming Enforcement of the New Jersey Department of Law & Public Safety as established by Section 55 of the Casino Control Act or any successor division or agency appointed pursuant to the Casino Control Act.

"DJT Taj Note" shall mean the promissory note dated as of April 30, 1990 in the principal amount of $25,000,000 owed by Trump Taj Mahal Associates Limited Partnership to the Borrower.

"Dollar" and the sign "$" shall mean lawful money of the United States of America.

"Effective Date" shall have the meaning provided in Section 8.10.
"Environmental Laws" shall have the meaning provided in Section 4.09.

"Equity Interest" shall mean any stock or similar security, preorganization certificate or subscription, transferable share, voting trust certificate or certificate of deposit for any of the foregoing; general or limited partnership interest, interest in a joint venture, interest in a business trust, voting trust certificate or certificate of deposit for any of the foregoing; or any security convertible, with or without consideration, into any of the foregoing, or carrying any warrant or right to subscribe to or purchase any of the foregoing; or any such warrant or right; or any put, call, straddle or other option or privilege of buying any of the foregoing from or selling any of the foregoing to another Person without being bound to do so; or any similar security or interest; or any proceeds of or rights in (including, without limitation, any distributions in respect of), or record or beneficial interest in any of the foregoing held or owned by a Person including without limitation all Equity Interests which are controlled by such Person (regardless of whether such Person is the record or beneficial owner thereof).

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time.

"ERISA Affiliate" shall mean each trade or business (whether or not incorporated) which together with the Borrower would be deemed to be a "single employer" within the meaning of Section 4001 of ERISA.

"ERISA Termination Event" shall mean (i) a "Reportable Event" described in Section 4043 of ERISA and the regulations issued thereunder (other than a "Reportable Event" not subject to the provision for 30-day notice to the PBGC under such regulations), (ii) the complete or partial withdrawal of any of the Borrower's ERISA Affiliates from any Plan, (iii) the filing of a notice of intent to terminate a Plan or the treatment of a Plan amendment as a termination under Section 4041 of ERISA, (iv) the institution of proceedings to terminate a Plan by the PBGC or (v) any other event or condition which might constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan.

"Event of Default" shall mean any event or condition referred to Article VI which shall have been declared to be an Event of Default pursuant thereto or any event referred to in Section 6.07(a)-(h) with respect to the Borrower.

"Excess Cash Balances" shall mean, at the end of any month, the sum of (a) all cash and Cash Equivalents (net of any outstanding checks) held by the Borrower in excess of $10,000,000 after giving effect to distributions which have been or should have been made by such time in accordance with Section 5.01(g), excluding
cash or Cash Equivalents held by the Borrower as a reserve for disputed claims in accordance with generally accepted accounting principles and past practices of the Borrower and (b) an amount equal to all interest actually earned on any Cash Collateral pledged to the Agent for the benefit of the Banks and distributed to the Agent on or before the fifth Business Day of the next month pursuant to Section 2.08(b)(iv).

"Existing Agreement Amendments" shall have the meaning provided in the second WHEREAS clause hereof.

"Existing Agreements" shall mean all of the "Existing Debt Credit Agreements" and "Existing Collateral Agreements", as defined in the Override Agreement.

"Extended Maturity Date" shall mean June 30, 1995.

"Extension" shall have the meaning provided in Section 2.07(a).

"Extension Business Plan" shall have the meaning provided in Section 2.07(a).

"Extension Conditions" shall have the meaning provided in Section 2.07(b).

"Final Maturity Date" shall mean the Initial Maturity Date or, if the Extension shall have occurred, the Extended Maturity Date.

"Foreclosure Event" shall have the meaning provided in the penultimate paragraph of Article VI.

"Foreclosure Right" shall have the meaning provided in the penultimate paragraph of Article VI.

"Governmental Act" shall mean any law, statute, rule, regulation; any order, ruling, writ, injunction or decree; or any action, suit, proceeding or investigation, in each case by a Governmental Authority.

"Governmental Authority" shall mean any federal, state, local or foreign or other governmental or administrative body, instrumentality, department or agency or any court, tribunal, administrative hearing body, arbitration panel, commission or other similar dispute resolving panel or body.

"Grantor" shall mean each Person which is granting a lien or security interest in any of the Collateral to secure such Person's obligations under a Guaranty, and shall include the Persons set forth on Schedule 1(b).
"Guaranty" shall mean a guaranty made by a Grantor in favor of the Agent for the benefit of the Banks in connection with this Agreement, guaranteeing the obligations of the Borrower hereunder and under the Notes and other Loan Documents and otherwise in form and substance satisfactory to the Banks, as amended, supplemented or otherwise modified from time to time.

"Hazardous Substance" shall have the meaning provided in Section 4.09.

"Indebtedness" of any Person shall mean:

(i) all obligations of such Person which in accordance with generally accepted accounting principles would be shown on the balance sheet of such Person as a liability (including, without limitation, obligations for borrowed money and for the deferred purchase price of property or services, and obligations evidenced by bonds, debentures, notes or other similar instruments);

(ii) all rental obligations under leases required to be capitalized under generally accepted accounting principles;

(iii) all contingent reimbursement obligations under undrawn letters of credit issued on behalf, at the request or for the account of such Person, all guarantees (direct or indirect), and other contingent obligations of such Person in respect of, or obligations to purchase or otherwise acquire or to assure payment of, Indebtedness of others, including without limitation Indebtedness of partnerships of which such Person is a general partner; and all arrangements of financial support by such Person for the performance of another, including without limitation (A) agreements to support the performance of leases or other contracts; (B) guarantees of dividends and other payments; (C) agreements to advance and supply funds; (D) agreements to maintain working capital or minimum net worth; and (E) comfort letters or keep well agreements; and

(iv) Indebtedness of such Person or of others secured by any Lien upon property owned by such Person, whether or not assumed and whether or not a recourse obligation of such Person.

"Initial Business Plan" shall have the meaning provided in Section 3.01(m).

"Initial Maturity Date" shall mean June 30, 1993.

"Intercompany Notes" shall mean all promissory notes payable to the order of the Borrower and issued by any Affiliate of the Borrower on account of advances made by the Borrower to such Affiliate from time to time, which notes shall provide for an annual
interest rate which is 1% above the Prime Lending Rate and shall be substantially in the form of Exhibit B hereto.

"Interim Loan" shall have the meaning provided in the third WHEREAS clause hereof.

"Issuing Bank" shall mean, with respect to any Letter of Credit, Bankers Trust Company.

"June 14, 1990 Report" shall have the meaning provided in Section 5.02A(a).

"Letter of Credit" or "Letters of Credit" shall mean the Letters of Credit issued or to be issued by the Issuing Bank for the account of the Borrower pursuant to Section 2.05.

"Letter of Credit Collateral" shall have the meaning provided in Section 2.08(b)(i).

"Letter of Credit Usage" shall mean, as at any date of determination, the excess of (i) the sum of (a) the maximum aggregate amount that is or at any time thereafter may become available for drawing under all Letters of Credit then outstanding and (b) the aggregate amount of all drawings under Letters of Credit honored by the Issuing Bank and not theretofore reimbursed by the Borrower over (ii) the then outstanding amount of Letter of Credit Collateral.

"Lien" shall mean any mortgage, pledge, assignment, hypothecation, security interest, encumbrance, lien, charge or deposit arrangement or other arrangement having the practical effect of the foregoing and shall include the interest of a vendor or lessor under any conditional sale agreement, capitalized lease or other title retention agreement.

"Loan" shall have the meaning provided in Section 2.01(a).

"Loan Documents" shall mean this Agreement, the Notes, the Guaranties, the Security Documents and all agreements, instruments and documents executed and delivered in connection herewith and therewith, but shall exclude the Override Agreement, the Existing Agreement Amendments, and all documents delivered pursuant thereto.

"Margin Stock" shall have the meaning provided in Regulation U.

"Net Cash Proceeds" shall have the meaning all cash available to be applied to the obligations of the Borrower and his Affiliates under this Agreement, the Notes, the Guaranties and the other Loan Documents upon the occurrence of a Capital Event, calculated in the manner set forth in Section 3.2(a)(iii) of the Override Agreement, as in effect on the date hereof.
"New Ventures" shall have the meaning provided in Section 5.04(d)(v).

"Note" shall have the meaning provided in Section 2.04.

"Notice of Borrowing" shall have the meaning provided in Section 2.02.

"Override Agreement" shall mean that certain Override Agreement dated as of the date hereof by and among the Borrower, certain of his Affiliates signatories thereto, the Banks and certain other financial institutions and the Agent, as agent and collateral agent for the Banks and certain other financial institutions thereunder, as amended, supplemented or otherwise modified from time to time in accordance with the provisions of this Agreement.

"Payment Office" shall mean the Agent's office located at One Bankers Trust Plaza, New York, New York 10006, Attention: __________.

"PBGC" shall mean the Pension Benefit Guaranty Corporation, or any successor thereto.

"Permitted Liens" shall mean the liens permitted to exist under Section 5.04(b).

"Person" shall mean any individual, partnership, firm, corporation, association, joint venture, trust or other entity, or any government or political subdivision or agency, department or instrumentality thereof.

"Plan" shall mean any multiemployer plan or single employer plan, as defined in Section 4001 and subject to Title IV of ERISA, which is maintained, or at any time during the five calendar years preceding the date of this Agreement was maintained, for employees of the Borrower or an ERISA Affiliate.

"Plaza" shall mean Plaza Operating Partners Ltd., a Texas limited partnership.

"Prime Lending Rate" shall mean the rate which Bankers Trust Company announces from time to time as its prime lending rate, as in effect from time to time. The Prime Lending Rate is a reference rate and does not necessarily represent the lowest or the best rate actually charged to any customer. Bankers Trust Company may make commercial loans or other loans at rates of interest at, above or below the Prime Lending Rate.

"Princess" shall have the meaning provided in the Override Agreement.

"Prior Lien" shall mean, as to any Collateral, any Lien on such Collateral securing Indebtedness owed to any Person which is
prior to the Liens on such Collateral created by the Security Documents.

"Pro Rata Share" shall mean, with respect to each Bank, but subject to the provisions of Section 2.01(d), the percentage (taken to the fourth decimal place) designated as such Bank's Pro Rata Share set forth under the name of such Bank on the applicable signature page of this Agreement and in Annex I annexed hereto.

"Real Property" shall have the meaning provided in Section 3.01(h).

"Regulation D" and "Regulation U" shall mean Regulation D and Regulation U, respectively, of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor thereto.

"Required Banks" shall mean at any time Banks holding more than 66-2/3% of the then aggregate unpaid principal amount of the Notes or, if no such principal amount is then outstanding, Banks having more than 66-2/3% of the Commitments.

"Required Waiving Banks" shall mean, at any time, Banks holding at least 33-1/3% of the aggregate amount of the then outstanding Loans or if no Loans are then outstanding, at least 33-1/3% of the aggregate amount of the Commitments.

"sale" shall mean with respect to any Equity Interest or other asset, any sale, transfer, lease, liquidation, dissolution, condemnation or casualty loss, in each case, involving such Equity Interest or other asset, provided that (x) a lease shall not include any lease of any property which in the ordinary course of business is held out for lease if such lease is on customary commercial terms, is not a capital lease and provides for periodic lease payments in substantially equal amounts (subject to commercially reasonable free rent periods of any asset which is held for lease but together with any customary escalation clauses) and (y) a sale shall not include the sale of any asset which is held for sale in the ordinary course of business, other than any securities, of any residential or commercial real property or automobiles.

"Security Documents" shall mean all security agreements, pledge agreements, mortgages and other security documents (including, without limitation, the related Guaranties) executed and delivered by the Borrower or any Grantor in favor of the Agent for the benefit of the Banks to secure the obligations under this Agreement, the Notes or any other Loan Documents.

"Senior Executive Officer" shall have the meaning provided in Section 3.02(g).
"Shuttle" shall mean Trump Shuttle, Inc.

"Special Collateral Agreements" shall have the meaning provided in the Override Agreement.

"Strategic Business Plan" shall have the meaning provided in Section 5.02A(b)(1).

"Substitute Letter of Credit" shall have the meaning provided in the definition of "Collateralization Condition".

"Supplemental Operating Plan" shall have the meaning provided in Section 5.02A(b)(ii).

"Three Year Business Plan" shall have the meaning provided in Section 5.02A(b)(ii).

"Total Utilization of Commitments" shall mean, as at any date of determination, the sum of (a) the aggregate principal amount of all outstanding Loans and (b) the Letter of Credit Usage.

Section 1.02. Accounting Terms and Determinations. Unless otherwise defined or specified herein, all accounting terms shall be construed herein, all accounting determinations hereunder shall be made, all financial statements required to be delivered hereunder shall be prepared, and all financial records shall be maintained, in accordance with generally accepted accounting principles applied on a basis consistent with the financial statements referred to in Section 4.05(a), which principles, in the case of the Borrower, shall include, without limitation, Statement of Position (SOP) 82-1, Accounting and Financial Reporting for Personal Financial Statements, October 1, 1982, issued by the Accounting Standards Division of the American Institute of Certified Public Accountants.

Section 1.03. Other Definitional Terms. The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and Article, Section, Schedule, Exhibit and like references are to this Agreement unless otherwise specified.

ARTICLE II. AMOUNTS AND TERMS OF LOANS

Section 2.01. Commitment. (a) Subject to and upon the terms and conditions herein set forth, each Bank severally agrees, at any time and from time to time prior to the Final Maturity Date, to make loans (each a "Loan" and collectively, the "Loans") to the Borrower.

(b) The Loans made pursuant hereto by each Bank (i) shall bear interest at the rate set forth in Section 2.06, (ii) shall
not exceed in aggregate principal amount outstanding at any one
time the amount set forth opposite such Bank's name on Annex I
hereto (as the same may be permanently reduced pursuant to Section
2.09 and otherwise from time to time, its "Commitment" and collec-
tively for all Banks, the "Commitments"), (iii) subject to the
provisions of Section 2.01(d), shall not exceed for any Bank its
Pro Rata Share of the aggregate amount of the Loans and (iv) shall
be due and payable on the Final Maturity Date. Within the fore-
going limits and subject to the conditions set out in Article III,
the Borrower may borrow, repay and prepay, and reborrow, Loans.

(c) The aggregate principal amount of each Borrowing here-
under shall be not less than $1,000,000 (except that any Borrowing
may be in the aggregate amount of the unused Commitments).

(d) The initial Loan shall be in the aggregate principal
amount of $40,000,000 (which sum includes the amount of the In-
terim Loan) and shall be made by each Bank in the amount set forth
opposite its name on Annex I, and shall be paid to the Borrower
or, to the extent set forth on said Annex I, to Midlantic National
Bank for the purpose of reallocating the Loans among the Banks,
with the result that immediately after giving effect to such ini-
tial Loan and the Interim Loan and such reallocation among the
Banks, the allocable share of each Bank of the $40,000,000 ag-
gregate outstanding balance of the Loans shall be its Pro Rata
Share.

(e) The sum of the Letter of Credit Usage and the then out-
standing amount of Letter of Credit Collateral shall not at any
time exceed $5,000,000 plus an amount, not in excess of
$3,000,000, equal to the face amount of any Letter of Credit used
in connection with the employment of a Senior Executive Officer.

(f) Notwithstanding the foregoing provisions of this Section
2.01 and the provisions of Sections 2.02 and 2.05, the Loans shall
be subject to the following limitations in the amounts and during
the periods indicated:

(i) The amount otherwise available for borrowing under
the Commitments as of any time of determination shall be re-
duced by an amount equal to the sum of (a) the aggregate
principal amount of all outstanding Loans and (b) the Letter
of Credit Usage; provided that to the extent the proceeds of
such borrowings are to be then applied to reimburse the Issu-
ing Bank for the amount of any drawings under any Letters of
Credit honored by the Issuing Bank and not theretofore reim-
bursed by the Borrower, the Letter of Credit Usage shall not
include the amount of the Letters of Credit to be so repaid
or reimbursed; and

(ii) At no time shall the Total Utilization of Com-
mitsments exceed the aggregate Commitments.
Section 2.02. Notice of Borrowing. (a) Whenever the Borrower desires to make a Borrowing hereunder, he shall give the Agent at least five Business Days’ prior written notice thereof (or telephonic notice promptly confirmed in writing). For the purposes of the foregoing provision, a notice requesting a Borrowing (each, a “Notice of Borrowing”) shall be deemed effective on the Business Day of receipt by the Agent if received prior to or at 11:00 A.M. (New York time) or on the Business Day following the date of receipt if received by the Agent after such time. Each such Notice of Borrowing (i) shall be signed by each Certifying Person of the Borrower; (ii) shall specify the aggregate principal amount of the Loans to be made pursuant to such proposed Borrowing, the date of such proposed Borrowing (which shall be a Business Day and shall be no earlier than five Business Days following the effective date of receipt by the Agent of such Notice of Borrowing, determined as above set forth) and the intended use of the proceeds of the requested Loans in sufficient detail to demonstrate compliance with Section 5.01(h); (iii) shall certify as to the Borrower’s compliance with all conditions precedent to such proposed Borrowing (including, without limitation, the conditions set forth in subsections (a), (b), (f) and (g) of Section 3.02 and compliance with the provisions of the Business Plans); and (iv) shall provide the information required in Section 3.02(b), if applicable at the time of such request. As long as Kenneth Leventhal & Co. continues to be retained by the Borrower in its current capacity, each Notice of Borrowing shall be accompanied by a special procedures report in form and substance satisfactory to the Required Banks prepared by Kenneth Leventhal & Co. and signed by an authorized representative of Kenneth Leventhal & Co. No more than one Notice of Borrowing shall be given, nor more than one Borrowing made, on any one day.

(b) Without in any way limiting the Borrower’s obligation to confirm in writing any telephonic notice, the Agent may act without liability upon the basis of telephonic notice believed by the Agent in good faith to be from the Borrower prior to receipt of written confirmation. In each such case, the Borrower hereby waives the right to dispute the Agent’s record of the terms of such telephonic Notice of Borrowing.

(c) The Agent shall promptly give each Bank telephonic notice (followed promptly thereafter by a copy of the Notice of Borrowing and the related special procedures report) of the proposed Borrowing, of such Bank’s Pro Rata Share thereof and of the other matters covered by the Notice of Borrowing.

Section 2.03. Disbursement of Funds. (a) No later than noon (New York time) on the date of each Borrowing, each Bank will make available in Dollars and in immediately available funds at the Payment Office its Pro Rata Share of the principal amount of the Borrowing requested to be made on such date. The Agent will make available to the Borrower the aggregate of the amounts (if any) so made available by the Banks.
(b) No Bank shall be responsible for any default by any other Bank in its obligation to make Loans, and each Bank shall be obligated to make the Loans provided to be made by it, regardless of the failure of any other Bank to fulfill its Commitment. In connection with any Borrowing hereunder (other than the initial Borrowing), no Bank shall be obligated to advance more than its Pro Rata Share of such Borrowing.

Section 2.04. Notes. The Borrower's obligation to pay the principal of, and interest on, the Loans made by each Bank shall be evidenced by a promissory note delivered to such Bank (each, as it may be amended, supplemented or modified from time to time to the extent necessary, and only to the extent necessary, to conform the terms thereof to amendments, supplements or modifications to this Agreement made in accordance with Section 8.02, a "Note" and collectively, the "Notes") substantially in the form of Exhibit A hereto, with blanks appropriately completed in conformity herewith and therewith, to be executed and delivered both by the Borrower and his Affiliate, The Trump-Equitable Fifth Avenue Company. Each holder of a Note may record Loans and repayments of Loans and payments of interest on one or more attachments to such Note, all of which attachments shall be deemed a part of such Note and shall be conclusive evidence of such advances, repayments and payments in the absence of evidence to the contrary. Each holder of a Note shall, upon written request from the Borrower to such holder, send the Borrower a copy of all attachments to such Note at the time of such request. The failure of any holder of a Note to properly record any Loans, repayments or payments on the attachments to such Note, including any attachments copies of which are provided to the Borrower, shall not affect the Borrower's obligations hereunder or thereunder.

Section 2.05. Letters of Credit.

(a) In addition to the Borrower requesting that the Banks make Loans pursuant to Section 2.02, the Borrower may request, in accordance with the provisions of this Section 2.05, that the Issuing Bank issue Letters of Credit on behalf of all of the Banks for the account of the Borrower and for the business purposes of the Borrower's properties and businesses generally (rather than for the benefit of any specific asset or business), each consistent with the Business Plans, or to be used in connection with the employment of a Senior Executive Officer; provided that (i) the Borrower shall not request that the Issuing Bank issue any Letter of Credit if, after giving effect to such issuance, the Total Utilization of Commitments would exceed the Commitments, (ii) in no event shall the Issuing Bank issue (x) any Letter of Credit having any expiration date later than the Initial Maturity Date, or, in the event that the Extension has occurred prior to the issuance of such Letter of Credit or prior to any request from the Borrower to extend the expiration date of any then outstanding Letter of Credit beyond the Initial Maturity Date, the Extended Maturity Date, or (y) any Letter of Credit having an expiration date more than
one year after its date of issuance provided that this clause (y) shall not prevent the Issuing Bank from agreeing, with the consent of the Required Banks, that a Letter of Credit will automatically be renewed at the end of each year for a period not to exceed one year (subject, however, to the provisions of sub-clause (x) of this clause (ii)) if the Issuing Bank does not cancel such renewal, provided further that the Issuing Bank shall not permit any such renewal if it has been notified by any Bank that a Default or an Event of Default has occurred and is then continuing unless the consent of the Required Banks to such renewal has been obtained notwithstanding the continuance of such Default or Event of Default and (iii) the Borrower shall not request that the Issuing Bank issue any Letter of Credit if, after giving effect to such issuance, the Letter of Credit Usage would exceed the lesser of (A) the aggregate Commitments as in effect at the time minus the aggregate amount of all outstanding Loans and (B) $5,000,000 plus an amount, not in excess of $3,000,000, equal to the face amount of any Letter of Credit used in connection with the employment of a Senior Executive Officer. The issuance of any Letter of Credit in accordance with the provisions of this Section 2.05 shall be given effect in the calculation of the Total Utilization of Commitments and shall require the satisfaction of each condition set forth in Section 3.03.

Each Letter of Credit may provide that the Issuing Bank may (but shall not be required to) pay the beneficiary thereof upon the occurrence of an Event of Default hereunder and the acceleration of the maturity of the Loans or, if payment is not then due to the beneficiary, provide for the deposit of funds in an account to secure payment to the beneficiary and that any funds so deposited shall be either (i) paid to the beneficiary of the Letter of Credit if conditions to such payment are satisfied or (ii) returned to the Issuing Bank for distribution to the Banks (or, if all obligations hereunder to the Banks shall have been indefeasibly paid in full, to the Borrower) to the extent any such funds remain after the final date available for drawings under the Letter of Credit has passed. Each payment or deposit of funds by the Issuing Bank as provided in this paragraph shall be treated for all purposes of this Agreement as a drawing duly honored by such Issuing Bank under the related Letter of Credit.

(b) Whenever the Borrower desires the issuance of a Letter of Credit, the Borrower shall deliver to the Agent a written notice at least ten Business Days, or in each case such shorter period (but in no event less than five Business Days) as may be agreed to by the Issuing Bank in any particular instance, in advance of the proposed date of issuance. For purposes of the foregoing provision, notice received after 1:00 P.M. (New York time) shall be deemed to have been given on the following Business Day. The notice shall be certified by each Certifying Person of the Borrower and shall specify (i) the proposed date of issuance (which shall be a Business Day), (ii) the face amount of the Letter of Credit, (iii) the expiration date of the Letter of Credit,
(iv) the name and address of the beneficiary and (v) the business purpose for which such Letter of Credit is required in sufficient detail to demonstrate compliance with Section 5.01(h). The notice shall also certify as to the Borrower's compliance with all conditions precedent to the issuance of the proposed Letter of Credit (including, without limitation, the conditions set forth in Section 3.03). So long as Kenneth Leventhal & Co. continues to be retained by the Borrower as a special financial consultant, the notice shall be accompanied by a special procedures report in form and substance satisfactory to the Required Banks prepared by Kenneth Leventhal & Co. and signed by an authorized representative of Kenneth Leventhal & Co. The Agent shall promptly give each Bank a copy of the notice and the accompanying special procedures report. Prior to the date of issuance, the Borrower shall deliver to the Issuing Bank an executed application for such Letter of Credit in the form customarily required by the Issuing Bank for the issuance of letters of credit, and shall specify a precise description of the documents and the verbatim text of any certificate to be presented by the beneficiary which, if presented by the beneficiary prior to the expiration date of the Letter of Credit, would require the Issuing Bank to make payment under the Letter of Credit; provided that (1) the Issuing Bank, in its reasonable judgment, may require changes in any such documents and certificates and (2) notwithstanding anything to the contrary contained in the application for any Letter of Credit or any other document required by the Issuing Bank, the provisions of paragraph (f) below relating to commissions and the applicable interest rate with respect to drawings made under any Letter of Credit shall be applicable to each Letter of Credit. In determining whether to pay under any Letter of Credit, the Issuing Bank shall be responsible only to determine that the documents and certificates required to be delivered under that Letter of Credit have been delivered and that they comply on their face with the requirements of that Letter of Credit.

(c) Subject to the terms and conditions of this Section 2.05 and Section 3.03, the Issuing Bank shall, on the requested date, issue a Letter of Credit on behalf of the Borrower in accordance with such Issuing Bank's usual and customary business practices. Promptly after issuance of a Letter of Credit, the Issuing Bank shall notify each Bank of the issuance and the amount of each such Bank's respective participation therein.

Immediately upon the issuance of each Letter of Credit, each Bank shall be deemed to, and hereby agrees to, have irrevocably purchased from the Issuing Bank a participation in such Letter of Credit and drawings thereunder in an amount equal to such Bank's Pro Rata Share of the maximum amount which is or at any time may become available to be drawn thereunder. This provision is solely for the benefit of the Issuing Bank and the Banks, and none of the Borrower, any of his Affiliates or any beneficiary of any Letter of Credit may enforce or rely on it. Demands by beneficiaries of

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Letters of Credit may not be made on any Bank other than the Issuing Bank.

(d) In the event of any request for drawing under any Letter of Credit by the beneficiary thereof, the Issuing Bank shall immediately notify the Borrower and the other Banks, and the Borrower shall reimburse the Issuing Bank on the day on which such drawing is honored in an amount in same day funds equal to the amount of such drawing; provided that, anything contained in this Agreement to the contrary notwithstanding, (i) unless the Borrower shall have notified the Agent and the Issuing Bank prior to 11:00 A.M. (New York time) on the date of such drawing that the Borrower intends to reimburse the Issuing Bank for the amount of such drawing with funds other than the proceeds of the Loans, the Borrower shall be deemed to have given a Notice of Borrowing to the Agent requesting the Banks to make Loans on the date on which such drawing is honored in an amount equal to the amount of such drawing, and (ii) subject to satisfaction or waiver of the conditions specified in Section 2.01(e) and Section 3.02, the Banks shall, on the date of such drawing, make Loans in the amount of such drawing, the proceeds of which shall be applied directly by the Agent to reimburse the Issuing Bank for the amount of such drawing; and provided further that if for any reason proceeds of Loans are not received by the Issuing Bank on such date in an amount equal to the amount of such drawing, the Borrower shall reimburse the Issuing Bank on the Business Day immediately following the date of such drawing, in an amount in same day funds equal to the excess of the amount of such drawing over the amount of such Loans, if any, as shall be so received, plus accrued interest on such amount at the rate set forth in Section 2.05(f)(ii).

(e) If the Borrower shall fail to reimburse the Issuing Bank as provided in Section 2.05(d) in an amount equal to the amount of any drawing honored by the Issuing Bank under a Letter of Credit issued by it and if Loans are not made in such aggregate amount as provided in Section 2.05(d) for any reason whatsoever (including, without limitation, the failure to satisfy any condition precedent set forth in Section 3.02), the Issuing Bank shall promptly notify each Bank of the unreimbursed amount of such drawing and of such Bank's respective participation therein based on such Bank's Pro Rata Share. Each Bank shall make available to the Issuing Bank an amount equal to its respective participation, in same day funds, at the office of such Issuing Bank specified in such notice (or if no address is specified, at the Payment Office) not later than 1:00 P.M. (New York time) on the Business Day after the date notified by the Issuing Bank. If any Bank fails to make available to the Issuing Bank the amount of such Bank's participation in such Letter of Credit as provided in this Section 2.05(e), the Issuing Bank shall be entitled to recover such amount on demand from such Bank together with interest at the customary rate set by the Issuing Bank for the correction of errors among banks for one Business Day and thereafter at the Prime Lending Rate. If the Issuing Bank
shall not recover such amount from such defaulting Bank, the Issuing Bank shall promptly notify each other Bank of such defaulted amount and of such Bank's respective participation therein based on such Bank's Pro Rata Share (recalculated based on the defaulting Bank's Pro Rata Share being zero). Each such other Bank shall make available to the Issuing Bank an amount equal to its respective participation in such defaulted amount, in same day funds, at the office of such Issuing Bank specified in such notice, not later than 1:00 P.M. (New York time) on the Business Day after the date notified by the Issuing Bank. Nothing in this Section 2.05 shall be deemed to prejudice the right of any Bank to recover from the Issuing Bank any amounts made available by such Bank to the Issuing Bank pursuant to Section 2.05(d) or 2.05(e) if it is determined by a court of competent jurisdiction that the payment with respect to a Letter of Credit by the Issuing Bank in respect of which payment was made by such Bank constituted gross negligence or willful misconduct on the part of the Issuing Bank.

The Issuing Bank shall distribute to each other Bank which has paid all amounts payable by it under Section 2.05(d) or 2.05(e) with respect to any Letter of Credit issued by the Issuing Bank such other Bank's allocable share of all payments received by the Issuing Bank from the Borrower or any defaulting Bank in reimbursement of drawings honored by the Issuing Bank under such Letter of Credit when such payments are received.

(f) The Borrower agrees to pay the following amounts to the Issuing Bank with respect to each Letter of Credit issued by it:

(i) a nonrefundable commission equal to 1-3/4% per annum of the maximum amount available from time to time to be drawn under such Letter of Credit, payable in advance on the day such Letter of Credit is issued and thereafter on the first Business Day of each calendar quarter (prorated for the quarters in which such Letter of Credit is issued, expires or is drawn) and calculated on the basis of a 360-day year and the actual number of days elapsed;

(ii) with respect to drawings made under any Letter of Credit, interest, payable on demand, on the amount paid by the Issuing Bank in respect of each such drawing from the date of the drawing through the date such amount is reimbursed by the Borrower (including any such reimbursement out of the proceeds of Loans pursuant to Section 2.05(d)) at a rate that is at all times equal to 3% per annum in excess of the rate otherwise payable with respect to Loans pursuant to Section 2.06; and

(iii) documentary and processing charges in accordance with the Issuing Bank's standard schedule for such charges in effect with respect to letters of credit, including, without limitation, issuance, amendment, transfer or drawing fees, as the case may be.
Promptly upon receipt by the Issuing Bank of any amount described in clause (i) or (ii) of this Section 2.05(f), the Issuing Bank shall distribute to each non-defaulting Bank its Pro Rata Share of such amount.

(g) The obligation of the Borrower to reimburse the Issuing Bank for drawings made under all Letters of Credit issued by it and the obligations of the Banks under Section 2.05(e) shall be unconditional and irrevocable and shall be paid strictly in accordance with the terms of this Agreement under all circumstances, including, without limitation, the following circumstances:

(i) any lack of validity or enforceability of any Letter of Credit;

(ii) the existence of any claim, set-off, defense or other right that the Borrower may have at any time against the beneficiary or any transferee of any Letter of Credit (or any persons or entities for whom any such transferee may be acting), any Bank or any other Person, whether in connection with this Agreement, the transactions contemplated herein or any unrelated transaction (including any underlying transaction between the Borrower or one of the Grantors and the beneficiary for which the Letter of Credit was procured);

(iii) any draft, demand, certificate or any other document presented under any Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect;

(iv) payment by the Issuing Bank under any Letter of Credit against presentation of a demand, draft or certificate or other document that does not comply with the terms of such Letter of Credit, provided such payment does not constitute gross negligence or willful misconduct of the Issuing Bank;

(v) any adverse change in the condition (financial or otherwise) of the Borrower;

(vi) any breach of this Agreement or any other Loan Document by any Person a party thereto, the Agent or any Bank (other than the Issuing Bank);

(vii) any other circumstance or occurrence whatsoever which is similar to any of the foregoing; or

(viii) the fact that an Event of Default shall have occurred and be continuing.

(h) If by reason of (x) any change in any applicable law, regulation, rule, decree or regulatory requirement or any change in the interpretation or application by any judicial or regulatory
authority of any law, regulation, rule, decree or regulatory requirement or (y) compliance by the Issuing Bank or any Bank with any direction, request or requirement (whether or not having the force of law) of any governmental or monetary authority, including, without limitation, Regulation D:

(i) the Issuing Bank or any Bank shall be subject to any tax, levy, charge or withholding of any nature or to any variation thereof or to any penalty with respect to the maintenance or fulfillment of its obligations under this Section 2.05, whether directly or by such being imposed on or suffered by the Issuing Bank or any Bank;

(ii) any reserve, special deposit, premium, Federal Deposit Insurance Corporation assessment, capital adequacy or similar requirement is or shall be applicable, imposed or modified in respect of any Letters of Credit issued by the Issuing Bank or participations therein purchased or to be purchased by any Bank; or

(iii) there shall be imposed on the Issuing Bank or any Bank any other condition regarding this Section 2.05, any Letter of Credit or any participation therein;

and the result of the foregoing is directly or indirectly to increase the cost to the Issuing Bank or any Bank of issuing, agreeing to purchase, making or maintaining any Letter of Credit or of purchasing or maintaining any participation therein, or to reduce the amount receivable in respect thereof by the Issuing Bank or any Bank, then and in any such case the Issuing Bank or such Bank may, at any time within a reasonable period after the additional cost is incurred or the amount received is reduced, so notify the Borrower, and the Borrower shall pay on demand such amounts as the Issuing Bank or such Bank may specify to be necessary to compensate the Issuing Bank or such Bank for such additional cost or reduced receipt, together with interest on such amount from the date demanded until payment in full thereof at a rate equal at all times to the rate payable with respect to Loans pursuant to Section 2.06. The determination by the Issuing Bank or any Bank, as the case may be, of any amount due pursuant to this Section 2.05 as set forth in a certificate setting forth the calculation thereof in reasonable detail, shall, in the absence of manifest error, be final and conclusive and binding on all of the parties hereto.

(i) In addition to amounts payable as elsewhere provided in this Section 2.05, the Borrower hereby agrees to protect, indemnify, pay and hold the Issuing Bank harmless from and against any and all claims, demands, liabilities, damages, losses, costs, charges and expenses (including reasonable attorneys' fees and allocated costs of internal counsel) which the Issuing Bank may incur or be subject to as a consequence, direct or indirect, of (1) the issuance of any Letter of Credit, other than as a result of the gross negligence or willful misconduct of the Issuing Bank.
as determined by a court of competent jurisdiction or (ii) the failure of the Issuing Bank to honor a drawing under any Letter of Credit as a result of any act or omission, whether rightful or wrongful, of any present or future de jure or de facto government or governmental authority.

As between the Borrower and the Issuing Bank, the Borrower assumes all risks of the acts and omissions of, or misuse of the Letters of Credit issued by the Issuing Bank by, the respective beneficiaries of such Letters of Credit. In furtherance and not in limitation of the foregoing, the Issuing Bank shall not be responsible: (i) for the form, validity, sufficiency, accuracy, genuineness or legal effect of any document submitted by any party in connection with the application for and issuance of such Letters of Credit, even if it should in fact prove to be in any or all respects invalid, insufficient, inaccurate, fraudulent or forged; (ii) for the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign any such Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, which may prove to be invalid or ineffective for any reason; (iii) for failure of the beneficiary of any such Letter of Credit to comply fully with conditions required in order to draw upon such Letter of Credit, which does not constitute gross negligence or willful misconduct on the part of the Issuing Bank as determined by a court of competent jurisdiction; (iv) for errors, omissions, interruptions or delays in transmission or delivery of any messages, by mail, cable, telegraph, telex or otherwise, whether or not they be in cipher; (v) for errors in interpretation of technical terms; (vi) for any loss or delay in the transmission or otherwise of any document required in order to make a drawing under any such Letter of Credit or of the proceeds thereof; (vii) for the misapplication by the beneficiary of any such Letter of Credit of the proceeds of any drawing under such Letter of Credit; and (viii) for any consequences arising from causes beyond the control of the Issuing Bank, including, without limitation, any Governmental Acts. None of the above shall affect, impair, or prevent the vesting of any of the Issuing Bank's rights or powers hereunder.

In furtherance and extension and not in limitation of the specific provisions hereinabove set forth, any action taken or omitted by the Issuing Bank under or in connection with the Letters of Credit issued by it or the related certificates, if taken or omitted in good faith, and not with gross negligence or willful misconduct as determined by a court of competent jurisdiction, shall not put the Issuing Bank under any resulting liability to the Borrower. The Borrower acknowledges and agrees that no other Bank will have any liability for any action taken or omitted by the Issuing Bank in connection with the Letters of Credit with gross negligence or willful misconduct.
Notwithstanding anything to the contrary contained in this Section 2.05(i), the Borrower shall have no obligation to indemnify the Issuing Bank in respect of any liability incurred by the Issuing Bank arising solely out of the gross negligence or willful misconduct of the Issuing Bank, as determined by a court of competent jurisdiction, or out of the wrongful dishonor by the Issuing Bank of a proper demand for payment made under the Letters of Credit issued by it.

Section 2.06. Interest. (a) The Borrower shall pay interest in respect of the unpaid principal amount of each Loan from the date thereof to maturity (whether by acceleration or otherwise) at a rate per annum which shall be 1% per annum in excess of the Prime Lending Rate in effect from time to time.

(b) Overdue principal and, to the extent permitted by law, overdue interest in respect of each Loan and all other overdue amounts owing hereunder shall bear interest for each day that such amounts are overdue at a rate per annum equal to 4% per annum in excess of the Prime Lending Rate in effect from time to time.

(c) Interest on each Loan shall accrue from and including the day such Loan is made hereunder to but excluding the day any such Loan is repaid hereunder (after giving effect to Section 2.11) and shall be payable on the last Business Day of each month and on any prepayment (on the amount prepaid), at maturity (whether by acceleration or otherwise) and, after maturity, on demand.

Section 2.07. Extension of Maturity.

(a) Subject to satisfaction of the Extension Conditions set forth in paragraph (b) below, the Borrower may, at any time on or after the date which is 90 days prior to the Initial Maturity Date and on or before the date which is 30 days prior to the Initial Maturity Date, by written notice (or telephone notice promptly confirmed in writing) to the Agent, extend the maturity date of the Loans (the "Extension") from the Initial Maturity Date to the Extended Maturity Date. Such request shall be accompanied by (i) the Borrower's proposed business plan for the period from the Initial Maturity Date to and including the Extended Maturity Date (the "Extension Business Plan"); and (ii) a certificate signed by each of the Borrower's Certifying Persons certifying as to the satisfaction of each of the conditions in clauses (i)-(iii) of paragraph (b) below as of the date of such request.

(b) The Extension is subject to the following conditions precedent (the "Extension Conditions") having been satisfied or duly waived in writing by each Bank at the time or times specified below:
(i) both at the time of the Borrower's request for the Extension and at the time of the commencement of the Extension there shall exist no Default or Event of Default;

(ii) both at the time of the Borrower's request for the Extension and at the time of the commencement of the Extension all representations and warranties contained herein or in any of the other Loan Documents shall be true and correct in all material respects with the same effect as though such representations and warranties had been made on and as of the date of the request or the commencement of the Extension, as the case may be, except to the extent such representations and warranties speak as of a certain date and (with respect to all representations and warranties except those in Sections 4.05(c) and 4.06) except to the extent changes in the facts or circumstances as to which such representations and warranties are made occurred since the Effective Date without violating or breaching any provision of this Agreement; provided that the Borrower shall have disclosed those representations and warranties which are no longer true and correct due to such changes in facts or circumstances, the extent to which they are no longer true and correct and the particular facts or circumstances causing them to be no longer true and correct in either the certificate specified in paragraph (a) above, the certificate in clause (vii) below, or both, as applicable;

(iii) the Borrower shall have conducted, and shall have caused each of his Affiliates to conduct, his or its business in compliance in all material respects with the Business Plans at all times prior to the request or the commencement of the Extension;

(iv) at the time of the request for the Extension, the Borrower shall have provided to the Banks the Extension Business Plan, which, at the time of the commencement of the Extension, shall be in form, scope and substance reasonably satisfactory to each of the Banks;

(v) prior to the commencement of the Extension the Borrower shall have delivered Substitute Letters of Credit to replace the then outstanding Substitute Letters of Credit, or amendments to the then existing Substitute Letters of Credit, extending the expiration date thereof to the ninety-first (91st) day following the Extended Maturity Date (or any combination of replacements and amendments so long as all Substitute Letters of Credit are so extended) and in all other respects identical to the outstanding Substitute Letters of Credit being replaced or otherwise in form and substance, and issued by a bank, satisfactory to the Required Banks;

(vi) prior to the commencement of the Extension, the Borrower shall have delivered evidence satisfactory to the
Required Banks that it has obtained all consents and licenses, in form and substance satisfactory to the Required Banks, from third parties (including, without limitation, the Casino Control Commission, the Division of Gaming Enforcement and any other Governmental Authorities) necessary to permit the Extension and the continued Lien in the Collateral granted under the Security Documents; and

(vii) the Borrower shall have delivered to the Agent on the Initial Maturity Date a certificate signed by each of the Borrower's Certifying Persons certifying as to the satisfaction of each of the Extension Conditions in clauses (i)-(iii) as of the Initial Maturity Date.

Section 2.08. Prepayments.

(a) Voluntary Prepayments.

The Borrower may, upon at least two Business Days' irrevocable written notice (or telephone notice promptly confirmed in writing) to the Agent, prepay the Loans at any time in whole, or from time to time in part, in amounts aggregating $1,000,000 or any multiple of $1,000,000, by paying the principal amount to be prepaid together with accrued interest thereon to the date of prepayment. Each such optional prepayment shall be applied to prepay the Loans of the several Banks in accordance with their respective Pro Rata Shares.

(b) Mandatory Prepayments.

(i) Concurrently with any reduction of the Commitments pursuant to Section 2.09, the Borrower shall prepay such amount of each Bank's outstanding Loans, if any, and, if all such Loans shall have been prepaid in full and any Letter of Credit shall remain outstanding, pledge to the Agent for the benefit of the Banks on terms acceptable to the Required Banks certificates of deposit issued by Bankers Trust Company (such certificates of deposit so pledged are collectively referred to herein as the "Letter of Credit Collateral") in such amount (not in excess of the then outstanding Letter of Credit Usage determined without giving effect to the Letter of Credit Collateral then being pledged) as may be necessary so that after such prepayment and the pledging of such Letter of Credit Collateral the sum of (A) the aggregate unpaid principal amount of such Bank's Loans and (B) such Bank's Pro Rata Share of the Letter of Credit Usage, as then determined (after giving effect to the Letter of Credit Collateral then being pledged), does not exceed the amount of such Bank's Commitment as then reduced. Each prepayment made pursuant to this Section shall be accompanied by all interest accrued on the amount prepaid to the date of such prepayment.
(ii) Subject to paragraph (iv) below, upon receipt by the Agent or the Borrower or any of his Affiliates of Net Cash Proceeds of any Capital Event, (A) the Borrower shall prepay the Loans in an amount equal to such Net Cash Proceeds (subject to the proviso below) on the date of the occurrence of such Capital Event, and upon receipt of any cash payment on any note or other obligation constituting Net Cash Proceeds of one or more Capital Events, the Borrower shall prepay the Loans in an amount equal to such cash payment or (B) in the event that either prior to such receipt of Net Cash Proceeds or after such prepayment of the Loans in an amount equal to a part (but not all) of such Net Cash Proceeds no Loans shall remain outstanding but any Letter of Credit shall remain outstanding, the Borrower shall pledge to the Agent for the benefit of the Banks Letter of Credit Collateral in an amount equal to the lesser of (I) the then outstanding Letter of Credit Usage determined without giving effect to the Letter of Credit Collateral then being pledged or (II) such Net Cash Proceeds or such excess Net Cash Proceeds (as the case may be); unless in case of both prepayments under (A) and collateralization under (B), prior to such time the Borrower has satisfied the Collateralization Condition; provided that there shall first be deducted from Net Cash Proceeds and paid to the Agent, before they are applied either to Loans or Letter of Credit Collateral in accordance with this paragraph (ii) or toward satisfaction of the Collateralization Condition in accordance with paragraph (iv) below, all amounts owed to the Agent under Section 8.04 to the extent arising in connection with the exercise of Foreclosure Rights in respect of any Capital Event. Concurrently with the making of any prepayment or pledging of any Letter of Credit Collateral pursuant to this Section 2.08(b)(ii), upon the request of any Bank or the Agent the Borrower shall deliver to the Agent a certificate in form and substance satisfactory to the Agent demonstrating the derivation of Net Cash Proceeds from the gross sales price of any related Capital Event. Prior to the satisfaction of the Collateralization Condition, the Borrower shall give the Agent ten days' prior notice of the consummation of any Capital Event and shall cause any Net Cash Proceeds arising as a result thereof to be delivered directly from the other party to such Capital Event to the Agent for distribution to the Banks pursuant to this Agreement.

(iii) Until such time as the Collateralization Condition has been satisfied, the Borrower shall repay the Loans in an amount equal to 100% of Excess Cash Balances as at the end of each month, commencing February 1991, on or before the fifth Business Day of the next month. Such payment shall be accompanied by a certificate, certified by each Certifying Person of the Borrower, demonstrating the calculation of such amount in reasonable detail and certifying that such calculation is accurate and complete.
(iv) At his option, the Borrower may satisfy all or a portion of his obligation to prepay the Loans or pledge Letter of Credit Collateral in respect of a Capital Event pursuant to paragraph (ii) above in respect of any Collateral, (A) by delivering to the Agent for the benefit of the Banks, at or before the closing of such Capital Event, a Substitute Letter of Credit, in an amount not in excess of the Net Cash Proceeds of such Capital Event or (B) by delivering to the Agent, at or before the closing of such Capital Event, Cash Collateral; provided that (I) with respect to any single Capital Event, the Cash Collateral so pledged shall not exceed an amount equal to 62.5% of the applicable Net Cash Proceeds, with the other 37.5% of the applicable Net Cash Proceeds being applied in repayment of the Loans or pledging of Letter of Credit Collateral pursuant to paragraph (ii) above, and (II) with respect to all Capital Events, the Cash Collateral so pledged shall not exceed $40,000,000 at any one time outstanding. The amount of such Cash Collateral or Substitute Letter of Credit shall be subtracted from the Net Cash Proceeds of the relevant Capital Event to determine the amount of the required prepayment of the Loans pursuant to paragraph (ii) above. All interest actually earned on all Cash Collateral and paid thereon in each month from and after the month in which the date hereof occurs shall be held by the Agent as additional Cash Collateral until the fifth Business Day of the following month at which time it shall be paid to the Banks pursuant to paragraph (iii) above (without giving effect to the limitation imposed by the February 1991 date set forth therein); provided, that after the Collateralization Condition has been satisfied such interest shall instead constitute Operating Cash Flow under the Override Agreement (as defined therein) and shall be delivered to the agent thereunder for application in accordance with the terms thereof.

(v) In the event that the sum of the outstanding principal amount of Loans and the outstanding Letter of Credit Usage at any one time is less than the prepayment or pledging of Letter of Credit Collateral which would otherwise be due at such time pursuant to paragraph (ii) (after giving effect to paragraph (iv), if applicable), the Borrower shall deliver to the Agent (A) Substitute Letters of Credit in the amount of the excess of such Net Cash Proceeds over the sum of such outstanding principal amount of Loans and such outstanding Letter of Credit Usage, (B) Cash Collateral in an amount equal to 62.5% of the excess of such Net Cash Proceeds over the sum of such outstanding principal amount of Loans and such outstanding Letter of Credit Usage or (C) Substitute Letters of Credit and Cash Collateral in amounts such that the aggregate amount of such Substitute Letters of Credit and 160% of such Cash Collateral is equal to the excess of such Net Cash Proceeds over the sum of such outstanding principal amount of Loans and such outstanding Letter of Credit Usage. Any Net Cash Proceeds remaining after the delivery, pursuant
to this clause (v), of such Substitute Letters of Credit and Cash Collateral shall be delivered to the agent under the Override Agreement to be applied in accordance with the terms thereof.

(vi) In the event that the Collateralization Condition has been satisfied or all Loans and Notes have been repaid, no Letters of Credit remain outstanding and no Commitments continue to exist, all Net Cash Proceeds at the time or thereafter in the possession of the Agent shall be distributed by the Agent to the agent under the Override Agreement for application in accordance with the terms thereof.

(c) Notice; Application of Prepayments. Upon receipt of a notice of prepayment pursuant to this Section 2.08, the Agent shall promptly notify each Bank of the contents thereof and of such Bank’s Pro Rata Share of such prepayment. All prepayments shall include payment of accrued interest on the principal amount so prepaid and shall be applied to payment of interest before application to principal.

Section 2.09. Reduction or Termination of Commitments.

(a) Mandatory Reduction of Commitments. The Commitments shall be permanently reduced on the date any prepayment of the Loans is made or Letter of Credit Collateral is pledged, each pursuant to Section 2.08(b)(ii), by an amount equal to the amount of such prepayment or pledge. The Commitments shall also be permanently reduced on the date Cash Collateral is delivered to the Agent pursuant to Section 2.08(b)(v)(B) or (C) by an amount equal to 60% of such Cash Collateral.

(b) Optional Termination or Reduction of Commitments. The Borrower may, upon at least fifteen Business Days’ notice to the Agent, terminate entirely at any time, or proportionately reduce from time to time by an aggregate amount of $1,000,000 or any multiple of $1,000,000, the unused portion of the Commitments; provided that any such reduction shall apply to the Commitment of each Bank on the basis of its Pro Rata Share. If the Commitments are terminated in their entirety, all accrued Commitment fees shall be payable on the effective date of such termination.

Section 2.10. Fees. (a) The Borrower shall pay to the Agent for the account of and distribution to each Bank in accordance with its Pro Rata Share a commitment fee for the period commencing on the Effective Date to but excluding the Final Maturity Date (or such earlier date as the Commitments shall have been terminated) computed at a rate equal to 1/2 of 1% per annum on the average daily unused portion of the Commitments (which, for the period beginning on the Effective Date and ending on the date of the initial Loan, shall be $45,000,000 for purposes of this provision and which shall be calculated treating any outstanding Letter of Credit Usage as a use of the Commitments), payable on the last
Business Day of each March, June, September and December, commencing September, 1990, and on the Final Maturity Date or such earlier date as the Commitments shall be terminated.

(b) The Borrower shall pay to the Agent for its own account a nonrefundable fee of $250,000 payable on the Effective Date and an annual nonrefundable fee of $100,000 on each anniversary of the Effective Date through the Final Maturity Date.

Section 2.11. Payments, Etc. (a) Except as otherwise specifically provided herein, all payments under this Agreement shall be made without defense, set-off or counterclaim to the Agent not later than 11:00 A.M. (New York time) on the date when due and shall be made in Dollars in immediately available funds at the Payment Office. Payments received after such time shall be deemed to have been received on the following Business Day. The Agent will promptly thereafter distribute to each Bank its Pro Rata Share of funds in the form received relating to the payment of principal or interest or Commitment fees or other sums payable to the Banks hereunder, and will distribute funds in the form received relating to the payment of any other amount payable to any Bank to such Bank.

(b) Whenever any payment to be made hereunder or under any Note shall be stated to be due on a day which is not a Business Day, the due date thereof shall be extended to the next succeeding Business Day and, with respect to payments of principal, interest thereon shall be payable at the applicable rate during such extension.

(c) All computations of interest and Commitment fees shall be made on the basis of a year of 360 days for the actual number of days (including the first day but excluding the last day) occurring in the period for which such interest or Commitment fees are payable. Each determination by the Agent of an interest rate or fee hereunder shall, except for manifest error, be final, conclusive and binding for all purposes.

Section 2.12. Reduced Return. In the event that any Bank shall have determined that any law, treaty, governmental (or quasi-governmental) rule, regulation, guideline or order regarding capital adequacy (including, in any event, any law, regulation, interpretation, guideline or request contemplated by the report dated July, 1988 entitled "International Convergence of Capital Measurement and Capital Standards" issued by the Basle Committee on Banking Regulations and Supervisory Practices) or the adoption thereof, or any change therein or in the interpretation or application thereof, or compliance by any Bank with any request or directive regarding capital adequacy (whether or not having the force of law and whether or not failure to comply therewith would be unlawful) from any central bank or governmental agency or body having jurisdiction, does or shall have the effect of reducing the
rate of return on such Bank's capital as a consequence of its ob-
ligations hereunder (including, without limitation, its undrawn
Commitments or outstanding Letters of Credit) to a level below
that which such Bank could have achieved but for such adoption,
change or compliance (taking into consideration such Bank's poli-
cies with respect to capital adequacy) by any amount, then the
Borrower shall from time to time, within 15 days after receipt of
a written request by such Bank (with a copy to the Agent), pay to
such Bank additional amounts sufficient to compensate such Bank
for such reduction. A certificate as to the amount of such reduc-
tion setting forth the calculation thereof in reasonable detail,
submitted to the Borrower and the Agent by such Bank, shall, ab-
sent manifest error, be final, conclusive and binding for all pur-
poses.

ARTICLE III. CONDITIONS TO BORROWINGS

The obligation of each Bank to make a Loan to the Borrower
hereunder is subject to the satisfaction of the following condi-
tions:

Section 3.01. Conditions Precedent to Initial Loan. At the
time of the making by such Bank of its initial Loan hereunder, all
obligations of the Borrower hereunder to the Agent or any Bank
incurred prior to the initial Loans (including, without limita-
tion, the Borrower's obligation to reimburse the fees and dis-
bursements of counsel and accountants to the Agent or any Bank and
any fees payable to the Agent on the Effective Date) shall have
been paid in full, and the Agent shall have received a sufficient
number of copies for each Bank of the following, each dated as of
the date of such initial Loan except to the extent specifically
provided otherwise, in form and substance satisfactory to each
Bank:

(a) a duly completed and executed Note, payable to the
order of each Bank;

(b) certified copies of the resolutions (or equivalent
partnership action) of each Grantor and, if the Grantor is a
partnership, of each partner of such Grantor which is not an
individual and whose consent to the transactions herein or in
any of the other Loan Documents is necessary or which is an
Affiliate approving the execution and delivery of such Gran-
tor's Guaranty, the Security Documents, and all other Loan
Documents, if any, to which such Grantor is a party and the
consummation by such Grantor of the transactions contemplated
thereby;

(c) a certificate of the Secretary or an Assistant Sec-
retary (or equivalent partnership officer) of each Grantor
certifying the name, title and true signature of each officer
of such Grantor authorized to execute such Grantor's Guar-anty, the Security Documents and all other Loan Documents to which such Grantor is a party;

(d) an opinion of outside counsel to the Borrower, such counsel and opinion to be acceptable to each Bank, addressed to the Banks, and covering such other matters as any Bank may reasonably request;

(e) an opinion of outside counsel to each Grantor and of counsel to each of the partners whose consent to the transactions herein or in any of the other Loan Documents is necessary or which is an Affiliate and which is not an individual of each Grantor which is a partnership, such counsel and opinion in each case to be acceptable to each Bank, addressed to the Banks and covering such other matters as any Bank may reasonably request;

(f) documents reasonably requested by the Agent relating to the existence and good standing of each Grantor and, if the Grantor is a partnership, of each partner of such Grantor which is not an individual and whose consent to the transactions herein or in any of the other Loan Documents is necessary or which is an Affiliate;

(g) the Guaranties and all Security Documents duly executed and delivered by each of the parties thereto, in full force and effect, and, with respect to those Security Documents which are to be recorded, in recordable form, together with evidence satisfactory to the Agent that all filings with Governmental Authorities necessary to perfect the Liens in the Collateral granted under the Security Documents have been made and delivery to the Agent of all Collateral possession of which is necessary for perfection;

(h) a lender's policy of title insurance (ALTA Loan Policy [10/27/87] with extended coverage) with respect to the land, buildings, structures, improvements, easements, rights-of-way and other rights and privileges constituting or appurtenant to the parcels of real property described on Schedule 3.014h) (the "Real Property"), issued as of the date of the advance of the initial Loan by a nationally recognized title company acceptable to the Required Banks in the amount of [the Commitments], insuring in the Banks a valid and subsisting mortgage lien in the Real Property subject only to those Permitted Liens with priority on the date hereof, including such endorsements thereto as any Bank shall request;

(i) surveys of the Real Property, certified to the Banks and the Borrower, containing such certifications as are reasonably requested by any Bank and prepared in accordance
with the minimum standard detail requirements for land surveys as adopted by ALTA/ACSM for Class A surveys and otherwise in such detail as shall be acceptable to the Required Banks;

(j) all consents and licenses, in form and substance satisfactory to the Banks, from third parties (including, without limitation, the Casino Control Commission, the Division of Gaming Enforcement and any other Governmental Authorities) necessary to permit the execution, delivery and consummation of this Agreement and each other Loan Document, including, without limitation, the effective granting of the Liens (including the Liens on Equity Interests of the Casino Entities) under the Security Documents which will, on the date hereof, be prior to all other Liens except those Permitted Liens with priority on the date hereof;

(k) each of the Loan Documents, including the Intercompany Notes from each Affiliate of the Borrower (except ALIBAN, Inc.), duly executed and delivered by each of the parties thereto and in full force and effect, in form and substance satisfactory to the Banks;

(l) evidence satisfactory to the Banks that all conditions to the effectiveness of the Override Agreement have been satisfied or duly waived and that the Override Agreement and all documents being executed in connection therewith, including all Existing Agreement Amendments, have been fully executed and delivered, and that the Closing Date thereunder shall have occurred or shall occur contemporaneously with the Effective Date, which Override Agreement and all documents being executed in connection therewith, including all Existing Agreement Amendments, shall be in form, scope and substance satisfactory to each Bank;

(m) a copy of the business plan previously delivered to the Banks as an attachment to the June 14, 1990 Report (the "Initial Business Plan") initialed by the Borrower and, for identification purposes only, the Agent;

(n) a certificate of the Borrower, certifying all Capital Events which have occurred since May 1, 1990, in form and substance satisfactory to the Banks;

(o) balance sheets for each of the Borrower and the Affiliates of the Borrower listed on Schedule 3.01(o) as at May 31, 1990 certified by each Certifying Person of the Borrower and, for any such Affiliate's balance sheet, each Certifying Person of such Affiliate, to be complete and correct and fairly present the financial condition of the Borrower and each of such Affiliates as at the date thereof in accordance with generally accepted accounting principles applied on a consistent basis, which principles, in the case of
the Borrower, shall include, without limitation, Statement of Position (SOP) 82-1, Accounting and Financial Reporting for Personal Financial Statements, October 1, 1982, issued by the Accounting Standards Division of the American Institute of Certified Public Accountants;

(p) a report in reasonable detail describing all outstanding accounts payable and other claims against any of the material assets of, or otherwise against, the Borrower and his Affiliates, together with a description of the Borrower's arrangements already in effect and contractually binding with respect to the repayment of such accounts payable and other claims, as well as his plans with respect to those accounts payable and other claims for which no repayment arrangements have yet been established, all such arrangements and plans to be in form, scope and substance satisfactory to the Banks;

(q) such evidence as any Bank shall reasonably request that the federal, state and local taxes which the Borrower will be required to pay for calendar year 1989 are not in excess of $500,000 in the aggregate;

(r) a note from each of the Borrower's Affiliates (other than any of the Casino Entities and any Persons deemed to be Affiliates by virtue of clause (ii) or (iv) of the definition of "Affiliate" herein) payable to the Borrower, in form and substance satisfactory to each Bank, evidencing the obligation of such Affiliate to pay upon the occurrence of a Capital Event an amount equal to all cash and Cash Equivalents of such Affiliate at such time, each of which notes shall be pledged to the Agent for the benefit of the Banks;

(s) copies of all employment agreements, collective bargaining agreements, bonus, pension or retirement plans, or vacation pay, insurance or welfare agreements to which any of the Borrower and his Affiliates is a party or is subject; and

(t) such other documents or legal opinions as the Agent or any Bank or special counsel to the Agent may reasonably request, all in form and substance satisfactory to the Agent or such requesting Bank, as the case may be.

Section 3.02. Conditions Precedent to Each Loan. At the time of the making by each Bank of any Loan, including, except for paragraph (g) below, the initial Loan (before as well as after giving effect to such Loan and to the proposed use of the proceeds thereof):

(a) there shall exist no Default or Event of Default, and all the terms and conditions of this Agreement shall have been complied with;
(b) all representations and warranties contained herein or in any of the other Loan Documents shall be true and correct in all material respects as of the date of such Loan with the same effect as though such representations and warranties had been made on and as of the date of such Loan, except to the extent the representations and warranties speak as of a certain date and (with respect to all representations and warranties except those in Sections 4.05(c) and 4.06) except to the extent changes in facts as to which such representations and warranties are made occurred since the Effective Date without violating or breaching any provision of this Agreement; provided that the Borrower shall have disclosed in its Notice of Borrowing for such Loan those representations and warranties which are no longer true and correct due to such changes in facts or circumstances, the extent to which they are no longer true and correct and the particular facts or circumstances causing them to be no longer true or correct;

(c) the Agent shall have received such other documents or legal opinions as the Agent or any Bank or special counsel to the Agent may reasonably request, all in form and substance satisfactory to the Agent or such requesting Bank, as the case may be;

(d) the Banks shall have received evidence satisfactory to the Required Banks that the proceeds of such Loan are to be used for the purposes permitted under Section 5.01(h);

(e) the Banks shall have received such Lien searches or title reports as they deem desirable demonstrating the continued perfection and priority of the Liens in the Collateral granted to the Agent for the benefit of the Banks pursuant to the Security Documents and such evidence as the Required Banks may deem desirable of the continued coverage under their lender's policies of title insurance with respect to the Collateral which is real property, each in form, scope and substance satisfactory to the Required Banks and in the event that in the judgment of the Required Banks additional mortgage taxes must be paid to preserve the priority of the Lien or Liens securing the Loans after giving effect to the requested Loans, the Borrower shall have paid such additional mortgage taxes and the Required Banks shall have been satisfied that all such Liens have retained their priority;

(f) a certificate setting forth the cash and Cash Equivalents held by each of the Borrower and his Affiliates at the time of such Loan, certified by each Certifying Person of the Borrower and, with respect to cash and Cash Equivalents of any Affiliate, each Certifying Person of such Affiliate; and
(g) except with respect to the initial Loan, the Borrower shall have in his employ a Person reasonably satisfactory to the Required Banks whose job description and duties are reasonably satisfactory to the Required Banks (the "Senior Executive Officer").

Each Notice of Borrowing and the acceptance by the Borrower of the proceeds of the requested Borrowing shall constitute a representation and warranty by the Borrower, as of the date of the Loans comprising such Borrowing, that the conditions specified in subsections (a) and (b) of this Section 3.02 have been satisfied. For purposes of determining whether the representation and warranty in Section 4.05(c) is true and correct as of the date of any Loan (other than the initial Loan) and whether the conditions precedent to such Loan have been satisfied, and for purposes of determining whether an event of the type described in Section 6.10 has occurred at any time after the Effective Date, the disclosures made in the letter dated as of the Effective Date from Kenneth Leventhal & Co. to the Banks referred to in Section 4.05(b) shall be deemed not to constitute a material adverse change in and of themselves and in the event such letter is delivered to the Banks prior to execution hereof, the same shall be true for purposes of making such determinations as of the date of the initial Loan; provided that in the event that any other changes not so disclosed shall have occurred at any time, such disclosures shall be taken into account together with such other changes for the purpose of determining whether a material adverse change has occurred.

Section 3.03. Conditions Precedent to Issuance of Letters of Credit. At the time of the issuance by the Issuing Bank of each Letter of Credit (before as well as after giving effect to the issuance of such Letter of Credit and to the proposed use of the proceeds thereof):

(a) on or before the date of issuance of the initial Letter of Credit, each of the conditions set forth in Section 3.01 shall have been satisfied or waived and the Initial Loan shall have been made;

(b) on or before the date of issuance of such Letter of Credit, the Issuing Bank shall have received, in accordance with the provisions of Section 2.05(b), a notice requesting the issuance of such Letter of Credit, an executed application for such Letter of Credit in the form customarily required by the Issuing Bank for the issuance of letters of credit, all other information specified in Section 2.05(b), and such other documents as the Issuing Bank may reasonably require in connection with the issuance of such Letter of Credit; and

(c) on the date of issuance of such Letter of Credit, all conditions precedent described in Section 3.02 shall be
satisfied to the same extent as though the issuance of such Letter of Credit were the making of a Loan.

ARTICLE IV. REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants as follows:

Section 4.01. Corporate Existence. Each Grantor, and each individual general partner of each Grantor which is a partnership, is an entity duly organized, validly existing and in good standing under the laws of the State of its organization.

Section 4.02. Authorization; No Violation. The execution, delivery and performance by the Borrower of the Override Agreement, the Existing Agreement Amendments and the other Loan Documents (as defined in the Override Agreement), this Agreement, the Notes and the other Loan Documents to which the Borrower is a party do not violate or create a default under any provision of any applicable Governmental Act or any contractual provision or other restrictions or limitations binding on or affecting the Borrower or any of his property. Except as set forth on Schedule 4.02, the execution, delivery and performance by each Grantor of the Guaranty and each Security Document or other Loan Document to which it is a party, and by each DJT Entity (as defined in the Override Agreement) of the Guaranty and each Security Document or other Loan Document to which it is a party, (i) are within such Person's corporate, partnership or joint venture powers, as the case may be, (ii) have been duly authorized by all necessary corporate, partnership or joint venture actions, as the case may be, (iii) do not violate or create a default under any provision of applicable Governmental Act, or such Person's organizational documents, and (iv) do not violate or create a default under any contractual provision or other restriction or limitation binding on or affecting such Person or any of its property, which violation or default referred to in this clause (iv) might have a material adverse effect on the business, condition (financial or otherwise), results of operations, assets or prospects of the Borrower or any of his Affiliates.

Section 4.03. Governmental Approvals. No authorization or approval or other action by, and no notice to or filing or registration with, any Governmental Authority is required in connection with the execution, delivery and performance by the Borrower and the Grantors of this Agreement, the Notes and the Loan Documents to which they are a party, or in connection with the execution, delivery and performance by each DJT Entity of the Override Agreement, the Existing Agreement Amendments, and the Loan Documents (as defined in the Override Agreement) to which it is a party, except for the filings and consents scheduled on Schedule 4.03, all of which have already been obtained or made.
Section 4.04. Binding Effect. This Agreement constitutes, and the Notes and other Loan Documents when executed and delivered will constitute, legal, valid and binding obligations of the Borrower and each Grantor which is a party thereto, and the Override Agreement, the Existing Amendment Agreements, the Special Collateral Agreement and the Collateral Agreements when executed and delivered will constitute, legal, valid and binding obligations of each DJT Entity (as defined in the Override Agreement) which is a party thereto, in each case enforceable against the Borrower and each such Grantor in accordance with their respective terms, except as may be subject to (i) the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar law affecting creditors' rights generally, and (ii) general principles of equity (regardless of whether such enforcement is sought in a proceeding in equity or at law).

Section 4.05 Financial Information. (a) The balance sheets of the Borrower and the Affiliates of the Borrower listed on Schedule 3.01(o), as at May 31, 1990, including in each case the related schedules and notes, true copies of which have been previously delivered to each of the Banks, are complete and correct and fairly present the financial condition of the Borrower and each of such Affiliates as at May 31, 1990, in accordance with generally accepted accounting principles applied on a consistent basis, which principles, in the case of the Borrower, shall include, without limitation, Statement of Position (SOP) 82-1, Accounting and Financial Reporting for Personal Financial Statements, October 1, 1982, issued by the Accounting Standards Division of the American Institute of Certified Public Accountants.

(b) The June 14, 1990 Report gives effect to the restructuring of certain Indebtedness under the Override Agreement and the advance of Loans and the grant of Liens in the Collateral hereunder, under the Security Documents, the Collateral Agreements and the Special Collateral Agreements; the assumptions made in preparing the projections in the June 14, 1990 Report are reasonable and all material assumptions with respect to such projections are set forth therein; and the June 14, 1990 Report provides a reasonable estimation of future performance on a cash basis, subject to the uncertainty and approximation inherent in any projections and subject to the limitations and qualifications set forth therein; except in each case to the extent disclosed in a letter to be dated as of the Effective Date from Kenneth Leventhal & Co. to the Banks, a copy of which shall be delivered to each Bank no later than the Effective Date.

(c) Since May 31, 1990, there has been no material adverse change in the business, condition (financial or otherwise), results of operations, assets or prospects of the Borrower or of any of his Affiliates except those Affiliates of the Borrower set forth on Schedule 4.0.
Section 4.06. Litigation. Except as set forth on Schedule 4.06, there is no action, suit or proceeding, or any governmental investigation or any arbitration, in each case pending or, to the knowledge of the Borrower, threatened against the Borrower or any of his Affiliates (except Affiliates of the Borrower set forth on Schedule 4.0) or any material property of any such Person before any court or arbitrator or any Governmental Authority (i) which challenges the validity of this Agreement, the Note or any other Loan Document or (ii) which if adversely determined would have a material adverse effect on the business, condition (financial or otherwise), results of operations, assets or prospects of the Borrower or of any of his Affiliates.

Section 4.07. Use of Proceeds. The proceeds of the Loans will be used only for the purposes permitted by Section 5.01(h). No part of the proceeds of any Loan will be used to purchase or carry any Margin Stock.

Section 4.08. Compliance with ERISA. Each single-employer plan and, to the best of the Borrower's knowledge, each multi-employer plan, is in substantial compliance with ERISA; no Plan has an accumulated or waived funding deficiency within the meaning of Section 412 or Section 418B of the Code; as of the most recent valuation date for each Plan which is a multiemployer plan, no withdrawal liability would be imposed on the Borrower, any of his Affiliates or any ERISA Affiliate if any ERISA Affiliate were to withdraw, completely or partially, from such Plan; no proceedings have been instituted to terminate any Plan; the sum of the liabilities in excess of assets of each Plan which is a single employer plan would not, in the aggregate, exceed $4,000,000; if each such Plan which has liabilities in excess of assets were to terminate on the date hereof; and none of the Borrower, any of his Affiliates or any ERISA Affiliate has incurred any material liability to or on account of a Plan under ERISA other than in the ordinary course of business, and no condition exists which presents a material risk to the Borrower or any of his Affiliates of incurring such a liability.

Section 4.09. Environmental Matters. Except as set forth in Schedule 4.09, to the best of the Borrower's knowledge none of the operations or properties of the Borrower or any of his Affiliates is the subject of Federal, state or foreign investigation evaluating whether any remedial action is needed to respond to a release of any Hazardous Substance (as hereinafter defined) into the environment, and none of the Borrower or any of his Affiliates has received any written communication since January 1, 1985 from a Governmental Authority that alleges that the Borrower or any of his Affiliates is not in compliance, and, with respect to their operations and properties set forth on Schedule 4.09, the Borrower and his Affiliates are in compliance in all material respects, and to the best of the Borrower's knowledge, the other operations or properties of the Borrower or any of his Affiliates are in compliance in all material respects, with all Federal, state, local or
foreign laws, ordinances, codes, rules and regulations relating to the environment ("Environmental Laws"). Each of the Borrower and each of his Affiliates has filed all notices required to be filed under any Environmental Law indicating past or present treatment, storage or disposal of a Hazardous Substance or reporting a spill or release of a Hazardous Substance into the environment. With respect to the operations and properties set forth on Schedule 4.09, neither the Borrower nor any of his Affiliates has, and to the best of the Borrower's knowledge with respect to their other operations and properties, neither the Borrower nor any of his Affiliates has, any material contingent liability in respect of its business in connection with any Hazardous Substance. "Hazardous Substance" includes: (i) any hazardous, toxic or dangerous waste, substance or material defined as such in (or for the purpose of) the Comprehensive Environmental Response, Compensation and Liability Act, as amended, Superfund Amendments and Reauthorization Act and any so-called superfund or superlien law, or any other Environmental Law, including Environmental Laws relating to or imposing liability or standards or conduct concerning any hazardous, toxic or dangerous waste, substance or material in effect on the date of this Agreement, (ii) asbestos or polychlorinated biphenyls (PCB's), and (iii) any other chemical, material or substance, exposure to which is prohibited, limited or regulated by any Federal, state, foreign or local governmental authority pursuant to any Environmental Law or any health and safety or similar law, code, ordinance, rule or regulation, order or decree, and which may or could pose a hazard to the health and safety of workers at or users of any properties of the Borrower or any of his Affiliates or cause damage to the environment. Except as set forth in Schedule 4.09, with respect to the operations and properties set forth on Schedule 4.09, there are no, and to the best of the Borrower's knowledge with respect to their other operations and properties, there are no, asbestos conditions existing at any property owned, leased or operated by the Borrower or any of his Affiliates that could give rise to any removal, encapsulation or other costs, whether in connection with any pending or future renovation, remodeling or otherwise.

Section 4.10. Partnerships and Other Affiliates. Schedule 4.10 to this Agreement states as of the date hereof the name, jurisdiction of organization and organizational nature of each of the Borrower's Affiliates, the name and percentage ownership of each holder who is an Affiliate and, to the best of the Borrower's knowledge, each other holder of any capital stock, partnership interests or any other Equity Interests of the Borrower's Affiliates, and all options, sales agreements, pledges, proxies, voting trusts, powers of attorney and other agreements or instruments binding on the Borrower, any of his Affiliates and, to the best of the Borrower's knowledge, any other holder of any such capital stock, partnership interests or other Equity Interests with respect to such ownership.
Section 4.11. Assets; Contracts. Schedule 4.11 sets forth a true and complete list as of the Effective Date of all assets having a book value or a fair market value in excess of $25,000 owned by the Borrower or any of his Affiliates and all Liens (whether direct or contingent) against the Borrower or any Affiliate or its assets. Neither the fair market value nor the book value of the assets owned by the Borrower or any of his Affiliates and not included on Schedule 4.11 is, in the aggregate, in excess of $250,000. Except as set forth in Schedule 4.11 and except with respect to the Affiliates of the Borrower set forth on Schedule 4.0, as of the Effective Date neither the Borrower nor any of his Affiliates is a party to or is subject to any loan agreement, indenture, ground lease or material equipment lease. Except as disclosed in Schedule 4.11, as of the Effective Date neither the Borrower, any of his Affiliates nor, to the best of the Borrower's knowledge, any other party to any such agreements or instruments is in default thereof (and no event has occurred which, but for the giving of notice, the passing of time or both, would constitute a default) which could have a material adverse effect on the business, condition (financial or otherwise), operations or assets of the Borrower or any of his Affiliates (except Affiliates of the Borrower set forth on Schedule 4.0), nor do any grounds exist for claims of offset, counterclaim or recoupment which could be asserted against the DJT Taj Note, the Castle Note, the Intercompany Notes or any other intercompany Indebtedness for borrowed money which constitutes Collateral, all of which are, as of the date hereof, the only obligations for borrowed money between the Borrower or any of his Affiliates, on the one hand, and any of his Affiliates, on the other hand.

Section 4.12. Title to Property. Except with respect to those Affiliates of the Borrower set forth on Schedule 4.0, Schedule 4.12 hereto sets forth a description of all real property owned by or leased to the Borrower or any of his Affiliates as of the date hereof. Except with respect to those Affiliates of the Borrower set forth on Schedule 4.0, each of the Borrower and his Affiliates has good and marketable title to all real property purported to be owned by such Person and good and marketable title to all other property purported to be owned by such Person, subject only to Permitted Liens. Except as set forth in Schedule 4.12, such property is material to the business, operations, condition (financial or otherwise) or prospects of the Borrower or any of his Affiliates (except those Affiliates set forth on Schedule 4.0) or to the ability of the Borrower or any Grantor to perform such Person's obligations under this Agreement, the Notes or the other Loan Documents to which such Person is a party is in good operating condition and repair (except for such defects as may arise from ordinary wear and tear and which are repaired in the ordinary course of business) and such Person's use thereof conforms in all material respects to all laws applicable thereto. Except as set forth on Schedule 4.12, each of the Borrower and his Affiliates (except those Affiliates set forth on Schedule 4.0) has full and complete right to the use and possession of all material
properties purported to be leased by such Person. Except as set forth on Schedule 4.12, each of the Borrower and his Affiliates (except those Affiliates set forth on Schedule 4.0) is in compliance in all material respects with all material leases applicable thereto. No condemnation or similar proceedings are in progress, nor, to the best of the Borrower's or any of his Affiliates' knowledge, are any threatened, which affect or, to the best of the Borrower's knowledge, which could affect, any property of the Borrower or any of his Affiliates (except those Affiliates set forth on Schedule 4.0).

Section 4.13. Insurance; Statements to Insurers. The Borrower and the Grantors maintain with financially sound and reputable insurers with respect to their properties and business against loss or damage of the kinds customarily insured against by prudent Persons in the same or similar businesses of types and in amounts (with deductible amounts) as is customary for such Persons under similar circumstances. All representations and warranties made by the Borrower or any of the Grantors to any insurer in connection with any insurance required to be maintained hereunder or under any of the Security Documents were true and correct in all material respects when made.

Section 4.14. Payment of Taxes, etc. The Borrower and each of the Grantors maintain with financially sound and reputable insurers insurance with respect to their properties against loss or damage of the kinds customarily insured against by prudent Persons in the same or similar businesses of types and in amounts (with deductible amounts) as is customary for such Persons under similar circumstances. All representations and warranties made by the Borrower or any of the Grantors to any insurer in connection with any insurance required to be maintained hereunder or under any of the Security Documents were true and correct in all material respects when made.

Section 4.15. Compliance with Laws; Maintenance of Licenses, etc. The Borrower and each of his Affiliates (except those Affiliates set forth on Schedule 4.0) are in compliance in all material respects with all applicable Governmental Acts. The Borrower and his Affiliates have maintained in full force and effect all licenses and other governmental consents necessary for (x) the ownership and operation of the Casino Entities by the Borrower and those Affiliates of the Borrower which currently operate or own, directly or indirectly, the Casino Entities; (y) the maintenance, validity, enforceability and perfection of the Lien on such Person's Equity Interests in the Casino Entities in favor of the Agent on behalf of the Banks provided for in the Security Documents; and (z) the ownership of any of his assets or the assets of any of his Affiliates (except those Affiliates set forth on Schedule 4.0) or the conduct by the Borrower or any of his Affiliates of any of their respective businesses. Neither the Borrower...
nor any of his Affiliates has received any notice from any Governmental Authority, including, without limitation, the Casino Control Commission and the Division of Gaming Enforcement, of any violation of applicable Governmental Acts relating to the licenses and other consents and the operation and ownership of, or the holding of a Lien on any Equity Interest in, the Casino Entities.

Section 4.16. Investment Company Act, etc. None of the Borrower's Affiliates is (a) an "investment company" or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended, or (b) subject to regulation under the Public Utility Holding Company Act of 1935, the Federal Power Act or any Governmental Act limiting such Person's ability to incur indebtedness for money borrowed or guarantee such indebtedness or secure such indebtedness as contemplated hereby or by any other Loan Document.

Section 4.17. True and Complete Disclosure. All written information heretofore or contemporaneously furnished by or on behalf of the Borrower or any of his Affiliates, and all other such written information hereafter furnished, to or on behalf of any of the Banks is or will be, true and accurate in all material respects on the date as of which such information is dated or certified (except for any projections included therein, which are subject to the uncertainty and approximation inherent in any projections) and not incomplete by omitting to state anything necessary to make such information not misleading at such time except to the extent later information could reasonably have been expected to supersede earlier information; provided that no such representation or warranty is made in this Section 4.17 with respect to the balance sheets, statements of operation and statements of operating cash flow, as of December 31, 1987, December 31, 1988 and December 31, 1989, of those Affiliates of the Borrower whose financial statements for such periods were audited by Arthur Andersen & Co., or of the Borrower, it being expressly understood that the exclusion from this representation and warranty and that none of the Banks are waiving, or should be deemed to be waiving, any rights and remedies they may have with respect to such financial statements against any Person. There is nothing of which the Borrower is aware which would have a material adverse effect on the business, condition (financial or otherwise), prospects, operations or assets of the Borrower or any of his Affiliates which has not been disclosed to the Banks in writing. All written statements of fact and representations herein, in any of the Loan Documents, and in any other document, report, certificate, or other written statement or information delivered in connection herewith or therewith, are true and correct in all material respects and all assumptions with respect thereto are reasonable in all material respects, each as of the date such statement of fact or representation is dated or certified.
Section 4.18. Override Agreement; Defaults; etc. The Override Agreement and the Existing Agreement Amendments have become, or will become contemporaneously with the Effective Date, effective in accordance with the terms thereof and are in full force and effect. Neither the Borrower nor any of his Affiliates is in default of any of such Person's obligations under the Override Agreement, this Agreement or any other Loan Document. The businesses of the Borrower and his Affiliates are being managed and operated, the assets of such Persons are being maintained, and capital expenditures and other expenses and liabilities are being incurred and expended by such Persons in accordance with the Business Plans.

ARTICLE V. COVENANTS

Section 5.01. Certain Affirmative Covenants. So long as any Commitment exists or any Loan or Note shall remain unpaid or any Letter of Credit shall remain outstanding, the Borrower shall:

(a) Corporate Existence, Etc. Preserve and keep, and cause each of the Grantors to preserve and keep, in full force and effect at all times its rights and franchises (other than any such rights and franchises the absence of which would not have a material adverse effect on the business, condition (financial or otherwise), operations or assets of the Borrower or any of his Affiliates) and, in the case of each Grantor, its existence.

(b) Compliance with Laws, Etc. Comply, and cause each of the Grantors (except those Grantors set forth on Schedule 5.01) to comply, in all material respects, with all applicable Governmental Acts.

(c) Payment of Taxes and Claims, Etc. Timely pay, and cause each of the Grantors to pay timely, (i) all taxes, assessments and governmental charges imposed upon such Person or upon such Person's property, and (ii) except as disclosed on Schedule 5.01(c), all claims (including, without limitation, claims for labor, materials, supplies or services) which might, if unpaid, become a Lien upon such Person's property, unless, in each case, the validity or amount thereof is being contested in good faith by appropriate proceedings and the Borrower or such Grantor, as applicable, has maintained adequate reserves with respect thereto in accordance with generally accepted accounting principles.

(d) Keeping of Books. Keep, and cause each of the Grantors to keep, proper books of record and account, containing complete and accurate entries of all financial and business transactions of the Borrower and each Grantor.
(e) Visitation, Inspection, Etc. Permit, and cause each of the Grantors to permit, any representative of any Bank to visit and inspect any of the Borrower's or such Grantor's property, to examine such Person's books and records and to make copies and take extracts therefrom, and to discuss such Person's affairs, finances and accounts with its officers and public accountants, all at such reasonable times and as often as any Bank may reasonably request.

(f) Insurance. Maintain, or cause to be maintained, with financially sound and reputable insurers, insurance with respect to the Borrower's and his Affiliates' properties and business against liability, loss or damage of the kinds customarily insured against by prudent Persons in the same or similar businesses, such insurance to be of such types and in such amounts (with such deductible amounts) as is customary for such Persons under similar circumstances. Each policy shall provide that the Agent will be entitled to receive at least 30 days' prior notice of cancellation. The Banks shall be added as additional insureds on any and all such liability insurance. With respect to each policy, upon the request of the Required Banks (to be made no more frequently than in connection with the advance of the initial Loan and once every twelve months thereafter (or if more frequently, upon the expiration of such policy)), the Borrower shall use his best efforts, and cause each of his Affiliates to use its best efforts, to have a certification for such policy executed by the insurer or by an authorized representative of the insurer or by the broker of such insurance where it is not practical for such insurer to execute the certificate itself. Such certification shall identify underwriters, the type of insurance, the insurance limits and the policy term, and shall specifically state that such policy, when taken together with all of the Borrower's and his Affiliates' other insurance policies, are adequate to comply with the provisions of this Section and that it is in full force and effect, accompanied by evidence that all premiums then due have been paid. Upon request by the Agent, the Borrower shall furnish the Agent with copies of all insurance policies, binders and cover notes or other evidence of such insurance obtained by the Borrower and each of his Affiliates.

(g) Distributions. Cause each Affiliate (other than Affiliates which are New Ventures) of which the Borrower or any of his Affiliates owns or controls more than 50% of the Equity Interests (other than Plaza Operating Partners, Ltd., Plaza Hotel Corp., Trump Shuttle, Inc. and Penn Yards Associates and, to the extent of a cash reserve for operations in an amount not in excess of $1,400,000, with respect to the Commercial Unit in Trump Tower Condominium), to declare and pay dividends or other distributions on its capital stock, partnership interests or other Equity Interests at such times and in such amounts such that such Person retains no cash or
Cash Equivalents except the greater of (i) cash or Cash Equivalents retained in the ordinary course of business to the extent necessary for the payment of reasonably anticipated expenses in accordance with the Business Plans and (ii) the amount of cash and Cash Equivalents equal to the sum of (A) the amount of cash and Cash Equivalents with respect to each Casino Entity which is not then permitted to be distributed by such Casino Entity by the Casino Indenture (without giving effect to any restriction not in effect on the date hereof) relating to such Casino Entity, or under the Casino Control Act or the regulations issued pursuant to the Casino Control Act, or under any order or resolution of the Casino Control Commission or the Division of Gaming Enforcement and (B) the amount of cash and Cash Equivalents (without duplication of amounts under clause (A)) with respect to each corporate Affiliate which is prohibited from being distributed under applicable corporate law.

(h) Use of Proceeds; Compliance with Business Plans. Use proceeds of the Loans solely in accordance with the expenditures, and request the issuance of Letters of Credit only for the business purposes of the Borrower's properties and businesses generally (rather than for the benefit of any specific asset or business), indicated in the Business Plans, or used in connection with the employment of a Senior Executive Officer, and not in any manner which is inconsistent with the other provisions of this Agreement and provide the Agent with such evidence demonstrating that the proceeds were properly used or the Letters of Credit properly requested as the Agent may reasonably request from time to time. No proceeds of Loans, and no Letters of Credit, will be used to pay, prepay or repurchase, directly or indirectly, any Deferred Principal Obligations or Deferred Interest Obligations or any other Existing Debt Obligations (as each such term is defined in the Override Agreement). The Borrower shall conduct, and shall cause each of his Affiliates to conduct, his or its business in compliance in all material respects with the Business Plans (including, without limitation, the limitations on expenditures and on payments or other transfers, directly or indirectly, between any of the Borrower and his Affiliates incorporated or otherwise reflected therein). Without limiting the generality of the foregoing, the Borrower shall use, and shall cause each of his Affiliates to use, all of his or its cash and Cash Equivalents solely for proper business purposes in connection with the Borrower's and his Affiliates' existing major business operations (including distributions made in accordance with Section 5.01(g)) and, except for that portion of Capital Event proceeds which the Borrower is permitted to retain once the Collateralization Condition has been satisfied (and after giving effect to distributions required to be made hereunder and under the Override Agreement), in accordance with the Business Plans; provided that in no event will any cash or Cash
Equivalents of the Borrower or any of his Affiliates (except ALIBAN, Inc.) in excess of $5,000,000 in the aggregate after the date of execution and delivery of this Agreement be used directly or indirectly for the benefit of ALIBAN, Inc. or any of its assets now owned or hereafter acquired, including the Princess. In the event any Capital Event shall occur, the Borrower shall promptly revise all Business Plans to appropriately reduce expenditures and revenues attributable to the asset which was the subject of such Capital Event, all in form and substance reasonably satisfactory to the Required Banks.

(i) Appointment of Senior Executive Officer; Implementation of Financial Controls. In connection with the formulation of and compliance with the Business Plans, continue his current retention of Kenneth Leventhal & Co., such retention to include the duties which are currently being performed by Kenneth Leventhal & Co., until the Borrower has employed a Senior Executive Officer. In the event that prior to the time the Borrower has employed a Senior Executive Officer, Kenneth Leventhal & Co. shall cease to be employed in its current capacity, the Borrower shall promptly, diligently and in good faith seek to find, and shall thereafter promptly employ, either another nationally recognized accounting firm to act in such capacity or a Senior Executive Officer. A Senior Executive Officer shall be employed, together with such staff members to assist as may be necessary or otherwise advisable in the opinion of such Person or Kenneth Leventhal & Co., no later than September 30, 1990. In the event such Senior Executive Officer shall cease to be so employed at any time thereafter, the Borrower shall promptly, diligently and in good faith seek to find, and shall promptly thereafter employ, another Senior Executive Officer of comparable experience and stature. No later than September 30, 1990, Kenneth Leventhal & Co. (or, if applicable, a substitute firm acting in the same capacity or the Senior Executive Officer then retained or employed by the Borrower) shall recommend to the Borrower the implementation of any accounting controls and procedures and mechanisms for business operations and planning necessary or, in such Person's judgment, advisable for the prudent management and operation of the Borrower's businesses and assets. Promptly after such recommendation, the Borrower shall install, and thereafter shall maintain, all accounting controls and procedures and mechanisms for business operations and planning which may be so recommended by Kenneth Leventhal & Co. or which are otherwise advisable and adequate for the prudent management and operation of the Borrower's businesses and assets.

(j) Licenses. Cause to be maintained in full force and effect all licenses and other governmental consents necessary for (x) the ownership and operation of the Casino Entities by the Borrower, those Affiliates of the Borrower and all other Persons which operate or own, directly or indirectly, the
Casino Entities; (y) the maintenance, validity, enforceability and perfection of the Lien on any Equity Interests in the Casino Entities in favor of the Agent on behalf of the Banks provided for in the Security Documents; and (z) the ownership of his assets or the assets of his Affiliates (except those Affiliates set forth on Schedule 4.0) or the conduct of any of their respective businesses.

(k) Tax Returns. From time to time upon request of any Bank, permit such Bank to review copies of the Borrower's tax returns filed with any Governmental Authority at a location specified by the Borrower in the Borough of Manhattan, New York, New York; provided that such Bank shall, if requested by the Borrower, first enter into the Agent's standard form of confidentiality agreement with respect to such tax return.

Section 5.02. Reporting Covenants. So long as any Commitment exists or any Loan or Note shall remain unpaid or any Letter of Credit shall remain outstanding, the Borrower shall furnish two copies of each of the following to each Bank and to each other "Lender" (as defined in the Override Agreement):

(a) Annual Financial Statements. As soon as available and in any event within 90 days after the end of each calendar year, the balance sheet, statement of operations and statement of cash flows for the Persons, and in the manner, indicated on the attached Schedule 5.02, setting forth in each case in comparative form the figures for the previous calendar year, all in reasonable detail, certified as to completeness and correctness by each Certifying Person of each of such Persons and, except for those Persons specifically identified on Schedule 5.02 as having internal audits only, accompanied by a report thereon of Kenneth Leventhal & Co. or other independent public accountants of comparable recognized national standing acceptable to the Required Banks and the "Required Lenders" (as defined in the Override Agreement), which such report shall be unqualified as to scope of audit and shall state that such financial statements present fairly the financial condition as at the end of such calendar year, and the results of operations and changes in financial position for such calendar year, of such Persons in accordance with generally accepted accounting principles consistently applied, which principles, in the case of the Borrower, shall include, without limitation, Statement of Position (SOP) 82-1, Accounting and Financial Reporting for Personal Financial Statements, October 1, 1982, issued by the Accounting Standards Division of the American Institute of Certified Public Accountants. The Borrower shall deliver with such annual financial statements a comparison of each of the above-described financial statements with the Business Plans, discussing material deviations from the Business Plans in reasonable detail, explaining the causes for such deviations,
the likely impact of such deviations and what remedial action, if any, the Borrower proposes to take with respect thereto.

(b) Quarterly Financial Statements. As soon as available and in any event within 45 days after the end of each of the first three calendar quarters of each calendar year, the balance sheet, statement of operations and statement of cash flows for the Persons, and in the manner, indicated on the attached Schedule 5.02, in each case for such quarter and for the portion of the year ended at the end of such quarter, setting forth in each case in comparative form the figures for the corresponding quarter and the corresponding portion of the previous year, all in reasonable detail and certified by each Certifying Person of each of such Persons that they are complete and correct and that they fairly present the financial condition as at the end of such quarter, and the results of operations and changes in financial position of such Persons for such quarter and such portion of the year in accordance with generally accepted accounting principles consistently applied (subject to normal, year-end audit adjustments), which principles, in the case of the Borrower, shall include, without limitation, Statement of Position (SOP) 82-1, Accounting and Financial Reporting for Personal Financial Statements, October 1, 1982, issued by the Accounting Standards Division of the American Institute of Certified Public Accountants. The Borrower shall deliver with such quarterly financial statements a comparison of each of the above-described financial statements with the Business Plans, discussing material deviations from the Business Plans in reasonable detail, explaining the causes for such deviations, the likely impact of such deviations and what remedial action, if any, the Borrower proposes to take with respect thereto.

(c) Monthly Financial Statements. As soon as available and in any event within 30 days after the end of each calendar month commencing with July 1990, the balance sheet, statement of operations and statement of cash flows for the Persons, and in the manner, indicated on Schedule 5.02, in each case for such month and for the portion of the year ended at the end of such month, setting forth in each case in comparative form the figures for the corresponding month and the corresponding portion of the previous year all in reasonable detail and certified by each Certifying Person of each of such Persons that they are complete and correct and that such financial statements fairly present the financial condition as at the end of such month, and the results of operations and changes in cash flow of such Person for such month and such portion of the year in accordance with generally accepted accounting principles consistently applied (subject to normal, year-end audit adjustments), which principles, in the case of the Borrower, shall include, without limitation,
Statement of Position (SOP) 82-1, Accounting and Financial Reporting for Personal Financial Statements, October 1, 1982, issued by the Accounting Standards Division of the American Institute of Certified Public Accountants. The Borrower shall also deliver with such monthly financial statements a comparison of each of the above-described financial statements with the Business Plans, discussing material deviations from the Business Plans in reasonable detail, explaining the causes for such deviations, the likely impact of such deviations and what remedial action, if any, the Borrower proposes to take with respect thereto. The Borrower shall also deliver with such monthly financial statements the following certified by each Certifying Person of the Borrower and, with respect to such information for an Affiliate, each Certifying Person of such Affiliate that each is complete and correct in all material respects:

(i) schedules setting forth in reasonable detail for the Borrower and for each of his Affiliates (except, for the first 12 months after the date hereof, The Trump-Equitable Fifth Avenue Company), separately, for such month:

(1) List of capital expenditures committed to be made;

(2) List of Capital Events which occurred in the previous month;

(3) List and description of all material personal expenses incurred by the Borrower;

(4) List of cash and Cash Equivalents; and

(5) List of all payments of principal and interest made on, or in respect of, all Intercompany Notes;

(ii) schedules setting forth in reasonable detail for the Borrower and for each of his Affiliates whose financial statements are required to be delivered pursuant to this paragraph (c) (except, for the first 12 months after the date hereof, The Trump-Equitable Fifth Avenue Company), separately, for such month and, for those Affiliates of the Borrower whose financial statements are required to be delivered pursuant to paragraph (b) above, with respect to the schedules listed in clauses (1) and (2) below, for the last month of each calendar quarter and, with respect to the schedules listed in clauses (3) and (4) below, for each quarter, separately:

(1) Accounts receivable agings;
(2) Accounts payable agings;

(3) List of capital expenditures made; and

(4) List of all Indebtedness for borrowed money incurred in such period to the extent not included in any of the other schedules above, specifying the principal terms and intended uses thereof.

(d) No Default/Compliance Certificate. Together with the financial statements required pursuant to subsections (a), (b) and (c) above, a certificate of each Certifying Person of each of the Borrower and each Affiliate (i) to the effect that, based upon a review of the activities of the Borrower and his Affiliates, or of such Affiliate, as applicable, and such financial statements during the period covered thereby, and for each Certifying Person other than the Borrower, to the best of such Certifying Person's knowledge after inquiry and due investigation, there exists no Event of Default and no Default under this Agreement nor any default or event of default under any other Loan Document, or if there exists an Event of Default or a Default hereunder or a default or event of default thereunder, specifying the nature thereof and the Borrower's, or Affiliate's, as applicable, proposed response thereto, and (ii) demonstrating in reasonable detail compliance as at the end of such year, such quarter or such month with Sections 2.08(b), 5.01(h) and 5.03;

(e) Auditors' No Default Certificate. Together with the financial statements required pursuant to subsection (a) above, a certificate of the accountants who prepared the annual report referred to therein to the effect that, based upon their audit and any additional review, there exists no Event of Default and no Default under this Agreement as to any accounting matters, or if there exists such an Event of Default or Default hereunder, specifying the nature thereof, together with a certificate of such accountants demonstrating in reasonable detail compliance as at the end of such year with Sections 2.08(b), 5.01(h) and 5.03;

(f) Notice of Default. Promptly after the occurrence of an Event of Default or a Default, a certificate of each Certifying Person of the Borrower specifying the nature thereof and the Borrower's proposed response thereto;

(g) Governmental Communications, Filings, Etc. Promptly upon the mailing or filing thereof, copies of all financial statements, reports, applications and other significant statements mailed or delivered to the Casino Control Commission, the Division of Gaming Enforcement or any other Governmental Authority:
(h) Litigation. (i) Promptly after (A) the occurrence thereof, notice of the institution of or any material adverse development in any action, suit or proceeding or any governmental investigation or any arbitration, before any court or arbitrator or before or by any Governmental Authority, against the Borrower or any of his Affiliates or any material property of any such Person, or (B) actual knowledge thereof, notice of the written threat of any such action, suit, proceeding, investigation or arbitration except for any such threats which outside counsel to the Borrower or his Affiliate, as applicable, determines to be frivolous and (ii) together with the monthly financial statements required pursuant to Section 5.02(c), a litigation status report in reasonable detail discussing all litigation by and against any of the Borrower and his Affiliates or affecting any material property of any such Person; provided that the Borrower or his Affiliate shall not be obligated to disclose any information if his or his Affiliate's outside counsel, as applicable, has determined that such disclosure would materially impair the Borrower's or his Affiliate's ability, as applicable, to maintain any privilege with respect to such information and that such impairment would be materially detrimental to such Person;

(i) ERISA. Promptly after (i) actual knowledge thereof, notice that an ERISA Termination Event or a "prohibited transaction", as such term is defined in Section 4975 of the Code, with respect to any Plan has occurred, which such notice shall specify the nature thereof and the Borrower's proposed response thereto, and (ii) actual knowledge thereof, copies of any notice of the PBGC's intention to terminate or to have a trustee appointed to administer any Plan;

(j) Accountants' Reports. As soon as available, copies of all reports or substantive letters from auditors to the Borrower or management of the Borrower's Affiliates (including management letters covering improvements needed in the system of internal accounting controls);

(k) Notice of Amendment. Promptly upon the execution of, or receipt by the Borrower or any of his Affiliates of, any amendments, waivers, consents, restatements or extensions relating to or any other written modification of, and agreements, documents or instruments governing, evidencing or otherwise relating to Indebtedness of such Person for borrowed money or collateral or other security (including guarantees and other similar agreements) for, any such Indebtedness, copies thereof; and

(l) Other Information. With reasonable promptness, such other information about the Borrower or his Affiliates or any of their respective properties as the Agent or any other Bank may reasonably request from time to time.
Section 5.02A. Business Planning. So long as any Commitment exists or any Loan or Note shall remain unpaid or any Letter of Credit shall remain outstanding:

(a) Annual Plan. The Borrower shall deliver to the Banks no later than November 30 of each year his annual plan, in draft, for the following year, to be in the form, and with at least such detail, as Exhibits I, II and III to Kenneth Leventhal & Co.'s Agreed Upon Procedures Report dated June 14, 1990 previously delivered to each of the Banks (the "June 14, 1990 Report"), together with a detailed operating plan for each month of such year for each of the Borrower's Affiliates (except those Affiliates which are New Ventures). Within sixty (60) days thereafter, the Borrower shall submit to the Banks the final form of the annual plan (such final form, the "Annual Plan") in form and substance reasonably satisfactory to the Required Banks. Without limiting the foregoing, (1) each Annual Plan shall in all material respects be based upon assumptions generally consistent with the assumptions incorporated into the immediately prior Annual Plan, including, without limitation, assumptions with respect to level of expenditures, methods of financing and use of available cash balances, (2) each Annual Plan may include provisions (such provisions to be reasonably satisfactory to the Required Banks) with respect to the payment by the Borrower or his Affiliates of income taxes that would be payable (after use of any available funds of the Borrower otherwise available for such purposes) as a result of any anticipated Capital Events and, if applicable, may contemplate the increase in the aggregate Commitments hereunder for such purpose (subject to the approval of said increase by each Bank, but as to which increase the Borrower acknowledges that no Bank has made any commitment hereunder), and (3) the Annual Plan for any given year shall not:

(i) provide for an aggregate amount of all charitable contributions to be made by the Borrower and his Affiliates (except those Affiliates which are New Ventures) in excess of $100,000 per month;

(ii) provide for the monthly personal and household expenses of the Borrower, of the type set forth in line 4 of Exhibit I to the June 14, 1990 Report, to exceed for any month in any year set forth below the amount set forth opposite such year:

<table>
<thead>
<tr>
<th>Year</th>
<th>Monthly Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>$450,000</td>
</tr>
<tr>
<td>1991</td>
<td>375,000</td>
</tr>
<tr>
<td>1992 and thereafter</td>
<td>300,000</td>
</tr>
</tbody>
</table>

(iii) include in legal and business expenses, of the type set forth in line 3 of Exhibit I to the June 14, 1990 Report, any fees and expenses to be incurred in
connection with the acquisition of assets after the date hereof which, when aggregated with all other such fees and expenses to be incurred after the date hereof, shall exceed the amount of proceeds received and permitted to be retained by the Borrower in respect of all Capital Events hereunder (after giving effect to all distributions required to be made under the Override Agreement from such proceeds) after the date hereof:

(iv) provide for the salary payable to the Borrower for any one year, when aggregated with any director's fees, bonuses or other similar types of remuneration from all of his Affiliates (except those Affiliates which are New Ventures) in such year, to exceed $200,000;

(v) provide for any amount to be paid by the Borrower, and his Affiliates (except those Affiliates which are New Ventures), if applicable, to any one individual who is employed or retained by the Borrower, and his Affiliates, if applicable, as of the Effective Date (other than those individuals set forth on Schedule 5.02A(a)(v)) as salary, fees under a personal service contract or consulting agreement, bonus, counsel fees to any general counsel or any other form of remuneration in excess of $300,000 in any one year in the aggregate; provided, however, that amounts in excess of $300,000 in respect of deferred compensation may accrue so long as such accrued amount is subordinated in form and substance satisfactory to the Required Banks to amounts outstanding hereunder and under the Override Agreement (other than in respect of the Facility Fees thereunder) and is not to be repaid until after all amounts hereunder and under the Override Agreement (other than in respect of the Facility Fees thereunder) have been repaid in full. With respect to those individuals set forth on Schedule 5.02A(a)(v), or other individuals who may later hold the position currently held by such individuals, the remuneration paid shall not be more than the remuneration generally paid for the same or similar services in the industry in which such individual is employed; or

(vi) provide for any amount to be paid, whether by loan, equity contribution or otherwise, by the Borrower or any of his Affiliates (except ALIBAN, Inc.) in excess of $5,000,000 in the aggregate (when combined with all other amounts previously provided for use, directly or indirectly, by ALIBAN, Inc. in other Business Plans) for the direct or indirect benefit of either ALIBAN, Inc. or any of its assets, whether now owned or hereafter acquired.
(b) **Strategic Business Plan.** The Borrower shall deliver to the Banks:

(i) on the earlier of (x) the day which is the 90th day following the hiring of a Senior Executive Officer and (y) December 31, 1990, a strategic business plan (the "Strategic Business Plan") which shall be in form and substance reasonably satisfactory to the Required Banks as determined by the Required Banks within 60 days of the submission thereof, and shall provide for the Borrower and his Affiliates (other than Affiliates which are New Ventures) on a consolidated basis and for each of the Borrower's Affiliates (other than Affiliates which are New Ventures) separately the following in detail reasonably satisfactory to the Required Banks:

(A) a short range plan to achieve cash flow break-even and/or expense savings;

(B) the long-term primary strategy for such Person or Persons, as applicable, together with a timetable for achievement of such strategy; and

(C) alternative courses of action, together with timetables, if such primary strategies are not successfully achieved on a timely basis;

(ii) on the earlier of (x) the day which is the 90th day following the hiring of a Senior Executive Officer and (y) December 31, 1990, a three year business plan (the "Three Year Business Plan") which shall be in the form of, and with at least such detail as, Exhibits I, II and III to the June 14, 1990 Report, and shall be in substance reasonably satisfactory to the Required Banks, together with a detailed operating plan for each month of the first year of such three year period and for each quarter of each of the second and third years of such three year period for the Borrower and each of the Borrower's Affiliates (other than Affiliates which are New Ventures). On each of the first and second anniversaries of the date the Borrower delivers the Three Year Business Plan, the Borrower shall deliver to the Banks a detailed operating plan for each month of the second or third year, as appropriate, of the three year period covered by the Three Year Business Plan (each, a "Supplemental Operating Plan"); provided that such Supplemental Operating Plan shall not be inconsistent with any other Business Plan, including, without limitation, the Annual Plan then in effect and the Strategic Business Plan. The restrictions in Section 5.02A(a)(i)-(v) for the Annual Plan shall also apply to the Three Year Business Plan and each Supplemental Operating Plan; and
(iii) simultaneously with delivery of the Three Year Business Plan and each of the Supplemental Operating Plans, a written description in reasonable detail of all changes in management personnel, consultants and other agents which the Borrower or any of his Affiliates (except those Affiliates which are New Ventures) intends to make during the following year, all of which shall be reasonably satisfactory to the Required Banks.

Section 5.03. Financial Test Covenants. So long as any Commitment exists or any Loan or Note shall remain unpaid or any Letter of Credit shall remain outstanding, the Borrower will not (a) permit the "Cash Balance - After Entity Level Reserves and Debt Modifications" as at the end of any month, commencing with December 1990, calculated on a basis identical with the basis of calculation thereof in the Initial Business Plan, to be more than $15,000,000 below the amount projected for such month in the then current Annual Plan excluding payments in such month and previous months for extraordinary and unusual items to the extent not contemplated by the Business Plans, or (b) permit such "Cash Balance - After Entity Level Reserves and Debt Modifications" as at the end of any month subsequent to April 1991, calculated on the same basis as in clause (a) above, to be more than $10,000,000 below the level projected for such amount in the then current Annual Plan.

Section 5.04. Certain Negative Covenants. So long as any Commitment exists or any Loan or Note shall remain unpaid or any Letter of Credit shall remain outstanding, the Borrower will not, and will cause its Affiliates not to:

(a) Indebtedness. Create, incur, assume or suffer to exist any Indebtedness, other than each of the following (without duplication):

(i) the Indebtedness hereunder and under the Notes;

(ii) Indebtedness expressly contemplated under the Override Agreement to be outstanding;

(iii) Indebtedness outstanding on the date hereof which is set out in the Borrower's financial statements referred to in Section 4.05(a) or in Schedule 5.04(a)(iii) hereto;

(iv) purchase money Indebtedness to the extent permitted by Section 5.04(b)(ii);

(v) unsecured current liabilities (not the result of borrowing and not constituting "Indebtedness" as defined in clause (iii) of the definition
of Indebtedness herein, other than guarantees by Affiliates required in the ordinary course of their businesses) incurred in the ordinary course of business and not represented by any note or other evidence of Indebtedness;

(vi) intercompany Indebtedness, complying with the provisions of Article XI of the Override Agreement, in respect of advances from the Borrower to any of his Affiliates (except that, in the case of ALIBAN, Inc., intercompany Indebtedness shall not exceed $5,000,000 in the aggregate, plus accrued interest thereon) (A) from proceeds of Capital Events occurring after the Collateralization Condition has been satisfied which the Borrower is permitted to receive and retain hereunder (after giving effect to all distributions required to be made under the Override Agreement from such proceeds) or (B) from proceeds of Loans made in accordance with the Business Plans so long as all such Indebtedness is evidenced by Intercompany Notes which are immediately endorsed over and delivered to the Agent on behalf of the Banks, together with notice to the obligor thereunder of the pledge thereof, as security for the Indebtedness hereunder;

(vii) Indebtedness incurred by any New Venture to the extent that none of the Borrower or any of his Affiliates, nor such New Venture (other than to the extent of any Lien on any property being so financed) or any other New Venture, shall have, directly or indirectly, any liability of any nature whatsoever in respect of such Indebtedness;

(viii) Indebtedness incurred by Penn Yards Associates to develop the premises owned by Penn Yards Associates, and Indebtedness incurred to fund overrun construction costs of the premises in New York, New York known as The Trump Palace, so long as recourse for such Indebtedness is limited to such premises and neither the Borrower nor any of his other Affiliates shall be directly or indirectly liable for any of such Indebtedness;

(ix) Indebtedness in respect of letters of credit of the Casino Entities in an aggregate outstanding maximum reimbursement amount at any one time not in excess of $3,000,000 for all the Casino Entities, so long as recourse for each such Indebtedness is limited to the Casino Entity for whose account such letter of credit was issued, and
neither the Borrower nor any of his other Affiliates shall be directly or indirectly liable for any of such Indebtedness; provided that not more than $1,000,000 of such amount may at any time be issued for the account of the Casino Entity known as Trump's Castle;

(x) Indebtedness incurred by Trump Shuttle, Inc. for the financing of aircraft to the extent that none of the Borrower or any of his other Affiliates shall have, directly or indirectly, any liability of any nature whatsoever in respect of such Indebtedness;

(xi) refinancings of any Indebtedness referred to in clauses (ii), (iii), (iv), (vii), (viii) or (x) above on terms not less favorable to the Borrower and his Affiliates than the terms of the Indebtedness to be so refinanced; provided that in the case of any refinancing of any Indebtedness referred to in clause (ii), (iii), (iv), (viii) or (x) above in a principal amount in excess of the amount of the Indebtedness being so refinanced, such refinancing shall constitute a Capital Event; and

(xii) Indebtedness incurred by The Trump-Alexander's Company for the sole purpose of funding margin calls made in respect of the shares of the stock of Alexander's held by such company, or to refinance outstanding Indebtedness in favor of Bear Stearns & Co. secured by such stock, in a maximum aggregate principal amount which, when aggregated with all other such Indebtedness incurred from and after June 26, 1990, is no greater than $6,300,000 under the demand note a copy of which has been previously delivered to the Banks as in effect on the date hereof, and the related Indebtedness of the Borrower under the guaranty of such Indebtedness a copy of which has been previously delivered to the Banks as in effect on the date hereof.

(b) Liens. Create, incur, assume or suffer to exist any Lien on any of such Person's property now owned or hereafter acquired to secure any Indebtedness of such Person, other than:

(i) Liens existing on the date hereof and set out on Schedule 5.04(b)(i) hereto;

(ii) except in the case of any New Venture, any Lien on any property securing Indebtedness incurred or assumed for the purpose of financing all
or any part of the acquisition cost of such property, provided that such Lien does not extend to any other property and that such Indebtedness was permitted to be incurred under the Business Plans;

(iii) Liens for taxes not yet due or which are being contested in good faith by appropriate proceedings and with respect to which adequate reserves are being maintained;

(iv) statutory Liens of landlords and Liens of carriers, warehousemen, mechanics, materialmen and other Liens imposed by law created in the ordinary course of business for amounts not yet due or which are being contested in good faith by appropriate proceedings and with respect to which adequate reserves are being maintained;

(v) Liens (other than any Lien imposed by ERISA) incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security, or to secure the performance of tenders, statutory obligations, surety and appeal bonds, bids, leases, government contracts, performance and return-of-money bonds and other similar obligations (exclusive of obligations for the payment of borrowed money);

(vi) easements, rights-of-way, restrictions and other similar charges or encumbrances not interfering with the ordinary conduct of the business of the Borrower or any of his Affiliates;

(vii) Liens existing on any property prior to the acquisition thereof, or prior to the acquisition of the Person which owns such property, by the Borrower or any of his Affiliates, in each case which Lien was not created in contemplation of such acquisition;

(viii) Liens granted under the Security Documents and Liens required to be granted pursuant to the Override Agreement;

(ix) extensions, renewals or replacements of any Lien referred to in paragraphs (i) through (viii) of this Section 5.04(b), provided that any such extension, renewal or replacement is limited to the property originally encumbered thereby and that (A) the refinancing of the Indebtedness secured thereby of the type described in clause (ii), (iii), (iv), (viii) or (x) of Section 5.04(a) shall
constitute a Capital Event and (B) no other Indebtedness or obligation secured thereby is increased;

(x) Liens on any assets of any New Venture;

and

(xi) Liens granted in connection with the Indebtedness contemplated by the provisions of Section 5.04(a)(viii) which relate only to the premises described therein.

(c) Sales, Mergers, Etc. Except with respect to the sale of property of any New Venture or the merger of any New Venture with any other New Venture or Person who is not an Affiliate of the Borrower, merge or consolidate with any other Person, or sell, lease or otherwise dispose of all or any substantial part of such Person's property or assets to any other Person, other than in transactions that (i) constitute good faith Capital Events the other parties to which are Persons which are not Affiliates of the Borrower and (ii) are for fair market value and are on commercially reasonable terms; provided that in no event shall the Borrower or any of his Affiliates sell, transfer, or otherwise dispose of, pledge, assign, hypothecate or otherwise grant a Lien in or on any Equity Interests, rights under management contracts or rights to any proceeds except in compliance with the terms hereof and of the Override Agreement. All non-cash forms of consideration which would have constituted Net Cash Proceeds had they been received in cash at closing shall be pledged to the Agent for the benefit of the Banks as security for the obligations hereunder pursuant to a pledge or other security agreement (as appropriate) in form and substance satisfactory to the Required Banks.

(d) Investments, Loans, Etc. Make any loans to or investments in any Person other than:

(i) investments in Affiliates of the Borrower existing on the date hereof; provided that neither the Borrower nor any of his Affiliates will make additional loans to or investments in such Affiliates after the date hereof except to the extent permitted under Section 5.04(a)(vi);

(ii) direct obligations of the United States or any agency thereof, or obligations guaranteed by the United States or any agency thereof, in each case maturing within two years from the date of creation thereof.
(iii) commercial paper maturing within 270 days from the date of creation thereof rated in the highest grade by two nationally recognized credit rating agencies;

(iv) time deposits (maturing within one year from the date of creation thereof) with, and certificates of deposit issued by, any office located in the United States of any bank or trust company which is organized under the laws of the United States or any state thereof, whose long term debt is rated "A" or better by two nationally recognized credit rating agencies and has assets aggregating at least $10,000,000,000; and

(v) investments in real property and gaming related businesses ("New Ventures") (x) which are not built or located on, otherwise annexed to, enhancements of, or otherwise made an essential part of, any of the Collateral and (y) which are made with (A) the proceeds received and permitted to be retained by the Borrower in respect of any Capital Event (after giving effect to all distributions required to be made hereunder and under the Override Agreement from such proceeds) or (B) the proceeds received and retained by the Borrower with respect to equity investments made by Persons not constituting Affiliates of the Borrower or (C) assets of any other New Venture; provided that (1) the New Venture shall be purchased or constructed and operated, and the assets thereof shall be owned, only by a Person which is not the Borrower or any of his Affiliates (other than an Affiliate which is a New Venture) or any partnership, joint venture or other entity as to which the Borrower or any of his Affiliates (other than an Affiliate which is a New Venture) is a general partner, joint venturer or otherwise liable directly or indirectly for the liabilities of such entity, (2) to the extent that any cash, Cash Equivalents or any other assets of any New Venture are at any time held or owned by the Borrower or any of his Affiliates (other than an Affiliate which is a New Venture), they no longer shall be entitled to any of the benefits granted to or in respect of New Ventures in this Agreement or the Override Agreement, (3) in the event the Borrower or any of his Affiliates sells or otherwise disposes of any New Venture, all income and other taxes and transaction costs payable in connection therewith shall be paid solely out of the proceeds of such transaction or shall be otherwise paid by such New Venture or any other New Venture and (4) each New Venture shall
enter into a tax sharing agreement with the Borrower and his Affiliates which are members of the same consolidated group for federal income tax purposes, such agreement to be in form, scope and substance satisfactory to the Required Banks.

(e) Leases. Enter into or otherwise become liable with respect to any leases, including master leases, as lessee, except for (i) leases entered into to replace leases existing on June 15, 1990 as disclosed in Schedule 5.04(e), (ii) leases entered into in the ordinary course of business to the extent reflected in the Business Plans, (iii) leases contemplated by the Override Agreement, (iv) the lease between The Trump Equitable Fifth Avenue Company, as landlord, and The Trump Corporation, as tenant, dated as of the date hereof with respect to the 24th Floor of the building located at 721-725 Fifth Avenue, New York, New York and commonly known as Trump Tower, and (v) leases entered into by any New Venture to the extent that none of the Borrower or any of his Affiliates (other than such New Venture) shall have, directly or indirectly, any liability of any nature whatsoever in respect of such lease.

(f) Issue of Interests. With respect to the Borrower's Affiliates, except as part of an employee's remuneration made in accordance with the Business Plans and Section 5.02A(a)(v), issue any additional capital stock, partnership interests or other Equity Interests, issue or otherwise grant any option, warrant or other right to acquire or otherwise receive any capital stock, partnership interests or other Equity Interests other than in connection with transactions that (i) constitute Capital Events to which are Persons which are not Affiliates of the Borrower; (ii) are for commercially reasonable prices and are on commercially reasonable terms; and (iii) are on terms which provide that at least 90% of all consideration paid for such issuance or grant will be payable immediately upon closing in cash. All non-cash forms of consideration which would have constituted Net Cash Proceeds had they been received in cash at closing shall be pledged to the Agent for the benefit of the Banks as security for the obligations hereunder pursuant to a pledge or other security agreement (as appropriate) in form and substance satisfactory to the Required Banks.

(g) Transactions with Affiliates or New Ventures. Enter into or carry out any transaction with (including, without limitation, making loans to, purchasing property or services (including, without limitation, under any
(1) subject to Section 5.02A(a)(v), directors, officers and employees of any such Person may render services to any other such Person for compensation at the same rates generally paid by persons engaged in the same or similar businesses for the same or similar services;

(ii) (x) transactions between the Borrower, on the one hand, and any of his Affiliates, on the other hand, made in accordance with the Business Plans and entered into in the ordinary course of business, pursuant to the reasonable requirements of such Person's business, upon terms fair and reasonable and no less favorable to the Borrower or such Affiliate than would obtain in a comparable arm's-length transaction or (y) transactions between the Borrower, on the one hand, and any of his Affiliates (other than these Persons who constitute Affiliates as defined in clause (ii) or clause (iv) of the definition of "Affiliate" herein), on the other hand, made in accordance with, and described in reasonable detail in, the Business Plans;

(iii) transactions effected pursuant to the agreements disclosed on, or otherwise described on, Schedule 5.04(g) in accordance with the terms as they exist on the date hereof; and

(vi) investments permitted by Section 5.04(d)(i) and (v).

(h) Modifications to Debt Documents; Waiver to Override Agreement. (1) (x) Except as provided in Section 5.04(h)(1)(y), amend, restate or otherwise modify the terms or conditions of any agreements, instruments or other documents issued, delivered or executed in connection with any of such Person's Indebtedness for borrowed money, including without limitation the Override Agreement and all documents executed in connection therewith (but excluding this Agreement, the Notes and the other Loan Documents) except:

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(A) with respect to all such agreements, instruments and other documents (including agreements, documents and instruments specified in paragraph (B)-(D) below), with the prior written consent of the Required Banks;

(B) with respect to documents executed in connection with the Override Agreement (but not including the Override Agreement) and the Existing Agreement Amendments (except as provided to the contrary with respect to those agreements specified in paragraph (D) below), (1) in the manner and to the extent provided for in Section 2.1(b) of the Override Agreement as it exists on the date hereof or (2) in the manner provided for in paragraph (E) below and not otherwise inconsistent with Section 2.1(b) of the Override Agreement as it exists on the date hereof;

(C) with respect to the First Amendment to Amended and Restated Credit Agreement, dated as of the date hereof, between Citibank, N.A. as Agent and the Shuttle, such agreement may be amended or modified in accordance with the provisions thereof relating to amendments as such provisions thereof exist on the date hereof; and

(D) with respect to all other such agreements, documents or instruments, amendments, modifications or restatements thereof such that such agreements, documents or instruments shall be no less favorable to the Borrower and his Affiliates than the same were prior to such amendment, modification or restatement; provided that no such amendment, restatement or modification shall, without the prior written consent of the Required Banks, shorten the maturity, increase the frequency of times or amounts for payments or prepayments of principal, interest or any other fees or charges in respect thereof or change the terms relating to acceleration in a manner adverse to the Borrower and his Affiliates, subordination, negative pledges, or addition of collateral or other security, including claims against third parties or, with respect to Indebtedness of any Affiliate of the Borrower all or a portion of the Entity Operating Cash Flow (as defined in the Override Agreement) of which is includable in Operating Cash Flow (as defined in the Override Agreement),
reduce the amount or timing of distributions or other payments of any nature which such Person may make to any of the holders of any of the Equity Interests of such Person.

(y) Notwithstanding anything to the contrary contained herein, no term or provision of this Agreement or any other Loan Documents shall be construed to limit or otherwise affect the rights, remedies or obligations (including, without limitation, the right to amend, restate or otherwise modify the terms or conditions of any agreements, instruments or other documents) of any of the lenders (or the agent therefor) under or otherwise in connection with, or the rights and obligations of Trump-Equitable Fifth Avenue Company, Plaza or the Borrower or any of his other Affiliates under or otherwise in connection with, the first mortgage loans in respect of the properties of the Borrower and his Affiliates known as the "Trump Tower" and the "Plaza Hotel" and all agreements, instruments or other documents executed and delivered in connection therewith, as the same may be amended, restated, modified, extended, renewed or refinanced.

(ii) Until such time as the Collateralization Condition has occurred, whenever terms or conditions of this Agreement are waived, modified or amended, and any Defaults or Events of Default are waived, or consents given to certain events which would otherwise violate certain terms or conditions, and such terms or conditions are also part of the Override Agreement, whether explicitly or by incorporation, then such terms or conditions as they exist in the Override Agreement shall be deemed to be waived, modified or amended, defaults or events of default shall be waived, and such consents shall be given under the Override Agreement, to the same extent and for the same period as under this Agreement, in each case automatically without further documentation or other action.

(i) Repayments of Indebtedness. Repay or prepay, directly or indirectly, any Indebtedness, including any purchase of any notes, bonds or other instruments evidencing Indebtedness, except (i) payments of the Indebtedness arising hereunder, (ii) mandatory payments or mandatory prepayments required by the express terms of any Indebtedness permitted to exist under Section 5.04(a), including purchases of publicly traded bonds secured directly or indirectly by the real property of any of the Casino Entities made to satisfy the next mandatory sinking fund or similar payments within the six months preceding the due date for such mandatory payment; (iii) optional payments or optional prepayments of
the Indebtedness permitted to be incurred under Section 5.04(a)(iv), (v), (vii), (viii), (x) or (xi) (but, with respect to clause (xi), only in respect of Section 5.04(a)(iv), (v), (vii), (viii) or (x)), it being understood that refinancings permitted by Section 5.04(a)(xi) do not constitute optional payments or optional prepayments for purposes of this Section 5.04(i); and (iv) once the Collateralization Condition has been satisfied, payments of amounts owing under the Override Agreement, whether from "Operating Cash Flow" (as defined therein) or otherwise.

(j) Capital Expenditures. In any one year, except with respect to any New Venture (but, as to expenditures with respect to New Ventures, subject to the restrictions on the source of funds therefor as described in Section 5.04(d)(v)), incur or expend any amounts for capital expenditures in excess of the amounts of capital expenditures set forth in the Annual Plan for such year or to the extent of any insurance proceeds received by the Borrower or any Affiliate in respect of any casualty event with respect to any asset being repaired or replaced by means of such capital expenditure; provided that such Person may make capital expenditures in excess of such amounts to the extent, and only to the extent, deemed by a Governmental Authority to be necessary for such Person to remain in compliance with the laws, rules and regulations governing the operation of such Person's business or ownership of such Person's assets.

(k) Transfers to New Ventures. Make any payment of, or otherwise transfer, any cash, Cash Equivalents or any other assets to any New Venture, or otherwise assume or satisfy any liability of any New Venture, except to the extent the same constitutes or is made with (i) proceeds received and retained by the Borrower (after giving effect to distributions required to be made hereunder and under the Override Agreement) in respect of any Capital Event, (ii) proceeds received and retained by the Borrower with respect to equity investments made by Persons not constituting Affiliates of the Borrower or (iii) assets of any other New Venture.

ARTICLE VI. EVENTS OF DEFAULT

Upon the occurrence of any of the following events (other than an event specified in Section 6.07(a)-(h) with respect to the Borrower, which shall immediately constitute an Event of Default) and regardless of whether any acceleration of all or any portion of the Loan shall have occurred pursuant to Article VIA, the Agent shall, upon request of any Bank, send a notice to each Bank specifying the circumstances
described in such Bank's request and inquiring of each Bank whether it has determined to declare an Event of Default or to waive the occurrence of an Event of Default and the Default giving rise thereto. If within 20 Business Days of the date of such notice by the Agent, the Required Banks shall have given notice to the Agent that they have elected to declare an Event of Default, an Event of Default shall be deemed to have occurred. If within such 20 Business Day period, the Required Waiving Banks shall have elected to waive the occurrence of an Event of Default and the Default giving rise thereto, such waiver shall be deemed to have occurred. If neither such declaration or waiver shall occur within such 20 Business Day period, the Agent shall send a second notice to the Banks making the same inquiry as such first notice. If within 20 Business Days of the date of such second notice, the Required Banks shall have given notice to the Agent that they have elected to declare an Event of Default, an Event of Default shall be deemed to have occurred. If within such 20 business day period, the required waiving banks shall have elected to waive the occurrence of an event of default and the default giving rise thereto, such waiver shall be deemed to have occurred; PROVIDED THAT ANY BANK THAT SHALL NOT HAVE RESPONDED TO SUCH SECOND NOTICE WITHIN 20 BUSINESS DAYS THEREOF SHALL BE DEEMED TO HAVE WAIVED THE OCCURRENCE OF SUCH EVENT OF DEFAULT AND THE DEFAULT GIVING RISE THERETO.

Section 6.01. Payments. The Borrower shall fail to pay when due (including, without limitation, by mandatory prepayment) any principal of or interest on any Note, or the Borrower shall fail to pay within 10 Business Days after the due date thereof any fee or any other amount payable hereunder or under any other Loan Document;

Section 6.02. Covenants Without Cure. The Borrower shall fail to observe or perform any covenant or agreement contained in Sections 5.01(c), (f), (g), (h) or (i), 5.03, or 5.04(a)-(g);

Section 6.03. Other Covenants. The Borrower shall fail to observe or perform any covenant or agreement under this Agreement, the Notes or, except as may otherwise be specifically provided therein, any of the other Loan Documents, other than those referred to in Sections 6.01 and 6.02, and, if capable of being remedied, such failure shall remain unremedied for 30 days;

Section 6.04. Representations. Any representation, warranty or statement made or deemed to be made by the Borrower or any Grantor under or in connection with this Agreement or any other Loan Document shall not have been true and correct in all material respects when made or deemed to be made;
Section 6.05. Validity of Loan Documents. This Agreement or any of the other Loan Documents shall cease for any reason to be in full force and effect or the Borrower or any of his Affiliates shall so assert in writing, or any of the Liens created by the Security Documents shall cease to be enforceable or shall not have the priority purported to be created thereby;

Section 6.06. Defaults Under Other Agreements. Any Uniform Event of Default (as defined in the Override Agreement) shall have occurred and be continuing or the Borrower or any of his Affiliates shall fail to make any payment in respect of any Indebtedness for borrowed money (including leases) the "Bankruptcy Code"; or (b) an involuntary case is commenced against the Borrower or any of his Affiliates and the petition is not controverted within 90 days, or is not dismissed within 90 days, after commencement of the case; or (c) a custodian (as defined in the Bankruptcy Code) is appointed for, or takes charge of, all or any substantial part of the property of the Borrower or any of his Affiliates; or (d) any proceeding under any reorganization, arrangement, adjustment of debt, relief of debtors, dissolution, insolvency or liquidation or similar law of any jurisdiction whether now or hereafter in effect relating to the Borrower or such Person or there is commenced against the Borrower or any of his Affiliates any such proceeding which remains undismissed for a period of 90 days; or (e) the Borrower or any of his Affiliates is adjudicated insolvent or bankrupt; or (f) any order of relief or other order approving any such
case or proceeding is entered; or (g) the Borrower or any of his Affiliates suffers any appointment of any custodian or the like for such Person, or any substantial part of such Person's property to continue undischarged or unstayed for a period of 90 days; or (h) the Borrower or any of his Affiliates makes a general assignment for the benefit of creditors; or (i) the Borrower or any of his Affiliates shall fail to pay, or shall state that such Person is unable to pay, or shall be unable to pay, such Person's debts generally as they become due; or (j) the Borrower or any of his Affiliates shall by any act or failure to act indicate such Person's consent to, approval of or acquiescence in any of the foregoing; or (k) any action is taken by the Borrower or any of his Affiliates for the purpose of effecting any of the foregoing; provided that for purposes of this Section 6.07, the term "Affiliate" shall not be deemed to include any New Ventures or any other Persons listed on Schedule 6.0;

Section 6.08. ERISA. A Plan shall fail to maintain the minimum funding standard required by Section 412 of the Code for any plan year or a waiver of such standard is sought or granted under Section 412(d), or a Plan is, shall have been or is to be imminently, terminated or the subject of termination proceedings under ERISA, or the Borrower or an ERISA Affiliate has incurred or is imminently to incur a liability to or on account of a Plan under Section 4062, 4063, 4064, 4201 or 4204 of ERISA, and there shall result from any such event or events either a liability or a material risk of incurring a liability to the PBGC or a Plan, which in the reasonable opinion of the Required Banks, will have a material adverse effect upon the business, financial condition, results of operations or prospects of the Borrower and his Affiliates, taken as a whole;

Section 6.09. Adverse Judgment. Judgments or orders for the payment of money in excess of $5,000,000 in the aggregate or otherwise materially adverse to the business, condition (financial or otherwise), operations, prospects or assets of the Borrower or any of his Affiliates (other than those Affiliates which are New Ventures and the Shuttle) shall be rendered against the Borrower or any of his Affiliates (other than those Affiliates which are New Ventures and the Shuttle), and such judgments or orders shall continue unsatisfied (in the case of a money judgment) and in effect for a period of 60 days during which execution shall not be effectively stayed or deferred (whether by action of a court, by agreement or otherwise);

Section 6.10. Material Adverse Change. Any material adverse change shall occur since May 31, 1990 in the business, condition (financial or otherwise), results of operations, assets or prospects of the Borrower or of any of his Affiliates (other than New Ventures, the Shuttle and those
Affiliates listed on Schedule 6.0) which would materially impair the ability of the Borrower to perform his obligations under this Agreement and repay the Loans or to comply with the Business Plans or the ability of the Grantors to perform their obligations under the Guarantees, Security Documents or other Loan Documents to which they are parties (it being understood that the fact that a given occurrence or event (or the failure to occur of such occurrence or event) is not specifically identified in the other sections of this Article VI does not imply that such occurrence or event (or failure thereof to occur) does not or cannot constitute a material adverse change for purposes of this Section 6.10);

Section 6.11. Casino Control. Any license or other governmental consents material to the ownership or operation, or the holding of a Lien granted under any Security Document on any Equity Interest, of the Casino Entities shall expire without renewal or be suspended or revoked or the Borrower or any of his Affiliates or any other Person shall be prohibited from operating casinos, or holding any such Lien, under any of such licenses or consents and such prohibition shall not have been removed within 30 days; any regulatory or judicial body shall make any determination or take any action which materially adversely affects the Borrower's or any of his Affiliates' or any other Person's ability to own and operate, directly or indirectly, or hold any such Lien in respect of, the Casino Entities, including, without limitation, a determination by the Casino Control Commission or the Division of Gaming Enforcement that the Borrower or any one of his Affiliates or any other such Person is a "Disqualified Person" under Section 86 of the Casino Control Act; or a conservator shall be appointed for any of the Casino Entities by the Casino Control Commission;

Section 6.12. Death; Incapacity. The Borrower shall die or become incapacitated;

Section 6.13. Property Loss. There shall occur the loss, theft, substantial damage to or destruction of any portion of the Collateral not fully covered by insurance which by itself or with other such losses, thefts, damage or destruction of Collateral shall materially impair the value or the operations of the Borrower or any of his Affiliates (except New Ventures and those Affiliates listed on Schedule 6.0) or there shall occur the exercise of the right of condemnation or eminent domain on any portion of the Collateral which by itself or with other such exercises of the right of condemnation or eminent domain shall materially impair the value or the operations of the Borrower or any of his Affiliates (except New Ventures and those Affiliates listed on Schedule 6.0); or
Section 6.14. Casino Events. Either (a) any Person or Persons (whether or not Banks) shall institute any proceedings seeking to foreclose or otherwise to realize upon a consensual lien in any asset of any Casino Entity or any Equity Interest in any Casino Entity securing Indebtedness in the amount of $5,000,000 or more in the aggregate or (b) the Borrower or any of his Affiliates shall take any action in connection with the refinancing or restructuring of any Casino Indenture which, directly or indirectly, results in, or will imminently result in, the dilution or reduction of the Borrower's ownership of Equity Interests in any Casino Entity; then, and in any such event, and at any time thereafter, if any Event of Default shall have been declared pursuant to the first paragraph of this Article VI and shall then be continuing, the Required Banks may, or the Agent may, on behalf of the Banks acting by instruction of the Required Banks, by written notice to the Borrower, take any or all of the following actions, without prejudice to the rights of the Banks or the holder of a Note to enforce such Person's claims against the Borrower: (i) declare the Commitments terminated, whereupon the Commitments shall terminate immediately and any Commitment fee shall forthwith become due and payable without any other notice of any kind; or (ii) declare the principal of and any accrued interest on the Loans, and all other obligations owing hereunder, to be, whereupon the same shall become, forthwith due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower; provided, that, if an Event of Default specified in Section 6.07(a)-(h) (with respect to the Borrower only) shall occur, the result which would occur upon the giving of written notice by the Required Banks or the Agent to the Borrower, as specified in clauses (i) and (ii) above, shall occur automatically without the giving of any such notice or the taking of any other action.

Notwithstanding the foregoing, none of the following shall in and of itself constitute an event which, upon declaration by the Required Banks in accordance with the first paragraph of this Article VI, would constitute an Event of Default: (a) any Person commences to exercise, or exercises, any Foreclosure Rights with respect to the Shuttle or any Equity Interest in the Shuttle, (b) any Equity Interest in the Shuttle is transferred to any of the financial institutions who are lenders secured by any assets of, or Equity Interest of, the Shuttle immediately prior to the Effective Date (or their successors and assigns), whether as a result of the exercise of Foreclosure Rights or otherwise, or (c) any default or event of default occurs in any Existing Debt Credit Agreement, Existing Collateral Agreement, Special Collateral Agreement or Collateral Agreement (as each such term is defined in the Override Agreement) relating to the Shuttle or any Equity Interest in the Shuttle.
In the event that the Required Banks shall have taken any of the actions following an Event of Default referred to in the paragraph above immediately following Section 6.14, the Agent may exercise all rights and remedies provided under this Agreement, any of the Security Documents or any other Loan Document, or otherwise available under applicable law (including without limitation, the Uniform Commercial Code), all subject to the direction of the Required Banks; provided that with respect to all Collateral (other than Collateral referred to on Schedule VI), the foregoing shall not be deemed to permit the Agent to exercise Foreclosure Rights in the absence of a Foreclosure Event. In addition to, and without limitation of, the foregoing, in the event any Foreclosure Event shall occur with respect to any Collateral, the Agent, at the direction of the Required Banks, shall exercise or enforce any of its rights or remedies (including, without limitation, the rights and remedies set forth in Article VIA) with respect to the obligations of the Borrower hereunder either by suit in equity or by action at law, or both, or to enforce the payment of any such obligations, against, or to exercise any other foreclosure or similar remedy with respect to (the foregoing rights and remedies against property and the rights and remedies under Article VIA being hereinafter referred to as the "Foreclosure Rights"), all or any portion of any property included in such Collateral, any Security Documents, all in accordance with the instructions of the Required Banks (it being expressly understood and agreed that every Foreclosure Event shall be deemed to constitute a "default", as such term is used in Part 5 of Article 9 of the Uniform Commercial Code, and that the Agent shall have all the rights and remedies afforded a secured creditor after "default" in such statutory provisions upon the occurrence of a Foreclosure Event, "Foreclosure Event" with respect to any property included in the Collateral shall be deemed to have occurred if on or after the date hereof (x) any Person or Persons holding a Prior Lien on such Affected Collateral (it being understood for the purpose of this clause (x) that any Lien on any asset or property of any Person shall be deemed to be a Prior Lien with respect to any Lien on any Equity Interest (or proceeds thereof or rights thereof, including, without limitation, distributions therefrom) of such Person) shall have commenced to exercise Foreclosure Rights against all or any portion of such property included in the Collateral, (y) in the case of any of the Collateral referred to on Schedule VI, at any time, or, in the case of any other Collateral, at such time as no Lender shall hold a Prior Lien in the applicable Affected Collateral (or, in the case of clause (B) below, the applicable Collateral with respect to which the Agent is proposing to exercise any Foreclosure Rights) (it being understood for the purpose of this clause (y) that any Lien on any asset or property of any Person shall not be deemed to be a
Prior Lien with respect to any Lien on any Equity Interest (or proceeds thereof or rights therein, including, without limitation, distributions therefrom) of such Person, either (A) the Borrower or any of his Affiliates shall have failed to observe or perform any covenant or agreement contained in the Security Documents creating the Lien in such property or any default under such Security Documents shall occur, in each case, which shall continue to exist following the expiration of any applicable grace period, or (B) any Event of Default shall have occurred without waiver or cure for 20 days after the expiration of any applicable grace period or any Uniform Event of Default (as defined in the Override Agreement) shall have occurred without waiver or cure for 20 days after the expiration of any applicable grace period, or (z) in the case of any of the Collateral referred to on Schedule VI, at any time, or, in the case of any other Collateral, at such time as no Lender shall hold a Prior Lien in the applicable Affected Collateral (it being understood for the purpose of this clause (z) that any Lien on any asset or property of any Person shall not be deemed to be a Prior Lien with respect to any Lien on any Equity Interest (or proceeds thereof or rights therein, including, without limitation, distributions therefrom) of such Person), the Borrower or any of his Affiliates shall have failed to make any payment of principal of or interest on any Indebtedness owed to the Banks hereunder which is secured pursuant to such Security Documents by all or any portion of such property included in the Collateral when due (whether at stated maturity, by acceleration, on demand or otherwise) which shall continue to exist following the expiration of any applicable grace period. The term "Affected Collateral" shall mean the property (real or personal, tangible or intangible, whether presently existing or hereafter created) included in the Collateral with respect to all or a portion of which such property an event has occurred (or failed to occur) which resulted in the occurrence of the applicable Foreclosure Event.

For purposes of this Article VI, a Lien on any proceeds, or rights in (including, without limitation, distributions in respect of), any Equity Interest shall be treated equivalently to a Lien in such Equity Interest.

In the event that the Agent has exercised or enforced any rights or remedies pursuant to this Article VI and shall thereafter have discontinued all such exercise or enforcement, the Agent shall upon the written request of the Borrower send a notice to each Person specified in such request of the Borrower stating that such exercise or enforcement has been so discontinued.
ARTICLE VIA. SPECIAL FORECLOSURE RIGHTS PROVISION

Section 6A.01. Special Foreclosure Rights Provisions.
The Borrower hereby irrevocably waives, and the Borrower hereby irrevocably agrees to cause its Affiliates to waive, any requirement under any applicable law, any procedural rule of any Governmental Authority or otherwise arising that any part of the Loans be then due and payable upon the exercise of any Foreclosure Rights by the Agent upon a Foreclosure Event but only to the extent necessary to permit the commencement to exercise, exercise or enforcement of Foreclosure Rights. In the event that it shall be necessary under applicable law as a predicate to the commencement of any exercise of, exercise of or enforcement of any such Foreclosure Right upon a Foreclosure Event, the Agent, in order to commence to exercise, exercise and/or enforce such Foreclosure Rights, may, to the extent so required, by notice to the Borrower, declare all or part of the Loans to be forthwith due and payable, whereupon all or part of the Loans shall become and be forthwith due and payable, without presentment, demand, protest, notice (except as provided above), or other requirements of any kind, all of which are expressly waived; provided, however, that notwithstanding anything in this Agreement or any other Loan Document to the contrary (except to the extent expressly provided to the contrary in Article VI), in the event of any such acceleration all of the following shall be applicable:

(a) each of the Agent and each Bank hereby irrevocably agrees to forbear from exercising any right or remedy other than such Foreclosure Rights, under any Existing Debt Credit Agreement, Existing Collateral Agreement, Existing Agreement Amendment or other Loan Document (as such terms are defined in the Override Agreement) or under this Agreement, the Security Documents or any other Loan Document or otherwise available under applicable law, notwithstanding anything in such agreements or documents to the contrary, to which such Person would otherwise be entitled as a result of such acceleration, including, without limitation, enforcing any deficiency or similar claim (against the obligor thereof or otherwise) arising from such exercise or Foreclosure Rights until such Person shall be entitled to exercise any such right or remedy in accordance with the terms hereof and thereof;

(b) each of the Agent and each Bank shall not be entitled to exercise any Foreclosure Rights with respect to any other property or any other Equity Interest solely by virtue of such acceleration until such Person shall otherwise be so entitled in accordance with any Existing Collateral Agreement, Special Collateral Agreement or Collateral Agreements (as such terms are defined in the Override Agreement) or under this Agreement, the Security Documents or any other Loan Document;
(c) each of the Agent and each Bank agrees that such acceleration shall not affect or expand any obligation of any obligor under any guaranty or otherwise, except as may be necessary to permit the commencement to exercise, exercise or enforcement of the Foreclosure Rights in connection with which such acceleration was effected;

(d) each of the Agent and each Bank agrees that such acceleration shall not in and of itself affect the determination of whether the conditions precedent to the advance of any Loan or the issuance of any Letter of Credit have been satisfied;

(e) each of the Agent and each Bank agrees that such acceleration shall not affect the rate at which interest shall accrue on the Loans and shall not in and of itself result in the imposition of any fee or other charge;

(f) each of the Agent and each Bank hereby waives any default or event of default which may arise under any Existing Debt Obligation (as defined in the Override Agreement) to which it is a party which may result from such acceleration as long as the forbearance provisions of this Section 6A.01 are in effect;

(g) each of the Agent and each Bank agrees that such acceleration shall not in and of itself affect the determination of whether any representations and warranties hereunder or under any other Loan Document are true and complete and whether any Default described in Section 6.10 has occurred;

(h) each of the Agent and each Bank agrees that each and every provision of the Override Agreement, each Existing Debt Credit Agreement, Existing Collateral Agreement, each Existing Agreement Amendment and each other Loan Document (as all such terms are defined in the Override Agreement) and under this Agreement, each Security Document and the other Loan Documents shall be deemed amended so that the rights and remedies of the parties hereto and thereto shall not be altered by any such acceleration, except as may be necessary to permit the commencement to exercise, exercise or enforcement of the Foreclosure Rights in connection with which acceleration was affected.

The provisions of this Section 6A.01 shall be effective until such time as the Agent shall exercise an independent right pursuant to this Agreement to accelerate the Loans pursuant to Article VI hereof.
ARTICLE VII. THE AGENT

Section 7.01. Appointment of Agent. Each Bank hereby designates Bankers Trust Company as Agent to act as herein specified. Each Bank hereby irrevocably authorizes, and each holder of any Note by the acceptance of a Note shall be deemed irrevocably to authorize, the Agent to take such action on its behalf under the provisions of this Agreement and the Notes and any other instruments and agreements referred to herein and to exercise such powers and to perform such duties hereunder and thereunder as are specifically delegated to or required of the Agent by the terms hereof and thereof and such other powers as are reasonably incidental thereto. The Agent may perform any of its duties hereunder by or through its agents or employees.

Section 7.02. Nature of Duties of Agent. The Agent shall have no duties or responsibilities except those expressly set forth in this Agreement. Neither the Agent nor any of its officers, directors, employees or agents shall be liable for any action taken or omitted by it as such hereunder or in connection herewith, unless caused by its or their gross negligence or willful misconduct. The duties of the Agent shall be mechanical and administrative in nature; the Agent shall not have by reason of this Agreement a fiduciary relationship in respect of any Bank; and nothing in this Agreement, expressed or implied, is intended to or shall be so construed as to impose upon the Agent any obligations in respect of this Agreement except as expressly set forth herein. Without limiting the generality of the foregoing, the Borrower shall be entitled to rely on the accuracy and authority of any written communication given to the Borrower by the Agent and expressly signed by the Agent in that capacity.

Section 7.03. Lack of Reliance on the Agent. (a) Independently and without reliance upon the Agent, each Bank, to the extent it deems appropriate, has made and shall continue to make (i) its own independent investigation of the financial condition and affairs of the Borrower in connection with the taking or not taking of any action in connection herewith, and (ii) its own appraisal of the creditworthiness of the Borrower, and, except as expressly provided in this Agreement, the Agent shall have no duty or responsibility, either initially or on a continuing basis, to provide any Bank with any credit or other information with respect thereto, whether coming into its possession before the making of any Loans, the issuance of any Letter of Credit or at any time or times thereafter.

(b) The Agent shall not be responsible to any Bank for any recitals, statements, information, representations or warranties herein or in any document, certificate or other
writing delivered in connection herewith or for the execution, effectiveness, genuineness, validity, enforceability, collectibility, priority or sufficiency of this Agreement, the Notes or any other Loan Document or the financial condition of the Borrower or be required to make any inquiry concerning either the performance or observance of any of the terms, provisions or conditions of this Agreement, the Notes or any other Loan Document, or the financial condition of the Borrower, or the existence or possible existence of any Default or Event of Default.

Section 7.04. Certain Rights of the Agent. If the Agent shall request instructions from the Required Banks with respect to any act or action (including the failure to act) in connection with this Agreement, the Agent shall be entitled to refrain from such act or taking such action unless and until the Agent shall have received instructions from the Required Banks; and the Agent shall not incur liability to any Person by reason of so refraining. Without limiting the foregoing, no Bank shall have any right of action whatsoever against the Agent as a result of the Agent acting or refraining from acting hereunder in accordance with the instructions of the Required Banks.

Section 7.05. Reliance by Agent. The Agent shall be entitled to rely, and shall be fully protected in relying, upon any note, writing, resolution, notice, statement, certificate, telex, teletype or telexcopy message, cablegram, telexcopy or other documentary, teletransmission or telephone message believed by it to be genuine and correct and to have been signed, sent or made by the proper Person. The Agent may consult with legal counsel (including counsel for the Borrower), independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken by it in good faith in accordance with the advice of such counsel, accountants or experts.

Section 7.06. Indemnification of Agent. To the extent the Agent is not reimbursed and indemnified by the Borrower, each Bank will reimburse and indemnify the Agent, in proportion to its respective Commitment, for and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses (including reasonable counsel fees and disbursements) or disbursements of any kind or nature whatsoever which may be imposed on, incurred by or asserted against the Agent in performing its duties hereunder, in any way relating to or arising out of this Agreement; provided that no Bank shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from the Agent's gross negligence or
willful misconduct. In the event a court of competent juris-
diction shall have determined in any action or proceeding
that any conduct of the Agent, including any act taken or
omitted, did not constitute gross negligence or willful mis-
conduct, no Bank shall later assert, including in any action
or proceeding, that such conduct constituted gross negligence
or willful misconduct hereunder.

Section 7.07. The Agent in its Individual Capacity.
With respect to its obligation to lend under this Agreement,
the Loans made by it and the Note issued to it, the Agent
shall have the same rights and powers hereunder as any other
Bank or holder of a Note and may exercise the same as though
it were not performing the duties specified herein; and the
terms "Banks", "Required Banks", "holders of Notes"; or any
similar terms shall, unless the context clearly otherwise
indicates, be determined as if the Agent was not the Agent
hereunder but rather was only one of the Banks. The Agent
may accept deposits from, lend money to, and generally engage
in any kind of banking, trust, financial advisory or other
business with the Borrower or any Affiliate of the Borrower
as if it were not performing the duties specified herein, and
may accept fees and other consideration from the Borrower for
services in connection with this Agreement and otherwise
without having to account for the same to the Banks.

Section 7.08. Holders of Notes. The Agent may deem and
treat the payee of any Note as the owner thereof for all pur-
poses hereof unless and until a written notice of the assign-
ment or transfer thereof shall have been filed with the
Agent. Any request, authority or consent of any Person who,
at the time of making such request or giving such authority
or consent, is the holder of any Note shall be conclusive and
binding on any subsequent holder, transferee or assignee of
such Note or of any Note or Notes issued in exchange there-
for.

Section 7.09. Successor Agent. (a) The Agent may re-
sign at any time by giving written notice thereof to the
Banks and the Borrower and may be removed at any time with or
without cause by the Required Banks; provided that the Agent
may not give notice and resign, or be removed, as Agent under
this Agreement without simultaneously giving notice and re-
signing, or being removed, as the case may be, as agent and
collateral agent under the Override Agreement. Upon any such
resignation or removal, the Required Banks shall have the
right, upon five days' notice to the Borrower, to appoint a
successor Agent provided that any such successor Agent shall
also simultaneously be appointed as agent and collateral
agent under the Override Agreement. If no successor Agent
shall have been so appointed by the Required Banks, and shall
have accepted such appointment, within 30 days after the retiring Agent's giving of notice of resignation or the Required Banks' removal of the retiring Agent, then, upon 5 days' notice to the Borrower, the retiring Agent may, on behalf of the Banks, appoint a successor Agent, which shall be a bank which maintains an office in the United States, or a commercial bank organized under the laws of the United States of America or of any State thereof, or any Affiliate of such bank, having a combined capital and surplus of at least $50,000,000 provided that any such successor Agent shall also simultaneously be appointed as agent and collateral agent under the Override Agreement.

(b) Upon the acceptance of any appointment as Agent hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations thereafter arising under this Agreement and all other Loan Documents. After any retiring Agent's resignation or removal hereunder as Agent, the provisions of this Article VII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement.

(c) In the event that neither the Required Banks nor the Agent appoint a successor Agent within the periods described in paragraph (a) above, the Agent may in its sole discretion immediately resign without any further notice to either the Banks or the Borrower. Upon such resignation, the retiring Agent shall be discharged from its duties and obligations thereafter arising under this Agreement and all other Loan Documents. Simultaneously with the retiring Agent's resignation under this Agreement, the retiring Agent shall also be deemed to have resigned under each of the Security Documents and all other Loan Documents and the Override Agreement in connection with which the retiring Agent acted as agent or collateral agent, all without further notice of any kind. Upon such resignation, the Agent shall promptly assign all Liens created in favor of the Agent under the Security Documents to each of the Banks, jointly. Immediately upon such resignation, all references in this Agreement, the Security Documents and the other Loan Documents to the Agent shall be deemed to be references to each Bank severally and each Bank hereby accepts any such assignment.

ARTICLE VIII. MISCELLANEOUS

Section 8.01. Notices. All notices, requests and other communications to any party hereunder or under any of the Notes shall be in writing (including bank wire and telex) and shall be given to such party at its address by hand delivery,
certified mail or air courier or telex number (and with copies to such other Persons) set forth on the signature pages hereof or such other address or telex number as such party may hereafter specify by notice to the Agent, the Banks and the Borrower. All notices, requests and other communications sent to the Borrower shall be deemed to have also been received by each of his Affiliates. Each such notice, request or other communication shall be effective (i) if given by telex, when such telex is transmitted to the telex number specified on the signature pages hereof and the appropriate answerback is received, (ii) if given by mail, 72 hours after such communication is deposited in the mails with first class postage prepaid, addressed as aforesaid or (iii) if given by any other means (including, without limitation, by air courier), when delivered at the address specified on the signature pages hereof; provided that notices to the Agent or the Banks shall not be effective until received. No notices, requests or other communications may be given by telecopy.

Section 8.02. Amendments, Etc. No amendment or waiver of any provision of this Agreement, the Notes or any other Loan Document, nor consent to any departure by the Borrower therefrom, shall in any event be effective unless the same shall be in writing and signed by, in the case of the amendments, the Required Banks and, in the case of waivers and consents, the Required Waiving Banks, and then such amendment, waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided that no amendment, waiver or consent shall, unless in writing and signed by all the Banks, do any of the following: (i) increase the Commitment of any Bank or subject any Bank to any additional obligations, (ii) reduce the principal of, or interest on, any Note or any fees hereunder, (iv) postpone any date any payment in respect of principal of, or interest on, any Note is to be made or any fees hereunder are to be paid, (v) change the percentage of the Commitments or of the aggregate unpaid principal amount of the Notes, or the number or identity of Banks, which shall be required for the Banks or any of them to take any action hereunder, (vi) amend this Section 8.02, the second sentence of Section 8.05 or Section 8.06, or (vii) release (other than in connection with a Capital Event) any Collateral; and provided further that no amendment, waiver or consent shall, unless in writing and signed by the Agent in addition to the Banks required herein-above to take such action, affect the rights or duties of the Agent under this Agreement or any Note. Notwithstanding anything herein to the contrary, a waiver of an Event of Default following the declaration thereof pursuant to Article VI shall not be deemed effective unless the same shall be in writing and signed by the Required Waiving Banks. Without limiting the generality of the foregoing, the Required Waiving Banks shall be entitled to (x) waive a Default arising
pursuant to clause (b) of Section 6.14 or any other breach of the terms and conditions of this Agreement arising out of the events described in such clause or (y) consent to the action which, without such consent, would constitute such a Default.

Section 8.03. No Waiver; Remedies Cumulative. No failure or delay on the part of the Agent or any Bank in exercising any right or remedy hereunder or under any Note and no course of dealing between the Borrower and the Agent or any Bank shall operate as a waiver thereof, nor shall any single or partial exercise of any right or remedy hereunder or under any Note preclude any other or further exercise thereof or the exercise of any other power, privilege, right or remedy hereunder or thereunder. The rights and remedies herein express, provided are cumulative and not exclusive of any rights or remedies which the Agent or any Bank would otherwise have. No notice to or demand on the Borrower not required hereunder or under any Note in any case shall entitle the Borrower to any other or further notice or demand in similar or other circumstances or constitute a waiver of the rights of the Agent or the Banks to any other or further action in any circumstances without notice or demand.

Section 8.04. Payment of Expenses, Etc. The Borrower shall:

(a) whether or not the transactions hereby contemplated are consummated or any Loans made or any Letters of Credit issued, promptly after invoice therefor, pay all out-of-pocket costs and expenses of the Agent and the Banks in the administration (both before and after the execution hereof and including advice of counsel as to the rights and duties of the Agent and the Banks with respect thereto) of, and in connection with the preparation, execution and delivery of, preservation of rights under, enforcement of, and, with respect to the Banks, after a Default, and, with respect to the Agent, at any time, refinancing, renegotiation or restructuring of, this Agreement, the Notes, any Letters of Credit and the Loan Documents and instruments referred to herein and therein and any amendment, waiver or consent relating thereto (including, without limitation, the fees and disbursements of their respective counsel (including allocated costs of internal counsel), accountants and other consultants);

(b) pay and hold each of the Banks harmless from and against any and all present and future stamp, mortgage recording and other similar taxes with respect to the foregoing matters and save each Bank harmless from and against any and all liabilities with respect to or resulting from any delay or omission to pay such taxes; and
(c) Indemnify the Agent and each Bank, its officers, directors, employees, representatives and agents from, and hold each of them harmless against, any and all costs, losses, liabilities, claims, damages or expenses incurred by any of them (whether or not any of them is designated a party thereto) arising out of or by reason of any investigation, litigation or other proceeding, or threatened proceeding, related to any actual or proposed use by the Borrower or any Affiliate of the proceeds of any of the Loans or the Letters of Credit or the Borrower's entering into and performing of the Agreement, any Note, any Letters of Credit or the Loan Documents, including, without limitation, the fees and disbursements of counsel (including allocated costs of internal counsel) incurred in connection with any such investigation, litigation or other proceeding.

If and to the extent that the obligations of the Borrower under this Section 8.04 are unenforceable for any reason, the Borrower hereby agrees to make the maximum contribution to the payment and satisfaction of such obligations which is permissible under applicable law. The Borrower's obligations under this Section 8.04 shall survive any termination of this Agreement, the payment of the Notes and the expiration of the Letters of Credit.

Section 8.05. Right of Set-off; Sharing of Set-offs.
Each Bank shall, upon the occurrence of any Event of Default and whether or not such Bank has made any demand or the Borrower's obligations are matured, have the right to appropriate and apply to the payment of the Borrower's obligations hereunder and under the Notes, all deposits (general or special, time or demand, provisional or final) then or thereafter held by and other indebtedness or property then or thereafter owing by such Bank, whether or not related to this Agreement or any transaction hereunder. Each Bank agrees that it will apply all such proceeds to the Borrower's obligations hereunder and under the Notes, and that if it shall, by exercising any right of set-off or otherwise, receive payment of a proportion of the aggregate amount of principal and interest due with respect to the Note held by it which is greater than the proportion received by any other Bank in respect of the aggregate amount of principal and interest due with respect to the Note held by such other Bank, the Bank receiving such proportionately greater payment shall purchase such participations in the Notes held by the other Banks, and such other adjustments shall be made, as may be required so that all such payments of principal and interest with respect to the Notes held by the Banks shall be shared by the Banks in accordance with their Pro Rata Shares. The Borrower agrees, to the fullest extent it may effectively do so under applicable law, that any holder of a participation in a Note,
whether or not acquired pursuant to the foregoing arrangements, may exercise rights of set-off or counterclaim and other rights with respect to such participation as fully as if such holder of a participation were a direct creditor of the Borrower in the amount of such participation. Each such participant agrees that it will apply all such amounts to the Borrower's obligations hereunder and under the Note in which it purchased a participation and that if it shall, by exercising any right of set-off or otherwise, receive payment of a proportion of the aggregate amount of principal and interest due with respect to the Note in which it holds a participation which is greater than the proportion received by any other participant in such Note in respect of the aggregate amount of principal and interest due to such other participant in respect of such Note, the participant receiving such proportionately greater payment shall purchase such participations in such Note, and such other adjustments shall be made, as may be required so that all such payments of principal and interest with respect to such Note shall be shared pro rata by each participant in such Note. If, after a participant in one of the Notes has exercised any right of set-off or otherwise (and after making any adjustments among all the participants holding participations in such Note pursuant to the preceding sentence), the amount which has been received by the holder of and all participants in such Note in respect of principal and interest due with respect to such Note is greater than the proportion received by any other holder of, and participants in, any other Note in respect of the principal and interest due with respect to such other Note, the holder of the Note on account of which it and its participants received such proportionately greater payment shall purchase such participations in the other Notes, and such other adjustments shall be made, as may be required so that all such payments of principal and interest with respect to the Notes shall be shared by the Banks and their participants in accordance with the Banks' Pro Rata Shares.

Section 8.06. Benefit of Agreement. (a) This Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective successors and assigns and heirs, distributees, legatees and administrators of the parties hereto, provided that the Borrower may not assign or transfer any of his interest hereunder without the prior written consent of the Banks.

(b) Any Bank may make, carry or transfer Loans, Notes or Letters of Credit at, to or for the account of, any of its branch offices or the office of a wholly owned subsidiary of such Bank, its parent or another wholly owned subsidiary of its parent; provided that no such transfer shall be deemed to constitute a delegation by such Bank of any of its obligations under this Agreement.

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Section 8.07. Governing Law; Submission to Jurisdiction. (a) This Agreement and the rights and obligations of the parties hereunder, under the Notes, the Letters of Credit and under any Loan Document (except to the extent explicitly provided to the contrary therein) shall be construed in accordance with and be governed by the law (without giving effect to the conflict of law principles thereof) of the State of New York.

(b) Any legal action or proceeding with respect to this Agreement, any Note, any Letter of Credit or any Loan Document or any document related hereto or thereto may be brought in the courts of the County of New York, State of New York or of the United States of America for the Southern District of New York, and, by execution and delivery of this Agreement, the Borrower hereby accepts for himself and in respect of his property, generally and unconditionally, the jurisdiction of the aforesaid courts.

WITH RESPECT TO ANY SUCH LEGAL ACTION OR PROCEEDING THE PARTIES HERETO HEREBY IRREVOCABLY WAIVE TRIAL BY JURY, AND THE BORROWER HEREBY IRREVOCABLY WAIVES ANY OBJECTION, INCLUDING, WITHOUT LIMITATION, ANY OBJECTION TO THE LAYING OF VENUE OR BASED ON THE GROUNDS OF FORUM NON CONVENIENS, WHICH HE MAY NOW OR HEREAFTER HAVE TO THE BRINGING OF ANY SUCH ACTION OR PROCEEDING IN SUCH RESPECTIVE JURISDICTIONS.

(c) Nothing herein shall affect the right of any Bank to serve process in any manner permitted by law or to commence legal proceedings or otherwise proceed against the Borrower in any other jurisdiction.

Section 8.08. Acknowledgments. The Borrower and each Bank each hereby severally acknowledges that (a) it has been advised by counsel in the negotiation, execution and delivery of this Agreement and all other Loan Documents to which it is a party, (b) it has made an independent decision to enter into this Agreement and the other Loan Documents to which it is a party, without reliance on any representation, warranty, covenant or undertaking by the Agent or any Bank, (c) there are no representations, warranties, covenants, undertakings or agreements by the parties hereto as to this Agreement, the Notes and the other Loan Documents except as specifically provided herein and therein, (d) neither the Agent nor any
Bank has any fiduciary obligation toward the Borrower or any of his Affiliates with respect to any such Loan Document, (e) the relationship between the Borrower, on one hand, and each Bank, on the other hand, pursuant to this Agreement, the Notes and the other Loan Documents is and shall be solely that of debtor and creditor, respectively, and (f) no joint venture exists either between the Borrower and the Banks or any Bank or among any one or more of the Banks as a group.

Section 8.09. Counterparts. This Agreement may be executed in any number of counterparts and by the different parties hereto on separate counterparts, each of which when so executed and delivered shall be an original, but all of which shall together constitute one and the same instrument.

Section 8.10. Effectiveness; Survival of Provisions. This Agreement shall become effective on the date (the "Effective Date") on which all of the parties hereto shall have signed a copy hereof (whether the same or different copies) and shall have delivered the same to the Agent pursuant to Section 8.01 or, in the case of the Banks, shall have given to the Agent written or telex notice (actually received) at such office that the same has been signed and mailed to it. The Borrower's obligations under Sections 2.05(h) and (i), 2.12 and 8.04 hereof shall survive the payment in full of the Notes and the expiry of all Letters of Credit. All representations and warranties made hereunder and in any document, certificate or statement delivered pursuant hereto or in connection herewith shall survive the execution and delivery of this Agreement.

Section 8.11. Headings Descriptive. The headings of the several sections and subsections of this Agreement, and the Table of Contents, are inserted for convenience only and shall not in any way affect the meaning or construction of any provision of this Agreement.

Section 8.12. Waiver by Banks. Each Bank hereby waives any default or event of default which would otherwise occur under any Existing Agreements solely as a result of the execution, delivery and performance of this Agreement, the Notes, the Guaranties, the Security Documents, the Existing Agreement Amendments, the Override Agreement, the Collateral Agreements and the Special Collateral Agreements, and (each of the following as defined in the Override Agreement) the Guaranties, the Special Guaranties, or any amendment or restatement, executed and delivered as of the date hereof (copies of which have been provided to each Bank) to any documents to which it is a party governing, relating to or evidencing Indebtedness secured by a first priority Lien on the assets of the Shuttle or the Plaza in each case as in effect on the date hereof.
Section 8.13. Certain Agreements. Each Bank hereby acknowledges and agrees to comply with the provisions of (i) the proviso to Section 3.2(a)(ii)(y)(6) of the Override Agreement (as the Override Agreement is in effect on the date hereof) and (ii) Section 3.2(h) of the Override Agreement (as the Override Agreement is in effect on the date hereof). It is understood that for purposes of this Agreement, (a) properly conducted auction sales of condominium units shall be deemed to be for fair market value on commercially reasonable terms; nothing in this Agreement shall be deemed to amend or waive any provision of the Trump Palace Loan (as defined in Schedule III to the Override Agreement) which restricts any lease of residential condominium units by the Borrower d/b/a The Trump Palace Company; and (c) notwithstanding anything to the contrary contained herein, no term or provision of this Agreement or any other Loan Documents shall be construed to limit or otherwise affect the rights, remedies or obligations (including, without limitation, the right to amend, restate or otherwise modify the terms or conditions of any agreements, instruments or other documents) of any of the lenders (or the agent therefor) under or otherwise in connection with, or the rights and obligations of TrumpEquitable Fifth Avenue Company, Plaza or the Borrower or any of his other Affiliates under or otherwise in connection with, the first mortgage loans in respect of the properties of the Borrower and his Affiliates known as the "Trump Tower" and the "Plaza Hotel" and all agreements, instruments or other documents executed and delivered in connection therewith, as the same may be amended, restated, modified, extended, renewed or refinanced.

Section 8.14. Severability. Every provision of this Agreement, and of every Note and Security Document delivered pursuant hereto, is intended to be severable. In the event any term or provision of this Agreement, or of any Note or Security Document, shall be declared by a court of competent jurisdiction to be illegal or invalid for any reason whatsoever, such illegality or invalidity shall not affect the balance of the terms and provisions of this Agreement, or of such Note or Security Document, as the case may be, which terms and provisions shall remain binding and enforceable.

Section 8.15. Entire Agreement. This Agreement, and the Notes, Security Documents, the Override Agreement and other instruments and documents executed and delivered in
connection herewith and therewith, constitute the entire understand- 
ing between the parties with respect to the transac-
tion contemplated hereby, and all prior agreements, under-
standings, representations and statements with respect to 
such transaction are merged into this Agreement.

IN WITNESS WHEREOF, the parties hereto have signed, or 
caused their duly elected officer to sign, their name hereto 
as of the date first written above.

DONALD J. TRUMP

By: Donald J. Trump
725 Fifth Avenue
New York, N.Y. 10022
Telex: 427715;
Answerback Code: TRUMP UI

Copies to:
Harvey Freeman
725 Fifth Avenue
New York, N.Y. 10022
Telex: 427715;
Answerback Code: TRUMP UI

Senior Executive Officer
The Trump Organization
725 Fifth Avenue
New York, N.Y. 10022
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General Counsel
The Trump Organization
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Answerback Code: TRUMP UI

Gerald Schrager, Esq.
Dreyer & Traub
101 Park Avenue
New York, N.Y. 10178

-87-
Jack H. Nussbaum, Esq.
Willkie Farr & Gallagher
One Citicorp Center
153 East 53rd Street
New York, N.Y. 10022

THE TRUMP-EQUITABLE FIFTH AVENUE COMPANY, a New York Joint Venture

By: ____________________________________________
    Donald J. Trump,
    Joint Venturer

BANKERS TRUST COMPANY, as a Bank and as Agent

By: ____________________________________________
    Deborah L. Harmon
    Vice President
    280 Park Avenue
    Real Estate Finance Group-21W
    New York, N.Y. 10017
    Attention: R. Gunthel
    Telex: (ITT) 420066;
    Answerback Code: BANTRUST

CITICORP, N.A.

By: Peter Baumann
    Vice President
    Citicorp, N.A.
    599 Lexington Avenue
    24th Floor, Zone 8
    New York, N.Y. 10043
    Telex: ;
    Answerback Code: ___
THE CHASE MANHATTAN BANK, N.A.

By: William C. McCahill, Jr.
Senior Vice President
The Chase Manhattan Bank, N.A.
Att.: Real Estate Finance
101 Park Avenue
New York, N.Y. 10018
Telex: (MCI) 62910;
Answerback Code: CMBUW

MANUFACTURERS HANOVER TRUST COMPANY

By: Richard J. Peiser
Vice President
270 Park Avenue
New York, N.Y. 10017
Telex: 128145;
Answerback Code: MHTCO(A)(B)NYK

FIRST FIDELITY BANK, N.A.

By: Francis X. Murphy
Senior Vice President
First Fidelity Bancorporation
550 Broad Street
Newark, N.J. 07102
Telex: 178108;
Answerback Code: FFB NWK NJUT

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NATIONAL WESTMINSTER BANK USA

By: Joseph G. Wessely
Vice President
National Westminster Bank USA
Real Estate Division
592 Fifth Avenue
New York, N.Y. 10036
Telex: 220999;
Answerback Code: NBUP

MIDLANTIC NATIONAL BANK

By: W.T. Smith, III
Senior Vice President
Midlantic National Bank
Att.: National Corporate
   Banking Dept.
499 Thornall Street
Edison, N.J. 08837
Telex: 66499;
Answerback Code: MIDL VW
### ANNEX I

<table>
<thead>
<tr>
<th>Name of Bank</th>
<th>Pro Rate Share</th>
<th>Amount of Commitment</th>
<th>Amount of Initial Loan Paid to Borrower</th>
<th>Amount of Initial Loan Paid to Midlantic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bankers Trust Company</td>
<td>28.0769%</td>
<td>$18,250,000</td>
<td>$8,007,924</td>
<td>$222,836</td>
</tr>
<tr>
<td>Citibank, N.A.</td>
<td>28.0769%</td>
<td>$18,250,000</td>
<td>$8,007,924</td>
<td>$222,836</td>
</tr>
<tr>
<td>The Chase Manhattan Bank, N.A.</td>
<td>13.8462%</td>
<td>$9,000,000</td>
<td>$2,428,589</td>
<td>109,891</td>
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<tr>
<td>Manufacturers Hanover Trust Company</td>
<td>10.7693%</td>
<td>$7,000,000</td>
<td>$1,222,249</td>
<td>85,471</td>
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<tr>
<td>First Fidelity Bank, National Association, New Jersey</td>
<td>8.4615%</td>
<td>$5,500,000</td>
<td>$317,444</td>
<td>67,156</td>
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<tr>
<td>National Westminster Bank USA</td>
<td>7.6923%</td>
<td>$5,000,000</td>
<td>$15,870</td>
<td>61,050</td>
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<tr>
<td>Midlantic National Bank</td>
<td>2.0749%</td>
<td>$2,000,000</td>
<td>-0-</td>
<td>-0-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100%</td>
<td>$65,000,000</td>
<td>$20,000,000</td>
<td>$769,240</td>
</tr>
</tbody>
</table>
FOR VALUE RECEIVED, the undersigned (each, a "Maker" and, jointly, the "Makers"), each having an office c/o The Trump Organization, 725 Fifth Avenue, New York, New York 10022, and each having its legal status as indicated on the signature page hereof, jointly and severally, unconditionally promise to pay, in lawful money of the United States and in immediately available funds, to the order of the **(the "Payee"), the sum of ** ($_) or so much thereof as shall have been advanced or readvanced pursuant to the Credit Agreement, as hereinafter defined, by the Payee (the "Principal Sum"), on the Final Maturity Date (as defined in the Credit Agreement), together with interest on the Principal Sum, in like money and funds, at the rate or rates hereinafter provided. All payments to be made by the Makers hereunder shall be made at the time and place and in the manner required by Section 2.11 of the Credit Agreement. As used in this Note, "Credit Agreement" shall mean that certain Credit Agreement [of even date herewith] by and among Donald J. Trump, certain banks signatory thereto and Bankers Trust Company, as agent, as the same may be amended, supplemented or modified from time to time. Capitalized terms used herein without definition have the respective meanings assigned to such terms in the Credit Agreement.

The unpaid principal amount of each Loan shall bear interest from and after the date of such Loan until the date that the Principal Sum shall become due (whether at maturity or as otherwise provided herein) at a rate per annum equal to one percent (1%) per annum in excess of the Prime Lending Rate, as in effect from time to time. Overdue principal in respect of any Loan (and, to the extent permitted by law, overdue interest in respect of any Loan and all other overdue amounts owing hereunder) shall bear interest for each day that such amounts are overdue at a rate per annum (the "Delinquency Rate") equal to the lower of four percent (4%) per annum in excess of the Prime Lending Rate, as in effect **

* Insert applicable "Payee's name.

** Insert applicable "Maximum Principal Amount" from Schedule A.
from time to time, or the maximum rate permitted by applicable law. Interest shall be calculated on the basis of a 360-day year and the actual number of days elapsed. All interest accrued hereunder shall be due and payable at the time or times provided in Section 2.06 of the Credit Agreement. The Makers shall be obligated to pay the Payee certain additional amounts to the extent and under the circumstances specified in Section 2.12 of the Credit Agreement.

The Makers shall be entitled (but not obligated) to prepay the Loans evidenced hereby, but only to the extent and under the circumstances specified in Section 2.08(a) of the Credit Agreement. The Makers shall be obligated to prepay the Loans evidenced hereby to the extent and under the circumstances specified in Section 2.08(b) of the Credit Agreement.

The Payee may record Loans and repayments of Loans and payments of interest received hereunder on Schedule B annexed hereto, which Schedule is incorporated herein and made a part hereof and shall be conclusive evidence of the Loans, repayments and payments recorded thereon in the absence of evidence to the contrary. The Payee shall, upon written request from the Makers to Payee, send the Makers a copy of Schedule B at the time of such request. The failure of the Payee to properly record any Loans, repayments or payments on Schedule B shall not affect the Makers' obligations hereunder.

This Note is secured by, and is entitled to the benefits of, the Security Documents and all other agreements entered into and collateral security given at any time in respect of the Loans in accordance with the Credit Agreement.

This Note is one of the Makers' seven Revolving Credit Facility Notes payable to the Banks, respectively, which notes collectively evidence the same indebtedness evidenced by that certain Promissory Note, dated June 26, 1990, in the principal amount of $20,000,000, executed by Makers and certain of their affiliates in favor of the Banks, and that certain Revolving Credit Facility Note of even date herewith, in the maximum principal amount of $45,000,000, executed by the Makers in favor of the Banks, as consolidated and modified by a certain Note Consolidation and Modification Agreement of even date herewith and as severed and modified by a certain Note Severance and Modification Agreement of even date herewith.
If an Event of Default shall occur or be deemed to have occurred as provided in Article VI of the Credit Agreement, the unpaid balance of the Principal Sum hereof, accrued interest thereon and all other amounts owed hereunder may be declared to be (or in certain cases may automatically become) due and payable in the manner, upon the conditions and with the effect provided in the Credit Agreement.

The Makers shall pay to the Payee all costs, expenses and other sums which the Makers (or either of them) are required to pay pursuant to Section 8.04 of the Credit Agreement, including, without limitation, all attorneys' fees and disbursements and other costs and expenses incurred in connection with the collection and enforcement of this Note. The obligations of the Makers under this Paragraph shall survive the termination of the Credit Agreement, the repayment of this Note and enforcement of the Security Documents.

Each Maker hereby waives diligence, presentment, protest and demand, notice of protest, dishonor and nonpayment of this Note, and expressly agrees that, without in any way affecting the liability of any Maker hereunder, the Payee may accept additional security, release any party liable hereunder or in respect of the indebtedness evidenced hereby and release any security now or hereafter securing this Note without in any other way affecting the liability and obligation of either Maker or guarantors, if any. Each Maker further waives, to the full extent permitted by law, the right to marshall assets, the right to plead any and all statutes of limitations as a defense to any demand on this Note, or on any guaranty or other agreement now or hereafter securing this Note.

Notwithstanding anything contained herein to the contrary, the holders hereof shall never be entitled to receive, collect or apply as interest on the obligation evidenced hereby any amount in excess of the maximum rate of interest permitted to be charged by applicable law; and in the event that any holder hereof ever receives, collects or applies as interest any such excess, such amount which would be excessive interest shall be applied to the reduction of the Principal Sum; and if the Principal Sum is paid in full, any remaining excess shall forthwith be paid to the Makers. In determining whether or not the interest paid or payable in any specific case exceeds the highest lawful rate, the holder hereof and the Makers shall to the maximum extent permitted under applicable law (a) characterize any non-principal payment as an expense, fee or premium rather than as interest; (b) exclude voluntary prepayments and the effects thereof;
and (c) "spread" the total amount of interest throughout the entire term of the obligation so that the interest rate is uniform throughout said entire term.

Except as otherwise expressly provided herein, each Maker shall be jointly and severally liable for all amounts payable under this Note, and each Maker agrees that the liability of each of them shall be unconditional without regard to the liability of the other Maker and consents to any and all extensions of time, renewals, waivers, or modifications that may be granted by the Payees with respect to the payment or other provisions of this Note.

This Note may not be modified, supplemented or amended except in accordance with Section 8.02 of the Credit Agreement.

This Note shall be binding upon and inure to the benefit of the Payee and the Makers, and their respective heirs, administrators, executors, successors and assigns, except that neither Maker may assign its rights or delegate its obligations hereunder without the prior consent of the Payee.

Notwithstanding anything contained in this Note to the contrary, (a) the obligations of The Trump-Equitable Fifth Avenue Company ("TEFAC") hereunder shall be subject to the provisions contained in Section 3.14 of the Mortgage, Assignment of Leases and Rents and Security Agreement, dated as of June 26, 1990, as modified, made by the Makers in favor of the Banks, and (b) the maximum liability of TEFAC hereunder shall in no event exceed the Maximum TEFAC Amount, as determined in accordance with Schedule B annexed hereto as of the earlier of (i) the date of the commencement of a case under Title 11 of the United States Code in which TEFAC is a debtor and (ii) the date enforcement of this Note against TEFAC is sought.

The Makers hereby waive trial by jury in any action or proceeding brought by the Payee on any matters whatsoever arising out of or in connection with this Note. The Makers further agree that in the event the Payee commences any proceeding under or in connection with this Note, the Makers will not interpose any counterclaim of whatever nature or description in any such proceeding.

This Note and the rights and obligations of the parties hereunder shall in all respects be governed by, and construed and enforced in accordance with, the laws of the
State of New York (without giving effect to New York's principles of conflicts of law). The Makers hereby irrevocably submit to the non-exclusive jurisdiction of any New York State or Federal court sitting in the City of New York with respect to any suit, action or proceeding arising out of or relating to this Note.

IN WITNESS WHEREOF, the Makers have signed and delivered this Note in New York, New York, as of the date first written above.

In the Presence of: MAKERS:

DONALD J. TRUMP

THE TRUMP-EQUITABLE FIFTH AVENUE COMPANY, A NEW YORK JOINT VENTURE

By: Donald J. Trump,
    Joint Venturer
```markdown
<table>
<thead>
<tr>
<th>Payee</th>
<th>Pro Rata Share</th>
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<tbody>
<tr>
<td>Bankers Trust Company</td>
<td>28.0769%</td>
</tr>
<tr>
<td>Citibank, N.A.</td>
<td>28.0769%</td>
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<tr>
<td>The Chase Manhattan Bank, N.A.</td>
<td>13.8462%</td>
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<tr>
<td>Manufacturers Hanover Trust Company</td>
<td>10.7693%</td>
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<td>First Fidelity Bank, National Association, New Jersey</td>
<td>8.4615%</td>
</tr>
<tr>
<td>National Westminster Bank USA</td>
<td>7.6923%</td>
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<tr>
<td>Midlantic National Bank</td>
<td>3.0769%</td>
</tr>
<tr>
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<td>100.00%</td>
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```
Determination of Maximum TEFAC Amount

As used in this Note, "Maximum TEFAC Amount" shall mean, as of the date of determination thereof, the sum of (a) the aggregate amount of the Makers' indebtedness to the Payees under this Note, to the extent the proceeds of the Loans were used to make a Valuable Transfer to TEFAC, plus (b) 95% of the greater of (i) TEFAC's Adjusted Net Worth as of the date of this Note and (ii) TEFAC's Adjusted Net Worth as of the earliest of (A) such date of determination, (B) the date of the commencement of a case under Title 11 of the United States Code in which TEFAC is a debtor, and (C) the date enforcement of this Note against TEFAC is sought.

As used in this Schedule B, TEFAC's "Adjusted Net Worth" shall mean, as of any date, the amount by which (a) the "present fair saleable value" of TEFAC's assets as of such date exceeds (b) the amount of all TEFAC's "liabilities, contingent or Otherwise" as of such date (each of the amounts referred to in clauses (a) and (b) being determined in accordance with applicable federal and state laws governing determinations of debtor insolvency, and the amount referred to in clause (b) including, in any event, the Makers' indebtedness under this Note, to the extent the proceeds of the Loans were used to make a Valuable Transfer to TEFAC).

As used in this Schedule B, a "Valuable Transfer" to TEFAC shall mean (a) all loans, advances or capital contributions made to TEFAC with proceeds of the Loans, (b) all debt securities or other obligations of TEFAC acquired from TEFAC or retired by TEFAC with proceeds of the Loans, (c) the fair market value of all property acquired with proceeds of the Loans and transferred, absolutely and not as collateral, to TEFAC, (d) all equity securities of TEFAC acquired from TEFAC with proceeds of the Loans, and (e) the value of any quantifiable economic benefits not included in clauses (a) through (d) above, but includable in accordance with applicable federal and state laws governing determinations of debtor insolvency, accruing to TEFAC as a result of the Loans.
## SCHEDULE C

<table>
<thead>
<tr>
<th>Date of Borrowing</th>
<th>Principal Amount of Borrowing</th>
<th>Date and Amount of Interest</th>
<th>Date of Payment</th>
<th>Amount of Repayment</th>
<th>Notation Made By</th>
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FOR VALUE RECEIVED, **("Maker"), promises to pay Donald J. Trump, an individual ("Payee"), in immediately available funds, at the address specified below, the unpaid principal amount of all loans and advances made by Payee to Maker on or after June 26, 1990 (the "Advances").

Maker also promises to pay interest on the unpaid principal amount of each Advance from the date of such Advance until such Advance is paid in full at the rates and at the times which shall be determined, and to make principal payments and prepayments on this Intercompany Note at the times which shall be determined, in accordance with the provisions (including, but not limited to, Article XI) of the Override Agreement dated as of August ___, 1990 (the "Override Agreement") among Payee, certain affiliates of Payee signatory thereto, certain lenders signatory thereto and Bankers Trust Company, as Agent and Collateral Agent, as the same may be amended, supplemented or modified from time to time. Capitalized terms used herein without definition shall have the meanings set forth in the Override Agreement.

All payments of principal and interest in respect of this Intercompany Note shall be made in lawful money of the United States of America at the office of the Payee or at such other place as shall be designated in writing for such purpose in accordance with the terms of the Override Agreement. Until notified in writing of the transfer of this Intercompany Note in accordance with the Override Agreement, Maker shall be entitled to deem Payee or such person who has been so identified by the transferor in writing to Maker as the holder of this Intercompany Note, as the owner and holder of this Intercompany Note. Each of Payee and any subsequent holder of this Intercompany Note agrees, by its acceptance hereof, that before disposing of this Intercompany Note or any part hereof it will make a notation hereon of all principal payments previously made hereunder and of the date to which interest hereon has been paid; provided, however, that

* Insert Effective Date.

** Insert name of Maker.
the failure to make a notation of any payment made on this Intercompany Note shall not limit or otherwise affect the obligation of Maker hereunder with respect to payments of principal or interest on this Intercompany Note. Such notations shall be conclusive in evidence of loans, payments and repayments in the absence of evidence to the contrary.

This Intercompany Note shall be governed by, and shall be construed and enforced in accordance with, the laws of the State of New York.

The terms of this Intercompany Note are subject to amendment only in the manner provided in the Override Agreement.

No reference herein to the Override Agreement and no provision of this Intercompany Note or the Override Agreement shall alter or impair the obligation of Maker, which is absolute and unconditional, to pay the principal of and interest on this Intercompany Note at the place, at the respective times, and in the currency herein prescribed.

Maker promises to pay all costs and expenses, including reasonable attorneys’ fees, incurred in the collection and enforcement of this Intercompany Note or otherwise, all as provided in Section 12.4 of the Override Agreement. Maker and endorsers of this Intercompany Note hereby consent to renewals and extensions of time at or after the maturity thereof, without notice, and hereby waive diligence, presentment, protest, demand and notice of every kind and, to the full extent permitted by law, the right to plead any statute of limitations as a defense to any demand hereunder.

Maker acknowledges and consents to the pledge of this Intercompany Note by the Payee pursuant to the Intercompany Note and Certificate of Deposit Pledge and Security Agreement dated as of August __, 1990 between the Payee and Bankers Trust Company as agent for certain banking institutions set forth therein, and the Intercompany Note and Certificate of Deposit Junior Pledge and Security Agreement dated as of August __, 1990 between Payee and Bankers Trust Company as collateral agent for certain lenders set forth therein, as both may be amended, supplemented or modified from time to time. Maker acknowledges that Bankers Trust Company (and its successors and assigns) has the right to make notations on the attached schedules upon notice from Payee in accordance with the terms of such Agreements; and Maker agrees that any and all such notations shall have the same force and effect as notations made by the Payee would have hereunder.
This Intercompany Note is not negotiable.

IN WITNESS WHEREOF, Maker has signed and delivered this Intercompany Note in New York, New York, as of the date first written above.

In the Presence of: Maker:

* Insert applicable Trump Affiliate name
## Schedule 1

<table>
<thead>
<tr>
<th>Interest Rate</th>
<th>Date of Borrowing</th>
<th>Principal Amount of Borrowing</th>
<th>Amount of Repayment</th>
<th>Date of Repayment</th>
<th>Notation Made By</th>
</tr>
</thead>
</table>
Execution Copy

OVERRIDE AGREEMENT

dated as of August 8, 1990

by and among

Donald J. Trump,
Certain Related Entities,
Certain Lenders Signatory Hereto,
and
Bankers Trust Company,
as Agent and Collateral Agent
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OVERDIDE AGREEMENT

THIS AGREEMENT, dated as of August 8, 1990, is by
and among Donald J. Trump (herein called "DJT"), the entities
listed on Schedule I hereto (collectively with DJT, the "DJT
Entities" and, individually, a "DJT Entity"), the banks
listed on Schedule II hereto (herein, together with their
successors and assigns, collectively, the "Lenders" and,
individually, a "Lender"), and Bankers Trust Company, as
agent for the Lenders (in such capacity, together with its
successors and assigns pursuant to Section 10.9, the
"Agent"), and as collateral agent for the Lenders (in such
capacity, together with its successors and assigns pursuant
to Section 10.9, the "Collateral Agent"). Capitalized terms
used herein shall have the respective meanings set forth in
Article I or elsewhere herein.

BACKGROUND RECITALS

A. Each of the Lenders has entered into a credit
facility which is covered by the terms of this Agreement with
one or more of the DJT Entities pursuant to which the Lenders
have advanced an aggregate of approximately $1.2 billion to
the DJT Entities. Schedule III hereto identifies (i) each
Existing Debt Credit Facility and the Lenders and the DJT
Entities parties thereto, and (ii) each agreement, instrument
or other document which creates any Lien securing such In-
deptedness as of the date hereof (as amended by the appli-
cable Existing Agreement Amendment and as further amended,
supplemented, or otherwise modified from time to time, indi-
vidually, an "Existing Collateral Agreement" and, collec-
tively, the "Existing Collateral Agreements").

B. As a result of recent financial difficulties,
DJT and each of the other DJT Entities have requested that
the Lenders restructure the terms of the Existing Debt Obli-
gations in accordance with the terms contemplated by this
Agreement and, subject to the terms and conditions of this
Agreement, the Lenders have agreed to such restructuring. As
part of such restructuring, subject to the terms and condi-
tions hereof (i) specified principal and interest obligations
under the Existing Debt Credit Facilities will be deferred
for the periods provided herein; (ii) certain DJT Entities
will guarantee the Deferred Recourse Interest Obligations
pursuant to the Guaranties; and (iii) certain DJT Entities
will guarantee certain of the Covered Debt Obligations pur-
suant to the Special Guaranties.
C. Also to induce the Lenders to enter into such restructuring, certain of the DJT Entities have agreed, among other things, to pledge or grant a Lien in the Collateral, as additional collateral for the Deferred Recourse Interest Obligations, and to pledge or grant a Lien in the Special Collateral, as additional collateral for certain of the Covered Debt Obligations.

D. Simultaneously with the execution hereof, certain of the Lenders, the Agent and DJT are entering into a Credit Agreement, by and among DJT, as Borrower, the banks signatory thereto and Bankers Trust Company, as agent for the banks party thereto, dated as of the date hereof (together with all other agreements, instruments and documents executed and delivered in connection therewith, as amended, supplemented or otherwise modified from time to time, the "New Credit Facility"), pursuant to which such banks party thereto have agreed to lend to DJT from time to time up to $65 million, subject to the terms and conditions thereof.

E. As part of the restructuring, the DJT Entities and the Lenders have agreed that a specified portion of the Net Cash Proceeds of Capital Events and of Operating Cash Flow will be utilized to prepay the Existing Debt Obligations on the terms and conditions of this Agreement, subject to the payment of certain Indebtedness.

F. The DJT Entities and the Lenders desire to provide for the foregoing and to make certain other agreements, all as more fully set forth herein.

NOW, THEREFORE, in consideration of the premises, the mutual covenants herein contained and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I
DEFINITIONS AND ACCOUNTING PRINCIPLES

SECTION 1.1 Terms Defined. All terms defined in the Uniform Commercial Code as now in effect in the State of New York and not otherwise defined in this Agreement or any Loan Document shall have the same meanings when used in this Agreement or any Loan Document. Unless otherwise defined or specified herein, all accounting terms shall be construed in this Agreement or any Loan Document, all accounting determinations under this Agreement or any Loan Document shall be made, all financial statements required to be delivered under this Agreement or any Loan Document shall be prepared, and
all financial records shall be maintained, in accordance with generally accepted accounting principles applied on a basis consistent with the financial statements referred to in Section 8.5(a) of Exhibit D, which principles, in the case of DJT, shall include, without limitation, Statement of Position (SOP) 82-1, Accounting and Financial Reporting for Personal Financial Statements, October 1, 1982, issued by the Accounting Standards Division of the American Institute of Certified Public Accountants. Certain capitalized terms used on the Schedules shall have the meanings assigned to them thereon. All other capitalized terms used herein and not defined in this Article I shall have the meanings assigned to them elsewhere herein. In addition, the following terms shall have the following respective meanings:

"Accelerated Interest Payment Date" shall have the meaning specified in Section 4.1(b).

"Accelerated Maturity Date" shall have the meaning specified in Section 3.1(c).

"Acceleration Notice" shall have the meaning specified in Section 3.1(c).

"Adjusted London Interbank Offered Rate" shall mean, for any Interest Period, the rate obtained by dividing (i) the London Interbank Offered Rate for such Interest Period by (ii) a percentage equal to 1 minus the stated maximum rate (stated as a decimal) of all reserves required to be maintained against "Eurocurrency liabilities" as specified in Regulation D of The Board of Governors of the Federal Reserve System as from time to time in effect (and any successor thereto) (or against any other category of liabilities which includes deposits by reference to which the interest rate on Eurodollar loans is determined or any category of extensions of credit or other assets which includes loans by a non-United States office of Bankers Trust Company to United States residents).

"Adjustment Factor" shall have the meaning specified in Section 3.2(a)(ii).

"Affected Collateral" shall have the meaning set forth in Section 2.3(b)(ii).

"Affected Existing Collateral" shall have the meaning specified in Section 2.3(c).

"Affected Special Collateral" shall have the meaning specified in Section 2.3(a).
"Affiliate" of a Person shall mean (i) any Person which directly or indirectly controls, or is controlled by, or is under common control with, such Person, (ii) for each Person who is an individual, any other individual related to such Person by consanguinity within the third degree or in a step or adoptive relationship within such third degree or related by affinity with such Person or any such individual, in each case whether the degree of such relationship is determined under common law or civil law, including in each case such Person's heirs, distributees and legatees, (iii) any Person which owns beneficially or of record 5% or more of any class of capital stock, partnership interests or other Equity Interests of such Person or an Affiliate of such Person, or of which 5% or more of any class of capital stock (or in the case of a Person that is not a corporation, 5% or more of partnership interests or other Equity Interests) is owned beneficially or of record by such Person or an Affiliate of such Person, (iv) for each individual who is an Affiliate within the meaning of any of the foregoing provisions, any other individual related to such Affiliate by consanguinity within the third degree or in a step or adoptive relationship within such third degree or related by affinity with such Affiliate or any such individual, in each case whether the degree of such relationship is determined under common law or civil law, including in each case such Person's heirs, distributees and legatees, (v) any Person directly or indirectly controlling or controlled by any of the foregoing and (vi) each New Venture. Unless otherwise expressly provided herein, for purposes of this Agreement, the term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ownership of voting securities, by contract or otherwise, and shall specifically be deemed to include any general partner of a partnership. Except to the extent provided in the next sentence, each of Ivana Trump, her heirs, distributees and legatees, and each DJT Entity shall be deemed at all times to be an Affiliate of DJT. Notwithstanding the foregoing, (A) for purposes of all financial statements and other financial reports required to be provided hereunder, the term "Affiliates" shall not include Persons deemed to be Affiliates by virtue of clause (ii) or (iv) above and (B) for all purposes of this Agreement (other than Section 6.4(g) of Exhibit E), the term "Affiliate" shall not include at any time each Person listed on Schedule 1(a) provided that, notwithstanding the foregoing provisions of this clause (B), in the event that any operative facts with respect thereto shall change after the Closing Date, any Person listed on Schedule 1(a) shall be deleted therefrom to the extent that at that time
either DJT or any of his Affiliates shall have the ability, directly or indirectly, to control (as defined above) such Person or the assets of such Person. Without limiting the foregoing, a Person shall be deemed to own all Equity Interests owned by its Affiliates.

"Agent" shall have the meaning specified in the Preamble.

"Agreement" shall mean this Override Agreement, dated as of August 8, 1990, by and among the DJT Entities, the Lenders, and Bankers Trust Company, as Agent and Collateral Agent, including the Exhibits and Schedules hereto, all as amended, supplemented, waived or otherwise modified from time to time.

"Aliban" shall mean ALIBAN, INC. a Delaware corporation.

"Applicable Percentage" shall have the meaning specified in Section 3.2(b)(i).

"Applicable Rate" shall mean the rate per annum (computed on the basis of the actual number of days elapsed over a 360-day year) equal to 1% per annum above the Adjusted London Interbank Offered Rate.

"Appraised Amount" shall have the meaning specified in Section 3.2(b)(ii).

"Bankruptcy Code" shall have the meaning specified in Exhibit C.

"Business Day" shall mean any day other than (a) a Saturday or a Sunday or (b) any other day on which commercial banks in New York, New York, are required or authorized by law to be closed for business.

"Business Plan" shall have the meaning specified in the New Credit Facility.

"Capital Event" shall mean any of (a) a sale or other disposition by, or on behalf of, any DJT Entity to any Person or Persons of, or otherwise involving (including, without limitation, a sale or other disposition upon the exercise of any Foreclosure Right with respect to, and any condemnation or casualty loss involving), or any other collection, or other receipt of proceeds, in respect of (i) any assets (or proceeds thereof or rights therein, including, without limitation, distributions therefrom) and any of the
capital stock, partnership interests or any other Equity Interests, in each case, included in the Existing Collateral, the Special Collateral or the Collateral; (ii) any of the capital stock, partnership interests or other Equity Interests of any Person any of the assets of which (or proceeds thereof or rights therein, including, without limitation, distributions therefrom) is included in the Existing Collateral, the Special Collateral or the Collateral; (iii) any of the assets (including without limitation any division or line of business) of any Person, any of the capital stock, partnership interests or other Equity Interests of which is included in the Existing Collateral, the Special Collateral, the Collateral, or (iv) any of the capital stock, partnership interests or other Equity Interests of a Person which owns or controls, directly or indirectly, any assets, capital stock, partnership interests or other Equity Interests included in clause (i), (ii) or (iii) above; or (b) any refinancing, directly or indirectly, of any Indebtedness of any Person, who or which owns any of the assets (or proceeds thereof or rights therein, including, without limitation, distributions therefrom), capital stock, partnership interests or other Equity Interests included in clauses (a)(i)-(iv) above; or (c) any collection of any amount from any DJT Entity following the occurrence of any Uniform Event of Default; or (d) any Casino Equity Sale; or (e) any sale or other disposition of, or any payment on, or in respect of, the DJT Taj Note or the Castle Note.

"Cash Collateral" shall have the meaning provided in the New Credit Facility.

"Cash Equivalents" shall mean those types of investments permitted in Section 6.4(d)(ii)-(iv) of Exhibit E (whether or not the provisions of such Section are then in effect).

"Casino Control Commission" shall have the meaning specified in the New Credit Facility.

"Casino Entities" shall mean the casino and hotel businesses located in Atlantic City, New Jersey, owned and operated by Trump Castle Associates Limited Partnership, Trump Taj Mahal Associates Limited Partnership and Trump Plaza Associates, each a partnership organized under the laws of the State of New Jersey, Trump's Castle Funding, Inc., Trump Taj Mahal Funding Inc., Trump Plaza Funding, Inc., and Trump Hotel Management Corp., each a New Jersey corporation; together with their respective successors and assigns.
"Casino Equity Sale" shall mean any of (a) the direct or indirect sale or other disposition by, or on behalf of, any Casino Entity or any other DJT Entity to any Person or Persons of any Equity Interest of or in one or more Casino Entities, (b) the exercise of any Foreclosure Rights with respect to any Equity Interest of or in one or more Casino Entities, (c) the sale (including, without limitation, following the exercise of Foreclosure Rights) of any of the assets of one or more Casino Entities or (d) any refinancing, directly or indirectly, of any Indebtedness of any Casino Entity.

"Casino Indentures" shall have the meaning specified in the New Credit Facility.

"Castle" shall mean Trump's Castle Associates Limited Partnership.

"Castle Note" shall have the meaning set forth in the New Credit Facility.

"Certifying Persons" shall have the meaning specified in the New Credit Facility.

"Chase" shall mean The Chase Manhattan Bank, N.A., a national banking association, and its successors and assigns.

"Claimholder" shall have the meaning specified in Section 3.1(c).

"Claimholder's Asset" shall have the meaning specified in Section 3.1(c).

"Closing" shall mean the consummation of the transactions contemplated by this Agreement pursuant to Article IX.

"Closing Date" shall mean the date and time of the Closing.

"Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

"Collateral" shall mean the aggregate of all property (real and personal, tangible and intangible, presently existing or arising in the future) in which a Lien is now or hereafter granted, or purported to be granted, pursuant to any Collateral Agreement.
"Collateral Agent" shall have the meaning specified in the Preamble.

"Collateral Agreements" shall mean all agreements listed on Schedule IV hereto, together with all other agreements, instruments and documents executed and delivered in connection therewith, as amended, supplemented or otherwise modified from time to time.

"Collateralization Condition" shall have the meaning specified in the New Credit Facility.

"Commitment Exceptions" shall have the meaning specified in Section 2.2(f).

"Contingent Debt Credit Facility" shall mean any credit facility relating to a Contingent Debt Obligation as described in Schedule VI, including all agreements, instruments and other documents relating to such credit facility, the Contingent Debt Obligations of any Obligor thereunder and any collateral securing such Contingent Debt Obligations.

"Contingent Debt Obligations" shall mean any obligations of any DJT Entity as guarantor of, or any other obligations on which any DJT Entity is otherwise contingently liable, including, without limitation, as indemnitor (including, without limitation, with respect to any environmental liability) of or with respect to, any Existing Debt Obligation (or portion thereof) (other than any such contingent liability arising solely by reason of such DJT Entity's status as a general partner or joint venturer of an Obligor), including, without limitation, as described in Schedule VI, including, without limitation, obligations arising under the Guaranties and the Special Guaranties.

"Covered Debt Credit Facility" shall mean the Existing Debt Credit Facilities which are (or the portions of which are) designated as Covered Debt Credit Facilities on Schedule III.

"Covered Debt Deficiency Claim" shall have the meaning specified in Section 3.3(a)(iii).

"Covered Debt Obligations" shall mean (a) all obligations under or in connection with any Covered Debt Credit Facility (or portion thereof) (including, without limitation, all principal, interest, costs, fees, indemnities and other amounts), whether absolute or contingent, due or to become due, direct or indirect, now or hereafter existing, and howsoever created, arising or evidenced and (b)
$14,000,000 of the principal balance (less any amounts paid in respect of such principal balance pursuant to Section 3.3) under the Palm Beach Credit Facility (and any interest accrued on such Palm Beach Credit Facility).

"Covered Property" shall have the meaning specified in Section 3.2(a).

"Current Pay Election" shall have the meaning specified in Section 3.1(c).

"Deferred Interest" with respect to any Lender shall mean at any time any accrued and unpaid amount of interest (x) the payment of which is deferred pursuant to this Agreement or any applicable Existing Agreement Amendment or (y) which is then due and unpaid on any Deferred Principal (other than principal under the Palm Beach Credit Facility) owed to such Lender pursuant to the terms of this Agreement and the relevant Existing Debt Credit Facility, together with any accrued and unpaid interest thereon (without giving effect to any applicable Prepayment Factor, unless otherwise expressly provided herein); provided, however, that, solely for the purposes of Section 3.3, accrued, due and unpaid interest on the principal of the Palm Beach Debt Obligations shall constitute Deferred Interest.

"Deferred Interest Obligations" shall mean the Deferred Recourse Interest Obligations and the Deferred Project Interest Obligations.

"Deferred Principal" with respect to any Lender shall mean any amount of any principal under any Existing Debt Credit Facility held by such Lender, the payment of which is deferred pursuant to this Agreement or the applicable Existing Agreement Amendment, and any interest accrued thereon as of the Closing Date, other than principal or accrued interest under the Palm Beach Credit Facility.

"Deferred Principal Obligation" shall have the meaning specified in Section 3.1(a).

"Deferred Project Interest Obligation" shall have the meaning specified in Section 4.1(a).

"Deferred Recourse Interest Obligation" shall have the meaning specified in Section 4.1(a).

"Determination Date" shall have the meaning specified in Section 3.2(b)(iii).
"Disqualified Person" shall have the meaning specified in Exhibit C.

"Division of Gaming Enforcement" shall have the meaning specified in the New Credit Facility.

"DJT" shall mean Donald J. Trump, one of the DJT Entities.

"DJT Entity" shall have the meaning specified in the Preamble.

"DJT Tai Note" shall have the meaning specified in the New Credit Facility.

"Entity Operating Cash Flow" with respect to any DJT Entity, for any calendar quarter shall mean the consolidated operating cash flow of such DJT Entity for such calendar quarter, determined in conformity with the statement of consolidated operating cash flow in the June 14, 1990 Report.

"Environmental Laws" shall have the meaning specified in Section 8.9 of Exhibit D.

"Equity Interest" shall mean any stock or similar security, preorganization certificate or subscription, transferable share, general or limited partnership interest, interest in a joint venture, interest in a business trust, voting trust certificate or certificate of deposit for any of the foregoing; or any security convertible, with or without consideration, into any of the foregoing, or carrying any warrant or right to subscribe to or purchase any of the foregoing; or any such warrant or right to subscribe to or purchase any of the foregoing from or selling any of the foregoing to another Person without being bound to do so, or any similar security or interest, or any proceeds of or rights in (including, without limitation, any distributions in respect of), or record or beneficial interest in, any of the foregoing.

Equity Interests held or owned by a Person include without limitation all Equity Interests which are controlled by such Person (regardless of whether such Person is the record or beneficial owner thereof).

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time.
"ERISA Affiliate" shall mean each trade or business (whether or not incorporated) which together with DJT would be deemed to be a "single employer" within the meaning of Section 4001 of ERISA.

"ERISA Termination Event" shall mean (i) a "Reportable Event" described in Section 4043 of ERISA and the regulations issued thereunder (other than a "Reportable Event" not subject to the provision for 30-day notice to the PBGC under such regulations), (ii) the complete or partial withdrawal of any of DJT's ERISA Affiliates from any Plan, (iii) the filing of a notice of intent to terminate a Plan, or the treatment of a Plan amendment as a termination under Section 4041 of ERISA, (iv) the institution of proceedings to terminate a Plan by the PBGC or (v) any other event or condition which might constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan.

"Eurodollar Business Day" shall mean any Business Day on which commercial banks are open for international business (including dealings in dollar deposits) in London, England.

"Exhibits" shall mean the exhibits to the Agreement, as amended, supplemented, waived or otherwise modified from time to time.

"Existing Agreement Amendment" shall mean each agreement, instrument or other document which amends, supplements, waives or otherwise modifies any Existing Debt Credit Agreement or any Existing Collateral Agreement (copies of which are being executed and delivered in connection with the execution and delivery hereof), as amended, supplemented or otherwise modified from time to time.

"Existing Collateral" shall mean the aggregate of all property (real and personal, tangible and intangible, presently existing or arising in the future) in which a Lien is granted, or purported to be granted, pursuant to the Existing Collateral Agreements.

"Existing Collateral Agreements" shall have the meaning specified in Recital A.

"Existing Debt Credit Agreement" shall mean any agreement listed on Schedule III, together with all other agreements, instruments and documents executed and delivered in connection therewith by a DJT Entity in respect of such Indebtedness set forth on such Schedule, as each of the same
is amended by the applicable Existing Agreement Amendments, and as each of the same may be further amended, supplemented or otherwise modified from time to time.

"Existing Debt Credit Facilities" shall mean the credit facilities identified in Schedule III, together with all other agreements, instruments and documents executed and delivered in connection therewith, as each of the same is amended by the applicable Existing Agreement Amendments, and as each of the same may be further amended, supplemented or otherwise modified from time to time.

"Existing Debt Obligations" shall mean all obligations of the DJT Entities under or in connection with any Existing Debt Credit Facility (including, without limitation, all principal, interest, costs, fees, indemnities and other amounts), whether absolute or contingent, whether recourse or excused in whole or in part, due or to become due, direct or indirect, now or hereafter existing, and howsoever created, arising or evidenced, including, without limitation, all Contingent Debt Obligations, all Deferred Project Interest Obligations, Deferred Recourse Interest Obligations, Deferred Principal Obligations, Guaranties and Special Guaranties.

"Existing Foreclosure Event" shall have the meaning specified in Section 2.3(c).

"Facility Fee" shall have the meaning specified in Section 3.2(b)(iii).

"Facility Fee Share" shall have the meaning specified in Section 3.2(b)(iii).

"Federal Funds Rate" shall mean, for any period, a fluctuating interest rate per annum equal for each day during such period to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for such day on such transactions received by Bankers Trust Company from three Federal funds brokers of recognized standing selected by it.

"First Fidelity" means First Fidelity Bank, National Association, New Jersey, a national banking association, and its successors and assigns.

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"First Fidelity Loan Agreement" means that certain Time Loan and Security Agreement dated as of November 22, 1988 by and between First Fidelity, Trump Realty and DJT as the same has heretofore been and may hereafter be amended, modified, supplemented and is in effect.

"First Fidelity Taj Term Loan" means that certain loan in the original principal amount of $75,000,000 made by First Fidelity to Trump Realty pursuant to the First Fidelity Loan Agreement which has been guaranteed by Trump Management.

"First Period" shall have the meaning specified in Section 3.1(c).

"Foreclosure Event" shall have the meaning set forth in Section 2.3(b)(ii).

"Foreclosure Rights" shall have the meaning specified in Section 2.3(a).

"Gross Amount" shall have the meaning specified in Section 3.2(b)(ii).

"Governmental Act" shall have the meaning specified in the New Credit Facility.

"Governmental Authority" shall have the meaning specified in the New Credit Facility.

"Guaranty" shall mean a guaranty made by a DJT Entity in favor of the Collateral Agent for the benefit of the Lenders in connection with this Agreement, guarantying obligations under the Deferred Recourse Interest Obligations and otherwise in form and substance satisfactory to the Lenders, as amended, supplemented or otherwise modified from time to time.

"Hazardous Substance" shall have the meaning specified in Section 8.9 of Exhibit D.

"Indebtedness" of any Person shall mean:

(i) all obligations of such Person which in accordance with generally accepted accounting principles would be shown on the balance sheet of such Person as a liability (including, without limitation, obligations for borrowed money and for the deferred purchase price of property or services, and obligations evidenced by bonds, debentures, notes or other similar instruments);
(ii) all rental obligations under leases required to be capitalized under generally accepted accounting principles;

(iii) all contingent reimbursement obligations under undrawn letters of credit issued on behalf, at the request or for the account of such Person, all guarantees (direct or indirect) and other contingent obligations of such Person in respect of, or obligations to purchase or otherwise acquire or to assure payment of, Indebtedness of others, including without limitation Indebtedness of partnerships of which such Person is a general partner; and all arrangements of financial support by such Person for the performance of another, including without limitation (A) agreements to support the performance of leases or other contracts; (B) guarantees of dividends and other payments; (C) agreements to advance and supply funds; (D) agreements to maintain working capital or minimum net worth; and (E) comfort letters or keep well agreements; and

(iv) Indebtedness of such Person or of others secured by any Lien upon property owned by such Person, whether or not assumed and whether or not a recourse obligation of such Person.

"Intercompany Notes" shall have the meaning specified in Section 11.1(a).

"Interest Deficiency Claim" shall have the meaning specified in Section 3.3(a)(ii).

"Interest Period" shall mean an interest period to be applicable to the Deferred Principal Obligations and the Deferred Interest Obligations, which shall be a three month period; provided that:

(i) the first Interest Period shall commence on the Closing Date and each subsequent Interest Period shall commence on the date of expiration of the immediately preceding Interest Period;

(ii) if any Interest Period would otherwise expire on a day which is not a Eurodollar Business Day, such Interest Period shall expire on the next succeeding Eurodollar Business Day, provided that, if any Interest Period would otherwise expire on a day which is not a Eurodollar Business Day but is a day of the month after which no further Eurodollar Business Day occurs in such month, such Interest Period
shall expire on the next preceding Eurodollar Business Day; and

(iii) any Interest Period which begins on the last Eurodollar Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Eurodollar Business Day of a calendar month.

"June 14, 1990 Report" shall have the meaning specified in the New Credit Facility.

"Lender(s)" shall have the meaning specified in the Preamble.

"Lien" shall mean any mortgage, pledge, assignment, hypothecation, security interest, encumbrance, lien, charge or deposit arrangement or other arrangement having the practical effect of the foregoing and shall include the interest of a vendor or lessor under any conditional sale agreement, capitalized lease or other title retention agreement.

"Loan Documents" shall mean this Agreement, the Guaranties, the Special Guaranties, the Collateral Agreements, the special Collateral Agreements, and all agreements, instruments and documents executed and delivered in connection herewith and therewith, in each case, as amended, supplemented, waived or otherwise modified from time to time.

"London Interbank Offered Rate" shall mean, for any Interest Period, the offered quotation, if any, to first-class banks in the Eurodollar Market by Bankers Trust Company for U.S. dollar deposits of amounts in funds comparable to the principal amount of the Notes with maturities comparable to the Interest Period for which the London Interbank Offered Rate will apply as of approximately 10:00 a.m. (New York time) two Eurodollar Business Days prior to the commencement of such Interest Period.

"Margin Stock" shall have the meaning provided in Regulation U of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor thereto.

"MHT" shall have the meaning specified in Section 3.1(e).

"MBF" shall mean Marine Midland Bank, N.A., a national banking association, and its successors and assigns.
"Net Cash Proceeds" shall mean, in the case of any Capital Event, cash payments (including any cash received, whether as principal, interest, dividends, other distributions, or otherwise, by way of deferred payment pursuant to a note, receivable, other security or otherwise, but only as and when so received) received or realized from or by reason of such Capital Event, net of (i) reasonable and customary transaction costs, including the New York State Real Property Gains Transfer Tax, the New York City and State Real Property Transfer Tax and any other similar transfer taxes; (ii) payment of the outstanding principal amount of, and interest and other amounts payable in respect of, (A) any Indebtedness (other than any Indebtedness which is an Existing Debt Obligation, which is outstanding under the New Credit Facility or which is an Intercompany Note) which is required to be repaid pursuant to the terms thereof as a result of such Capital Event and (B) (without duplication) if such Capital Event arises as a result of the sale of all or substantially all the assets of any Person, all Indebtedness (other than Indebtedness which is an Existing Debt Obligation, which is outstanding under the New Credit Facility or which is an Intercompany Note) of such Person which is repaid or for which reserves are established in connection with such Capital Event; (iii) the cash received by Park South Associates in respect of the sale of the residential condominium unit Apt. 9A at the building known as Trump Parc, 106 Central Park South, New York, New York; (iv) any cash received in respect of any casualty loss of any asset to the extent such cash is actually utilized in connection with the restoration or rebuilding of such asset; (v) in the case of any Capital Event to the extent involving any refinancing of any Indebtedness of any Casino Entity, any amounts received by such Casino Entity which are retained by such Casino Entity (X) in accordance with the Business Plans or (Y) without duplication of any amounts indicated in the Business Plans, because they are not then permitted to be distributed by such Casino Entity by the Casino Indenture relating to such Casino Entity or under the New Jersey Casino Control Act or the regulations issued pursuant to that act, or under any order or resolution of the Casino Control Commission; and (vi) without duplication of clause (ii) or (v), in the case of any Capital Event to the extent involving any refinancing of any Indebtedness of any Person, payment of the outstanding principal amount of, and interest or other amounts payable in respect of, such Indebtedness. Notwithstanding the foregoing, no deduction shall be made for any transaction costs or other fees or amounts paid or payable to DJT or any Affiliate of DJT or any officer or employee of any of the foregoing.
"New Credit Facility" shall have the meaning specified in Recital D.

"New Money Collateral Agreements" shall mean the Security Documents (as such term is defined in the New Credit Facility), as amended, supplemented or otherwise modified from time to time.

"New Money Termination Event" shall mean the date on which there are no amounts or Letters of Credit (as defined in the New Credit Facility) outstanding under the New Credit Facility and no Commitments (as defined in the New Credit Facility) remaining in effect thereunder.

"New Venture" shall have the meaning specified in the New Credit Facility.

"Notes" shall mean the Deferred Principal Obligations, the Deferred Project Interest Obligations and the Deferred Recourse Interest Obligations.

"Obligor" shall mean, with respect to any Existing Debt Credit Facility or Intercompany Note, as the case may be, any DTJ Entity or other Person (which is an Affiliate of DTJ) which is obligated with respect to such Existing Debt Credit Facility or Intercompany Note, as the case may be, in any manner, whether contingently or absolutely, directly or indirectly.

"Operating Cash Flow" shall mean, for each calendar quarter, the excess of (i) the sum of (a) the consolidated operating cash flow for such period of DTJ and each of his Affiliates (other than Trump Palace until all obligations in respect of the Trump Palace Loan have been paid in full, the Plaza Hotel, the Shuttle and the Yards and (except to the extent set forth in the last sentence of this definition) any New Venture), determined in conformity with the statement of consolidated operating cash flow in the June 14, 1990 Report and (b) interest earned after the first to occur of the satisfaction of the Collateralization Condition or the New Money Termination Event in such calendar quarter on the Cash Collateral (as defined in the New Credit Facility), over (ii) the sum of (a) the amount deposited during such period into the special cash reserve pursuant to the Business Plans having an aggregate outstanding balance not in excess of $10,000,000, (b) the operating cash flow of the Commercial Unit in Trump Tower Condominium to the extent the same has been deposited during such period into a cash reserve for operations of the Commercial Unit in Trump Tower Condominium, which cash reserve at no time shall be in excess of
$1,400,000, and (c) except to the extent provided in the last sentence of this definition, (A) the greater of (x) the cash or Cash Equivalents retained during such period by each of the Casino Entities in the ordinary course of its business to the extent necessary for the payment of reasonably anticipated expenses in accordance with the Business Plans and (y) the amount of cash or Cash Equivalents which is not then permitted to be distributed by such Casino Entity by the Casino Indenture (without giving effect to any restriction not in effect on the date hereof) relating to such Casino Entity or under the Casino Control Act or the regulations issued pursuant to the Casino Control Act, or under any order or resolution of the Casino Control Commission or the Division of Gaming Enforcement and (B) the amount of cash and Cash Equivalents (without duplication of amounts under clause (A)) with respect to each corporate Affiliate which is prohibited from being distributed under applicable corporate law; provided that in calculating consolidated operating cash flow (A) no deduction shall be made for payments of interest, principal, or other amounts except in respect of any Indebtedness permitted under the New Credit Facility or hereunder; and (B) all payments made under any Intercompany Notes (or otherwise made by any DJT Entity to DJT) during such period shall be included, without duplication, in operating cash flow of DJT; provided, further, however, that any amounts paid during such period to any Lender in accordance with this Agreement in respect of such Lender's Lien on any asset or property shall not be included in Operating Cash Flow and any amounts which constitute Net Cash Proceeds of any Capital Event shall not be included in Operating Cash Flow. Notwithstanding the foregoing, Operating Cash Flow shall be increased by any amounts actually paid or distributed to DJT during such period from any New Venture, from any entity listed on Schedule 1(a) or from any other Person to the extent not otherwise included in Operating Cash Flow pursuant to this definition nor resulting from a Capital Event.

"Palm Beach Credit Agreement" shall mean the agreement listed under the caption "Palm Beach Credit Facility" on Schedule III hereto, together with all other agreements, instruments and documents executed and delivered in connection therewith, as each of the same is amended by this Agreement and the applicable Existing Agreement Amendment, and as each of the same may be further amended, supplemented or otherwise modified from time to time.

"Palm Beach Credit Facility" shall mean the credit facility listed under the caption "Palm Beach Credit Facility" on Schedule III hereto, together with all other agreements, instruments and documents executed and delivered in
connection therewith, as each of the same is amended by this Agreement and the applicable Existing Agreement Amendment, and as each of the same may be further amended, supplemented or otherwise modified from time to time.

"Palm Beach Debt Obligations" shall mean all obligations under or in connection with the Palm Beach Credit Facility (including all principal, interest, costs, fees, indemnities and other amounts), whether absolute or contingent, due or to become due, direct or indirect, now or hereinafter existing, and howsoever created, arising or evidenced.

"Palm Beach Collateral" shall mean all property (real and personal, tangible and intangible, presently existing or arising in the future) in which a Lien is granted to MMB as security for the Palm Beach Debt Obligations.

"Palm Beach Collateral Agreements" shall mean all agreements and instruments which create any Lien in the Palm Beach Collateral (other than any Collateral Agreement, Special Collateral Agreement or New Money Collateral Agreement) together with all other agreements, instruments and documents executed and delivered in connection therewith, as further amended, supplemented or otherwise modified from time to time.

"PBGC" shall mean the Pension Benefit Guaranty Corporation, or any successor thereto.

"Permitted Liens" shall mean any Liens permitted pursuant to the provisions of Article VI (or which would be so permitted if the provisions of Article VI were then in effect).

"Person" shall mean any individual, corporation, partnership, association, trust or any other entity or organization, including, without limitation, a government or political subdivision or agency or instrumentality thereof.

"Plan" shall mean any multiemployer plan or single employer plan, as defined in Section 4001 and subject to Title IV of ERISA, which is maintained, or at any time during the five calendar years preceding the date of this Agreement was maintained, for employees of the Borrower or an ERISA Affiliate.

"Plaza Casino" shall mean Trump Plaza Associates.
"Plaza Hotel" shall mean Plaza Operating Partners, Ltd., a Texas limited partnership.

"Plaza Note" shall have the meaning specified in Section 11.2(a).

"Prepayment Factor" shall have the meaning specified in Section 4.1(e).

"Prime Lending Rate" shall mean the rate which Bankers Trust Company announces from time to time as its prime lending rate, as in effect from time to time. The Prime Lending Rate is a reference rate and does not necessarily represent the lowest or best rate actually charged to any customer. Bankers Trust Company may make commercial loans or other loans at rates of interest at, above or below the Prime Lending Rate.

"Princess" shall mean The Bahamian Flag Yacht known as the "Trump Princess," official number: 711186.

"Princess Notes" shall have the meaning specified in Section 4.1(a).

"Principal Deficiency Claim" shall have the meaning specified in Section 3.3(a)(i).

"Prior Lien" shall mean, as to any Collateral, any Lien on such Collateral securing Indebtedness owed to any Person which is prior to the Liens on such Collateral created by the Collateral Agreements.

"Qualified Appraiser" shall have the meaning specified in Section 3.1(c).

"Regular Interest Payment Date" shall have the meaning specified in Section 4.1(b).

"Regular Maturity Date" shall have the meaning specified in Section 3.1(c).

"Remaining Obligations" shall mean with respect to any Existing Debt Credit Facility, all Existing Debt Obligations in respect thereof, other than its related Deferred Principal Obligations and Deferred Interest Obligations.

"Required Lenders" as of any time shall mean Lenders holding at such time more than 66-2/3% of the aggregate amount of the then outstanding Deferred Principal Obligations, Deferred Recourse Interest Obligations and any other Obligations.
of credit or other fees the payment of which is deferred pursuant to the applicable Existing Agreement Amendment, in each case, which are Covered Debt Obligations.

"Required Waiving Lenders" as of any time shall mean Lenders holding at such time at least 33-1/3% of the aggregate amount of the then outstanding Deferred Principal Obligations, Deferred Recourse Interest Obligations and any letter of credit or other fees the payment of which is deferred pursuant to the applicable Existing Agreement Amendment, in each case, which are Covered Debt Obligations.

"Residual Net Cash Proceeds" shall have the meaning specified in Section 3.2(b).

"sale" shall mean with respect to any Equity Interest or other asset, any sale, transfer, lease, liquidation, dissolution, condemnation or casualty loss, in each case, involving such Equity Interest or other asset, provided, however, that, for purposes of this definition, (x) a lease shall not include any lease of any property which in the ordinary course of business is held out for lease if such lease is on customary commercial terms, is not a capital lease and provides for periodic lease payments in substantially equal amounts (subject to commercially reasonable free rent periods but together with any customary escalation clauses) and (y) a sale shall not include the sale of any asset which is held for sale in the ordinary course of business, other than any securities, any residential or commercial real property or any automobiles.

"Schedules" shall mean the schedules to this Agreement, as amended, supplemented, waived or otherwise modified from time to time.

"Shuttle" shall mean Trump Shuttle, Inc.

"Shuttle Lenders" shall have the meaning specified in Exhibit A.

"Shuttle Note" shall have the meaning specified in Section 11.2(a).

"Special Collateral" shall mean the aggregate of all property (real and personal, tangible and intangible, presently existing or arising in the future) in which a Lien is now or hereafter granted, or purported to be granted, pursuant to a Special Collateral Agreement.
"Special Collateral Agreements" shall mean all agreements listed on Schedule V, together with all other agreements, documents and other instruments executed and delivered in connection therewith, as amended, supplemented or otherwise modified from time to time.

"Special Foreclosure Event" shall have the meaning specified in Section 2.3(a).

"Special Guaranty" shall mean a guaranty made by any DJT Entity in favor of the respective Lenders specified on Schedule V guarantying obligations under any Existing Debt Credit Agreements and otherwise in form and substance satisfactory to such respective Lenders, as amended, supplemented or otherwise modified from time to time.

"Special Net Cash Proceeds" shall have the meaning specified in Section 3.2(a).

"Special Prior Lien" shall mean, as to any Special Collateral, any Lien on such Special Collateral securing any Indebtedness owed to any Person which is prior to the Liens on such Special Collateral created pursuant to the Special Collateral Agreements.

"Subsidiary" shall mean a corporation or other Person of which any corporation or other Person and its other Subsidiaries own, directly or indirectly, such number of outstanding shares (or other Equity Interests) as have more than 50% of the ordinary voting power for the election of directors (or to otherwise influence, direct or control the operation or management) of such corporation or other Person.

"Tai Mahal" shall mean Trump Taj Mahal Associates Limited Partnership.

"Tai Mahal Bonds" means the First Mortgage Bonds, Series A, due 1998 issued by Trump Taj Mahal Funding, Inc. in the original aggregate principal amount of $675,000,000.

"Tai Mahal Management Contract" means that certain Management Agreement made as of the 16th day of November, 1988, by and between the Taj Mahal Partnership and Trump Management.

"Taj Note" shall have the meaning specified in Section 11.2(c).

"Tower Note" shall have the meaning specified in Section 11.2(a).
"Triager Event" shall have the meaning specified in Section 3.2(b)(ii).

"Trump Management" means Trump Hotel Management Corp., a New Jersey corporation.

"Trump Palace" shall mean Donald J. Trump d/b/a The Trump Palace Company.

"Trump Realty" means Trump Taj Mahal Realty Corp., a New Jersey Corporation.

"Trump Tower" shall mean The Trump-Equitable Fifth Avenue Company.

"Uniform Default" shall mean any condition or event which, with notice (including, without limitation, the declaration provided for in the first paragraph of Exhibit A) or lapse of time or both, would constitute a Uniform Event of Default.

"Uniform Event of Default" shall mean any condition or event referred to in Exhibit A which shall have been declared to be a Uniform Event of Default pursuant thereto or any event referred to in Item 5(a)-(h) of Exhibit A with respect to DJT.

"Yards" shall have the meaning specified in Section 2.2(e).

"Yards Loan" shall have the meaning set forth in Section 3.1(d).

SECTION 1.2 General Interpretive Provisions.

(a) The terms "herein", "hereto", "hereunder" and all terms of similar import shall be deemed to refer to this Agreement as a whole rather than to any Article, Section, Schedule or Exhibit to this Agreement.

(b) Unless otherwise specified, references in this Agreement to "Section __" or "Article __", shall be deemed to refer to the Section or Article of this Agreement bearing the number so specified. References in this Agreement to "Exhibit __" or "Schedule __" shall be deemed to refer to the Exhibit or Schedule of this Agreement bearing the letter or number so specified.
(c) Unless otherwise specified or unless otherwise appropriate in any specific context, all references in this Agreement to any singular noun shall be deemed equally applicable to the plural of such noun, and all references to the plural of any noun shall be deemed equally applicable to the singular of such noun.

(d) Captions used for or in Sections, Articles, Schedules and Exhibits of this Agreement are for convenience only, and shall not affect the construction of this Agreement.

SECTION 1.3 Foreign Currencies. All references in this Agreement to dollars or the sign "$" shall be deemed to be references to dollars of the United States of America. To the extent that it is necessary or appropriate for the purposes of this Agreement or any Loan Document at any time to convert any amount of currency other than dollars to dollars (whether or not such conversion actually takes place or takes place at such rate), such conversion shall be made using the noon, local time, spot selling rate exclusive of any commissions for currency of the type being converted to dollars in transactions of $10,000 or more conducted by Bankers Trust Company in New York, New York.

SECTION 1.4 Calculation of Amounts. For purposes of this Agreement, whenever any determination is required to be made as to the outstanding amount of any Existing Debt Obligation, the amount of any related Contingent Debt Obligation shall not be included therein to the extent necessary to avoid double counting of amounts, payments, interest accruals and other similar matters. Without limiting the foregoing, the outstanding amount of any Existing Debt Obligation which is a letter of credit at any time shall be equal to the result obtained by subtracting from (a) the sum of (x) the aggregate unreimbursed amount of all drawings thereunder, and (y) any unused commitment and undrawn face amount thereof thereunder, (b) the aggregate of any cash collateral then held by the related Lender or any agent therefor which is allocated to such letter of credit. Without limiting the foregoing, the outstanding principal amount of the BT Interest Rate Swap, the CB Interest Rate Swap and the Palace Swap at any time shall be equal to the amount (not less than zero) estimated in good faith by the respective Lender party thereto as the amount, calculated pursuant to Section 6(e)(1)(1) of each such agreement (in the case of the BT Interest Rate Swap and the CB Interest Rate Swap) and Section 8.02(a) of such agreement (in the case of the Palace Swap), which would be owed to such respective Lender as of such time if an Early Termination Date (as defined in such respective...
agreements) occurred as of such date and assuming the Obligor thereof is the Defaulting Party (as defined in such respective agreements). Unless otherwise expressly provided herein (including, without limitation, Section 3.2, 3.3 or Schedule VIII) or in the applicable Existing Debt Credit Agreement, in the case of any Existing Debt Obligation only a portion of which is a Covered Debt Obligation, any prepayment of such Existing Debt Obligation which this Agreement does not expressly provide shall be allocated to the prepayment of a Covered Debt Obligation shall be allocated in accordance with the terms of this Agreement first to the prepayment of Existing Debt Obligations which are not Covered Debt Obligations until all remaining Existing Debt Obligations are Covered Debt Obligations and then to the prepayment of Covered Debt Obligations.

SECTION 1.5 Voting. Whenever any Lender who has any participant or assignee of its Existing Debt Obligations is entitled to give any consent hereunder, waive any provision hereof or take any other action hereunder, such Lender may allocate its Existing Debt Obligations among such participants or assignees and take any such action hereunder in accordance with the instructions of such participants or assignees, whether or not such instructions result in consistent actions.

ARTICLE II
AMENDMENTS OF EXISTING DEBT:
UNIFORM AMENDMENTS:
GRANT OF COLLATERAL

SECTION 2.1 Existing Agreement Amendments. (a) Certain Representations. Each Lender hereby represents and warrants to the Agent, the Collateral Agent and to each other Lender (but not to any DJT Entity or any other Affiliate of DJT or any other Person) that (i) such Lender has all requisite corporate power and authority to execute and deliver this Agreement and each Existing Agreement Amendment to which it is a party and to consummate the transactions contemplated hereby and thereby; (ii) the execution and delivery of this Agreement and each Existing Agreement Amendment to which it is a party, and the consummation of the transactions contemplated hereby and thereby, have been duly authorized by all necessary corporate action on the part of such Lender; (iii) such Lender has duly executed and delivered this Agreement and each Existing Agreement Amendment to which it is a party; (iv) this Agreement and each Existing Agreement Amendment to which it is a party constitutes a valid and binding agreement of such Lender, enforceable against such Lender in accordance
with its terms, except as may be limited by bankruptcy, insolvency, fraudulent conveyance or similar laws affecting creditors' rights generally and except that the availability of equitable remedies may be limited by equitable principles of general applicability; and (v) except as previously disclosed to each other Lender in writing, as of the time of its execution and delivery of this Agreement, but after giving effect to the Existing Agreement Amendments, such Lender has no actual knowledge of any default or event of default by any Obligor under any Existing Debt Credit Agreement or Existing Collateral Agreement to which it is a party, nor any actual knowledge of any other event which would result in an Existing Foreclosure Event (it being understood and agreed that no DJT Entity, any other Affiliate of DJT or any other Person other than the Agent, the Collateral Agent and any Lender shall have any right to rely upon this Section 2.1(a) or any right to assert that any waiver of any provision of any Existing Debt Credit Agreement or Existing Collateral Agreement has arisen as a result hereof).

(b) No Amendments. Each Lender agrees that, without the prior consent of the Required Lenders, it will not amend, supplement or otherwise modify any provision of any Existing Debt Credit Agreement, any Existing Agreement Amendment or any other Loan Document (in each case, other than any of the foregoing related to the Palm Beach Credit Facility) if any such amendment, supplement or modification (i) would result in the inclusion in any such Existing Debt Credit Agreement, Existing Agreement Amendment or other Loan Document of any financial covenant unless such agreement or other document contains any financial covenant as of the date hereof (but after giving effect to the applicable Existing Agreement Amendment), or which make the financial covenants contained in any such agreement or other document more onerous to any DJT Entity which is a party thereto than the financial covenants in effect on the date hereof (but after giving effect to the applicable Existing Agreement Amendment); (ii) would be inconsistent with any provision of this Agreement or with any provision which this Agreement provides shall be included in the applicable Existing Agreement Amendment; or (iii) would violate any agreement or covenant of any DJT Entity contained in the New Credit Facility, this Agreement or any Special Collateral Agreement, Collateral Agreement, Guaranty, Special Guaranty or Existing Agreement Amendment (in each case, as in effect on the date hereof and without giving effect to any subsequent amendment thereof which such Lender did not approve); provided, however, that notwithstanding clauses (i) and (ii) above, each Lender may, without the prior consent of any other Lender, amend, supplement or otherwise modify any provision of any Existing Debt.
Credit Agreement, Existing Agreement Amendment or any other Loan Document, if such amendment, supplement or other modification is agreed to by each other party to such agreement or document and is made in order to cure any then existing default or event of default under such agreement or document (or in order to avoid the occurrence of any default or event of default) or is made in connection with any request of DJT to take action not permitted to be taken under the terms of the applicable Existing Debt Credit Agreement, as long as, in any such case, such Lender reasonably determines that any such amendment, supplement or other modification is not likely to result in a default under such agreement or document in the near term under facts and circumstances then known to such Lender; provided, further, that no such amendment, supplement or other modification may, directly or indirectly, restrict the ability of any Obligor, any of the Entity Operating Cash Flow of which is at any time includible in Operating Cash Flow, from declaring, paying or otherwise making any dividends or other distributions on, or repurchasing or otherwise acquiring any of, the Equity Interest in such Obligor; provided, further, that, notwithstanding the preceding provisos, no such amendment, supplement or other modification shall be inconsistent with any of the Existing Agreement Amendment provisions contemplated by Section 2.2(a), (b) or (g), or any of the tolling provisions contemplated by Section 2.2(c) or any of the tolling or other provisions of Section 2.2(d), or any of the provisions of Section 2.3, it being expressly acknowledged and agreed that any such amendment, supplement or modification of the payment terms of any Indebtedness of any DJT Entity, none of the Entity Operating Cash Flow of which is includible in Operating Cash Flow at any time, shall not be deemed to be inconsistent with any of such provisions. MMB agrees that without the consent of the Required Lenders, it will not amend, supplement or otherwise modify any provision of the Palm Beach Credit Facility (as amended by the applicable Existing Agreement Amendment) to advance the scheduled maturity date thereof contemplated by the applicable Existing Agreement Amendment or to increase the interest rate thereon as calculated pursuant to the Palm Beach Credit Agreement and the applicable Existing Agreement Amendment.

SECTION 2.2 Uniform Amendments to Existing Debt Credit Facilities. Effective from and after the Closing Date:

(a) Principal Payment Provisions. Subject to Section 2.2(g), each of the Existing Debt Credit Agreements (other than the Palm Beach Credit Agreement) and each of the Existing Collateral Agreements (other than the Palm
Beach Collateral Agreements) shall be amended by the applicable Existing Agreement Amendment to provide that the maturities of principal of the applicable Existing Debt Credit Facility and the provisions relating to payments and prepayments (including, without limitation, prepayments following any Capital Event or sale of any Collateral, Existing Collateral or Special Collateral) of such principal shall be changed to the new maturities and payment and prepayment provisions contemplated or provided by this Agreement, including, without limitation, Article III. The principal payment and prepayment provisions applicable to the Palm Beach Credit Facility shall be as set forth in the applicable Existing Agreement Amendment.

(b) Interest. Subject to Section 2.2(g), each of the Existing Debt Credit Agreements (other than the Palm Beach Credit Agreement) and each of the Existing Collateral Agreements (other than the Palm Beach Collateral Agreements) shall be amended by the applicable Existing Agreement Amendment to provide that the rate of interest payable on principal amounts outstanding under the applicable Existing Debt Credit Facility, the dates when payment of such interest is due, the dates on which and conditions under which such interest may be prepaid at a discount thereof, and the manner of payment of such interest shall be changed in the manner and to the extent set forth in Article IV and, in the case of the Princess Loan, the Princess $10 million Loan and the Mar-a-Lago Loan, in the amounts set forth in the respective applicable Existing Agreement Amendments. The rate of interest payable on the Palm Beach Credit Facility, the dates when payment of such interest is due and the manner of payment of such interest shall be as set forth in the applicable Existing Agreement Amendment.

(c) Representations and Warranties. Each Existing Agreement Amendment shall provide that each Lender shall toll until the first to occur of the applicable Regular Maturity Date or Accelerated Maturity Date all requirements contained in each Existing Debt Credit Agreement and each Existing Collateral Agreement to which it is a party that any representations or warranties specified in the applicable Existing Agreement Amendment, be true and correct in any respect or reasserted at any time, it being agreed that, subject to Section 2.2(g), this Section 2.2(c) shall not result in the waiver of any right to assert any claim with respect to any such representation or warranty after such date or in the amendment.
(d) **Covenants and Defaults.** Each Existing Agreement Amendment shall provide that each Lender shall toll until the first to occur of the applicable Regular Maturity Date or Accelerated Maturity Date compliance by any Obligor with any agreements, defaults or events of default contained in each Existing Debt Credit Agreement to which it is a party which are specified in the applicable Existing Agreement Amendment, it being agreed that, subject to Section 2.2(g), this Section 2.2(d) shall not result in the waiver of any right to assert any claim with respect to any such agreement after such date or in the amendment, supplement, modification or waiver of any other covenant or agreement, default or event of default of any DJT Entity contained therein.

(e) **Preservation of Rights.** Subject to Section 2.2(g), nothing in this Agreement shall be deemed to constitute a waiver by any Lender of any default by any Obligor, or shall be deemed to prevent any Lender from exercising any right or remedy, under any Existing Debt Credit Agreement or Existing Collateral Agreement, in each case, as amended by the Existing Agreement Amendments. In addition, nothing in this Agreement shall be deemed to prevent any Lender from exercising any right or remedy against any Person who is not an Obligor, including any right or remedy pursuant to any guarantee of any Existing Debt Obligations by such Person.

(f) **Termination of Unused Commitments.** Any unused portion of any Lender's commitment to loan or advance funds, issue any letter of credit, accept any draft, or lease any property to any Person (except to the extent that such property was theretofore so leased to such Person) pursuant to any Existing Debt Credit Facility shall be terminated and be of no further force or effect; provided, however, that the foregoing shall not apply to (i) the Restructuring Agreement referred to in Section 3.1(e) or the Loan Agreement dated as of August 1, 1989, between Trump Crystal Tower Associates Limited Partnership and Manufacturers Hanover Trust Company, as amended by the Existing Agreement Amendment executed and delivered with respect thereto; (ii) the obligations of the Lender under the Trump Palace Loan; (iii) the Midlantic Letters of Credit; (iv) the NatWest Letters of Credit; (v) the First Fidelity Letters of Credit as amended pursuant to the last sentence of this
Section 2.2(f); (vi) the Irrevocable Letter of Credit No. NY-0830-30002732 issued by Citibank, N.A., as amended pursuant to the last sentence of this Section 2.2(f); and (vii) advances to be made to Penn Yards Associates ("Yards") aggregating up to $9,000,000 in respect of the real estate taxes and other similar public charges for the premises owned by Yards pursuant to the $9,000,000 Penn Yards Loan (such obligations in clauses (i), (ii), (iii), (iv), (v), (vi), and (vii), the "Commitment Exceptions"). Other than in connection with the Commitment Exceptions or in respect of the Deferred Recourse Interest Obligations and the Deferred Project Interest Obligations, no Lender shall make any extension of credit, make any loan or advance, issue any letter of credit, accept any draft or otherwise take any action which would have the effect of increasing the amount of the Covered Debt Obligations held by any Lender under any Covered Debt Credit Facility, except loans or advances (to the extent otherwise constituting recourse obligations of DJT) made to fund required insurance, overrun construction costs, maintenance, environmental cleanup, real estate taxes or other costs or expenses reasonably necessary to protect the value of Existing Collateral, Special Collateral or Collateral. Except as may arise in connection with the Commitment Exceptions, any amount of any Existing Debt Obligation which is prepaid shall not and may not be reborrowed. The Irrevocable Letter of Credit No. NY-0830-30002732 issued by Citibank, N.A. shall be amended as of the Closing Date so that the expiration date thereof shall be July 30, 1993 and the $2,878,500 Letter of Credit No. N-300872 between Seashore Four Associates, as Account Party, First Fidelity Bank, N.A., New Jersey, as Issuer and naming as Beneficiary First Pennsylvania Bank as trustee for S.S.G. Enterprises shall be amended by the applicable Existing Agreement Amendment so that the expiration date thereof shall be December 10, 1998, subject to First Fidelity's right to not renew as provided in the applicable Existing Agreement Amendment as in effect on the date hereof. The respective Existing Agreement Amendments applicable to the BT Interest Rate Swap, the Palace Swap and the CB Interest Rate Swap shall provide that nothing herein, therein or in any other Loan Document shall prevent the respective Lenders party thereto from terminating such agreement in accordance with the terms thereof.

(g) Remedies With Respect to Contingent Debt Obligations and Recourse Obligations. Without limiting the foregoing and (except as expressly set forth in this
Section 2.2(g) notwithstanding anything herein or in any Loan Document to the contrary, each Contingent Debt Credit Facility (other than (1) each of the Princess Loan, the Princess $10 million Loan and the Mar-a-Lago Loan to the extent (and only to the extent) set forth in the respective applicable Existing Agreement Amendments, as each is in effect on the date hereof and (2) the Palm Beach Credit Facility) shall be amended by the applicable Existing Agreement Amendment to provide that each Lender shall have no right, prior to June 30, 1995, directly or indirectly, to exercise or enforce against DJT (including, without limitation, DJT in his capacity as an Obligor, a general or limited partner of any partnership, a participant in any joint venture, a stockholder, officer or director of a corporation, or in any other capacity, whether by operation of law or otherwise) any right or remedy under, or in respect of, such Contingent Debt Credit Facility, by law or otherwise, regardless of whether such Lender may exercise any right or pursue any remedy with respect to the related Existing Debt Obligation, other than as permitted by Article V and other than following the acceleration of the maturity of the Deferred Recourse Interest Obligations pursuant to Article V. Without limiting the foregoing and (except as expressly set forth in this Section 2.2(g)) notwithstanding anything herein or in any Loan Document to the contrary, each Existing Debt Credit Facility (including, without limitation, each Contingent Debt Credit Facility) (other than, in each case (1) each of the Princess Loan, the Princess $10 million Loan and the Mar-a-Lago Loan to the extent (and only to the extent) set forth in the respective applicable Existing Agreement Amendments, as each is in effect on the date hereof and (2) the Palm Beach Credit Facility) shall be amended by the applicable Existing Agreement Amendment to provide that no Lender shall be entitled, directly or indirectly, to assert or enforce any claim in respect of any such Existing Debt Obligation against DJT (including, without limitation, DJT in his capacity as an Obligor, a general or limited partner of any partnership, a participant in any joint venture, a stockholder, officer or director of a corporation, or in any other capacity, whether by operation of law or otherwise) or exercise or enforce any right or remedy in connection therewith, prior to June 30, 1995, other than as permitted by Article V and other than following the acceleration of the maturity of the Deferred Recourse Interest Obligations pursuant to Article V. Without limiting the foregoing and (except as expressly set forth in this Section 2.2(g))
notwithstanding anything in this Agreement to the contrary, until the first to occur of June 30, 1995 or the date of acceleration of the maturity of the Deferred Recourse Interest Obligations pursuant to Article V, no Lender shall pursuant to any Loan Document, Existing Debt Credit Agreement or Existing Agreement Amendment (other than (1) each of the Princess Loan, the Princess $10 million Loan and the Mar-a-Lago Loan to the extent (and only to the extent) set forth in the respective applicable Existing Agreement Amendments, as each is in effect on the date hereof and (2) the Palm Beach Credit Facility and the applicable Existing Agreement Amendment) directly or indirectly, assert or enforce any deficiency or similar claim in respect thereof against DJT (including, without limitation, DJT in his capacity as an Obligor, a general or limited partner of any partnership, a participant in any joint venture, a stockholder, officer or director of a corporation, or in any other capacity, whether by operation of law or otherwise) or exercise or enforce any right or remedy against DJT (including, without limitation, DJT in his capacity as an Obligor, a general or limited partner of a partnership, a participant in any joint venture, a stockholder, officer or director of a corporation, or in any other capacity whether by operation of law or otherwise) in connection therewith. The foregoing provisions shall not limit the right of any Person to name DJT as party defendant in any action or suit for judicial foreclosure or in the exercise of any other remedy under the Existing Collateral Agreements, Special Collateral Agreements or Collateral Agreements so long as no judgment in the nature of a deficiency or personal money judgment shall be enforced against DJT and nothing herein shall be deemed to be a waiver of any deficiency or similar claim on or after the first to occur of June 30, 1995 or the acceleration of the Deferred Recourse Interest Obligations pursuant to Article V. Each DJT Entity hereby waives any defenses which it may have with respect to any Contingent Debt Obligation or Existing Debt Obligation arising as a result of any statute of limitations, laches, estoppel, suretyship, entire controversy doctrine, or similar defense. This Section 2.2(g) shall not be deemed to prevent any Lender from exercising any Foreclosure Rights in accordance with Section 2.3 with respect to any Existing Collateral, Special Collateral or Collateral held by DJT. Notwithstanding anything in this Agreement to the contrary (including this Section 2.2(g)), in the event that any DJT Entity shall wrongfully withhold any material amount required pursuant to Section 3.2(a)(i) or

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(ii) of this Agreement to be paid to any Lender holding any Existing Debt Obligation of which DJT (including DJT in his capacity as an Obligor, a general or limited partner of a partnership, a participant in a joint venture, a stockholder, officer or director of a corporation or in any other capacity, whether by operation of law or otherwise) is the Obligor and as to which there is no exculpation or similar clause (other than as may arise as a result of a bona fide dispute as to the calculation of any such amount), such Lender shall be entitled to assert any claim, to exercise and enforce any rights and remedies, and to enforce any judgment, against DJT (including against DJT in his capacity as an Obligor, a general or limited partner of a partnership, a participant in a joint venture, a stockholder, officer or director of a corporation or in any other capacity, whether by operation of law or otherwise) in each such case, in respect of (and only in respect of) any such material amount so required to be paid and so wrongfully withheld.

(h) Palm Beach Obligations. The Palm Beach Credit Agreement and Palm Beach Collateral Agreements shall be amended solely to the extent provided in the Existing Agreement Amendments relating to the Palm Beach Credit Facility and none of the provisions of paragraphs (c), (d), (f) or (g) of this Section 2.2 (other than the provisions excluding the Palm Beach Credit Agreement and Palm Beach Collateral Agreement) shall apply to the Palm Beach Credit Facility.

SECTION 2.3 Foreclosure Remedies. (a) Special Collateral. From and after the Closing Date, no Lender shall, pursuant to any Special Collateral Agreement, have the right to exercise or enforce any of its rights or remedies (including, without limitation, the rights and remedies under Section 2.3(h)) with respect to any Existing Debt Obligation (either by suit in equity or by action at law, or both), or to enforce the payment of any Existing Debt Obligation, against, or to exercise any other foreclosure or similar remedy with respect to (the foregoing rights and remedies against property and the rights and remedies pursuant to Section 2.3(h) being hereinafter referred to as the "Foreclosure Rights"), all or any portion of any property included in the Special Collateral, unless, in the case of any such property (the "Affected Special Collateral"), on or after the date hereof, (x) any Person or Persons holding a Special Prior Lien on such Affected Special Collateral (it being understood for the purpose of this clause (x) that any Lien on any asset or property of any Person shall be deemed to be a Special
Prior Lien with respect to any Lien on any Equity Interest (or proceeds thereof or rights therein, including, without limitation, distributions therefrom) of such Person shall have commenced to exercise Foreclosure Rights against all or any portion of such Affected Special Collateral, (y) at such time as no Lender shall hold a Special Prior Lien in the applicable Affected Special Collateral (or, in the case of clause (B) below, the applicable Special Collateral with respect to which the Lender is proposing to exercise any Foreclosure Rights) (it being understood that for the purpose of this clause (y) any Lien on any asset or property of any Person shall not be deemed to be a Special Prior Lien with respect to any Lien on any Equity Interest (or proceeds thereof or rights therein, including, without limitation, distributions therefrom) of such Person), either (A) any DJT Entity shall have failed to observe or perform any covenant or agreement contained in the Special Collateral Agreement creating the Lien in such Affected Special Collateral or any event of default under such Special Collateral Agreement shall occur, in each case, which shall continue to exist following the expiration of any applicable grace period or (B) any Event of Default (as such term is defined in the New Credit Facility) shall have occurred without waiver or cure for 20 days after the expiration of any applicable grace period or any Uniform Event of Default shall have occurred without waiver or cure for 20 days after the expiration of any applicable grace period, or (z) at such time as no Lender shall hold a Special Prior Lien in the applicable Affected Special Collateral (it being understood for the purpose of this clause (z) that any Lien on any asset or property of any Person shall not be deemed to be a Special Prior Lien with respect to any Lien on any Equity Interest (or proceeds thereof or rights therein, including, without limitation, distributions therefrom) of such Person), any DJT Entity shall have failed to make any payment of principal of or interest on any Indebtedness owed to such Lender which is secured pursuant to such Special Collateral Agreement by all or any portion of such Affected Special Collateral when due (whether at stated maturity, by acceleration, on demand or otherwise), which shall continue to exist following the expiration of any applicable grace period. (Each such event referred to in clause (x), (y) or (z) above is referred to herein as a "Special Foreclosure Event"). No event (other than any event described in subclause (B) of clause (y) above) giving rise to any Special Foreclosure Event with respect to any Affected Special Collateral shall constitute an event giving rise to, or directly or indirectly result in, any other Special Foreclosure Event with respect to any other Special Collateral, to any Existing Foreclosure Event with
respect to any other Existing Collateral or to any Foreclosures Event with respect to any other Collateral except as may arise pursuant to the terms of the Special Collateral Agreements relating to the Princess and the Existing Collateral Agreement relating to the property known as Mar-a-Lago as in effect on the date hereof. Upon the occurrence of a Special Foreclosure Event with respect to any Affected Special Collateral, the Lender party to the Special Collateral Agreement relating to such Affected Special Collateral shall be entitled to exercise Foreclosure Rights in accordance with the terms of such Special Collateral Agreement without the consent of any other Lender. Nothing in this Agreement shall prevent the Lender party to the Special Collateral Agreements relating to the Princess from exercising Foreclosure Rights pursuant to such Special Collateral Agreements as in effect on the date hereof.

(b) Collateral. (i) Remedies Upon Foreclosure Event. In the event that the Deferred Recourse Interest Obligations are accelerated pursuant to Article V, the Collateral Agent may exercise all rights and remedies provided under this Agreement or any Collateral Agreement, or otherwise available under applicable law (including, without limitation, the Uniform Commercial Code) all subject to the direction of the Required Lenders; provided that with respect to all Collateral, the foregoing shall not be deemed to permit the Collateral Agent to exercise Foreclosure Rights in the absence of a Foreclosure Event with respect to such Collateral. From and after the Closing Date, no Lender shall have the right to exercise any Foreclosure Rights pursuant to the Collateral Agreements against all or any portion of any property included in the Collateral, other than as specified in this Section 2.3(b). If any Foreclosure Event shall occur with respect to any Affected Collateral, then the Agent, at the direction of the Required Lenders, shall exercise Foreclosure Rights with respect to such Affected Collateral, all in accordance with the instructions of the Required Lenders.

(ii) Certain Definitions. A "Foreclosure Event" with respect to any property included in the Collateral shall be deemed to have occurred if on or after the date hereof (x) any Person or Persons holding a Prior Lien on such Affected Collateral (it being understood for the purpose of this clause (x) that any Lien on any asset or property of any Person shall be deemed to be a Prior Lien with respect to any Lien on any Equity Interest (or proceeds thereof or rights thereof, including, without limitation, distributions therefrom) of such Person) shall have commenced to exercise Foreclosure Rights against all or any portion of such property included in the Collateral, (y) at such time as no Lender
shall hold a Prior Lien in the applicable Affected Collateral (or, in the case of clause (B) below, the applicable Collateral with respect to which the Collateral Agent is proposing to exercise any Foreclosure Rights) (it being understood for the purpose of this clause (y) that any Lien on any asset or property of any Person shall not be deemed to be a Prior Lien with respect to any Lien on any Equity Interest (or proceeds thereof or rights therein, including, without limitation, distributions therefrom) of such Person), either (A) any DJT Entity shall have failed to observe or perform any covenant or agreement contained in the Collateral Agreement creating the Lien in such property or any default under such Collateral Agreement shall occur, in each case, which shall continue to exist following the expiration of any applicable grace period, or (B) any Event of Default (as such term is defined in the New Credit Facility) shall have occurred without waiver or cure for 20 days after the expiration of any applicable grace period or any Uniform Event of Default shall have occurred without waiver or cure for 20 days after the expiration of any applicable grace period, or (z) at such time as no Lender shall hold a Prior Lien in the applicable Affected Collateral (it being understood for the purpose of this clause (z) that any Lien on any asset or property of any Person shall not be deemed to be a Prior Lien with respect to any Lien on any Equity Interest (or proceeds thereof or rights therein, including, without limitation, distributions therefrom) of such Person), any DJT Entity shall have failed to make any payment of principal of or interest on any Indebtedness owed to the applicable Lender which is secured pursuant to such Collateral Agreement by all or any portion of such property included in the Collateral when due (or on any related Deferred Principal Obligation) (whether at stated maturity, by acceleration, on demand or otherwise) which shall continue to exist following the expiration of any applicable grace period. The term "Affected Collateral" shall mean the property (real or personal, tangible or intangible, whether presently existing or hereafter created) included in the Collateral with respect to all or a portion of which such property an event has occurred (or failed to occur) which resulted in the occurrence of the applicable Foreclosure Event. No event (other than any event described in clause (B) of clause (y) above) giving rise to any Foreclosure Event with respect to any Affected Collateral shall constitute an event giving rise to, or directly or indirectly result in, any other Foreclosure Event with respect to any other Collateral, any Special Foreclosure Event with respect to any other Special Collateral or any Existing Foreclosure Event with respect to any other Existing Collateral. Notwithstanding the foregoing, for purposes of clauses (y) and (z) of this Section 2.3(b), following the first to occur of (A) the
satisfaction of the Collateralization Condition and (B) the
New Money Termination Event, no Lien created pursuant to any
New Money Collateral Agreement shall be deemed to be a Prior
Lien.

(c) Existing Collateral. Notwithstanding the
foregoing, but subject to Section 2.2(g), without the consent of
any other Lender each Lender shall have the right to exer-
cise any Foreclosure Rights against all or any portion of any
property included in the Existing Collateral pursuant to any
Existing Collateral Agreements if, in the case of any such
property (the "Affected Existing Collateral"), such action is
permitted pursuant to the terms of the applicable Existing
Collateral Agreements, as amended by the Existing Agreement
Amendments. (Any such event, whether now or hereafter occur-
ing in respect of Existing Collateral, is referred to herein as an "Existing Foreclosure Event.")

(d) Judgment Liens. Nothing contained in this
Agreement (other than Section 2.2(g)) shall be deemed to pre-
vent any Lender holding any Existing Debt Obligation on which
a Casino Entity or any of Trump Realty, Seashore Four Associ-
ates, Trump Boardwalk Realty Corp., or Trump Taj Mahal, Inc.,
is an Obligor following any failure by any such Obligor to
satisfy any payment obligation when the same shall be due and
payable (including, without limitation, upon acceleration
thereof), following the expiration of any applicable grace
period, from obtaining any judgment lien and exercising
Foreclosure Rights in respect thereof against the Obligor
thereof (but not against DJT (including, without limitation,
DJT in his capacity as an Obligor, a general or limited
partner of any partnership, a participant in any joint
venture, a stockholder, officer or director of a corporation
or in any other capacity, whether by operation of law or
otherwise)) or against any assets of such Obligor (other than
DJT (including, without limitation, DJT in his capacity as an
Obligor, a general or limited partner of any partnership, a
participant in any joint venture, a stockholder, officer or
director of a corporation or in any other capacity, whether
by operation of law or otherwise)).

(e) Certain Limitations. Nothing in this Section
2.3 shall be deemed to limit Section 2.2(g).

(f) Notice. DJT shall give each Lender, the Agent
and the Collateral Agent prompt notice of the commencement by
any Person of the exercise of any Foreclosure Rights. In the
event that the Collateral Agent or any Lender has exercised
or enforced any rights or remedies pursuant to this Section
2.3 and shall thereafter have discontinued all such exercise
or enforcement, the Collateral Agent shall upon the written request of DJT send a notice to each Person specified in such request of DJT stating that such exercise or enforcement has been so discontinued.

(g) Interpretation. For purposes of this Section 2.3, a Lien on any proceeds of, or rights in (including, without limitation, distributions in respect of) any Equity Interest shall be treated equivalently to a Lien in such Equity Interest. It is expressly understood and agreed that every Foreclosure Event and every Special Foreclosure Event shall be deemed to constitute a "default," as such term is used in Part 5 of Article 9 of the Uniform Commercial Code, and that the applicable Lender, the Collateral Agent or the Agent shall have all the rights and remedies afforded a secured creditor after "default" in such statutory provisions upon the occurrence of any Foreclosure Event or Special Foreclosure Event.

(h) Demand for Payment. Each DJT Entity hereby irrevocably waives, and each DJT Entity hereby irrevocably agrees to cause its Affiliates to waive, any requirement under any applicable law, any procedural rule of any Governmental Authority or otherwise arising that any Existing Debt Obligation be then due and payable upon the exercise of any Foreclosure Rights by any Lender upon a Foreclosure Event, a Special Foreclosure Event or an Existing Foreclosure Event but only to the extent necessary to permit the commencement to exercise, exercise or enforcement of Foreclosure Rights. In the event that it shall be necessary under applicable law as a predicate to the commencement of any exercise of, exercise of or enforcement of any such Foreclosure Right upon a Foreclosure Event, Special Foreclosure Event or Existing Foreclosure Event, any Lender under any Existing Debt Credit Facility so affected, in order to commence to exercise, exercise and/or enforce such Foreclosure Rights, may, subject to Section 2.2(g), to the extent so required, by notice to DJT, the Agent and each other Lender declare all Existing Debt Obligations owed to such Lender under such Existing Debt Credit Facility so affected, to be forthwith due and payable, whereupon all such Existing Debt Obligations shall become and be forthwith due and payable, without presentment, demand, protest, notice (except as provided above) or other requirements of any kind, all of which are expressly waived; provided, however, that notwithstanding anything in any Existing Debt Credit Agreement, any Existing Collateral Agreement, this Agreement, any Existing Agreement Amendment or any other Loan Document to the contrary (except to the extent expressly provided to the
contrary in Article V), in the event of any such acceleration all of the following shall be applicable:

(i) such Lender hereby irrevocably agrees to forbear from exercising any right or remedy other than such Foreclosure Rights, under any such Existing Debt Credit Agreement, Existing Collateral Agreement, Existing Agreement Amendment or other Loan Document or otherwise available under applicable law, notwithstanding anything in such Existing Debt Credit Agreement, Existing Collateral Agreement, this Agreement, Existing Agreement Amendment or other Loan Document to the contrary, to which such Lender would otherwise be entitled as a result of such acceleration, including, without limitation, enforcing any deficiency or similar claim (against the Obligor thereof or otherwise) arising from such exercise of Foreclosure Rights until such Lender shall be entitled to exercise any such right or remedy in accordance with the terms hereof and thereof;

(ii) such Lender shall not be entitled to exercise any Foreclosure Rights with respect to any other property or any other Equity Interest solely by virtue of such acceleration until such Lender shall otherwise be so entitled in accordance with any Existing Collateral Agreement, Special Collateral Agreement or Collateral Agreement;

(iii) such Lender agrees that such acceleration shall not affect or expand any obligation of any Obligor under any guaranty or otherwise, except as may be necessary to permit the commencement to exercise, exercise or enforcement of the Foreclosure Rights in connection with which such acceleration was effected;

(iv) such Lender agrees that such acceleration shall not in and of itself affect the applicability of the Prepayment Factor or the right of any DJT Entity to retain any portion of Residual Net Cash Proceeds or Operating Cash Flow to which it would otherwise be entitled pursuant to this Agreement (except that this clause (iv) shall not affect the application of Section 3.2(g) as it applies to the exercise of Foreclosure Rights or Section 4.1(e) as it applies to the exercise of Foreclosure Rights);

(v) such Lender agrees that such acceleration shall not affect the rate at which interest shall accrue on such Existing Debt Obligation and shall not result in the imposition of any fee or other charge;
(vi) each Lender hereby waives any default or event of default which may arise under any other Existing Debt Obligation to which it is a party which may result from such acceleration as long as the forbearance provisions of this Section 2.3(h) or the forbearance provisions of Article VI A of the New Credit Facility are in effect;

(vii) such Lender agrees that such acceleration shall not in and of itself entitle any Lender to receive any allocation to which it would not otherwise be entitled pursuant to Section 3.8 or to receive any distribution to which it is not otherwise entitled pursuant to Article III or Schedule VIII; and

(viii) such Lender agrees that each and every provision of each Existing Debt Credit Agreement, Existing Collateral Agreement, this Agreement, each Existing Agreement Amendment and each other Loan Document shall be deemed amended so that the rights and remedies of the parties thereto shall not be altered by any such acceleration, except as may be necessary to permit the commencement to exercise, exercise or enforcement of the Foreclosure Rights in connection with which acceleration was effected.

The provisions of this Section 2.3(h) shall be effective until the first to occur of the time at which such Lender shall exercise an independent right pursuant to any Existing Debt Credit Agreement, as amended by the applicable Existing Agreement Amendment, to accelerate such Existing Debt Obligations or the acceleration of the Deferred Recourse Interest Obligations pursuant to Article V hereof. The provisions of this Section 2.3(h) shall not apply to the Palm Beach Credit Facility.

SECTION 2.4 Uniform Covenants. From and after the Closing Date, each DTJ Entity shall comply with all of the Uniform Covenants set forth in Article VI and Exhibit E.

SECTION 2.5 Uniform Events of Default. From and after the Closing Date, the events described in Exhibit A shall constitute the Uniform Events of Default, subject to the terms and conditions thereof.

SECTION 2.6 Collateral. From and after the Closing Date, (a) the Deferred Recourse Interest Obligations of all Lenders shall be secured by the Collateral, and each Lender's respective Deferred Recourse Interest Obligations and Deferred Principal Obligations shall also be secured as provided by the respective Lender's Existing Collateral Agreements, and also (b) the Covered Debt Obligations of the
Lenders specified on Schedule V shall be secured by their respective Special Collateral set forth in the applicable Special Collateral Agreements in addition to whatever security is provided by the respective Lender's Existing Collateral Agreements.

SECTION 2.7 Withdrawal of Demands. Each Lender withdraws as of the Closing Date any demands for payment, foreclosure suits and demands as against any DJT Entities, and other similar actions made prior to the date hereof and made prior to the Closing Date which would be prohibited to be made hereunder after the Closing Date with respect to any Existing Debt Credit Agreements or Existing Collateral Agreements, in each case, except with respect to any due and unpaid interest in respect of any Existing Debt Obligation specified on Schedule IX.

SECTION 2.8 Sharing Among Lenders. The Lenders hereby agree to allocate certain payments and recoveries on the Existing Debt Obligations among themselves in accordance with this Agreement.

SECTION 2.9 Contingent Debt. Except as expressly provided in this Agreement, each Contingent Debt Credit Facility, including, without limitation, all terms and provisions thereof which relate to the obligations of any Obligor or to any collateral, is and shall continue to be in full force and effect and is in all respects ratified and confirmed, and this Agreement is, other than in the case of the Mar-a-Lago Loan, the Princess Loan and the $10 million Princess Loan, expressly made supplemental thereto and a part thereof. Each DJT Entity agrees and acknowledges that it has no defenses, offsets, crossclaims or counterclaims to the enforcement of any Existing Debt Credit Agreement or any Contingent Debt Obligation.

SECTION 2.10 Waiver by Lenders. Each Lender hereby waives any default or event of default which would otherwise occur under any Existing Debt Credit Agreement or Existing Collateral Agreement to which it is a party solely as a result of the execution, delivery and performance of this Agreement, the Guaranties, the Special Guaranties, the Collateral Agreements, the Special Collateral Agreements, the Existing Agreement Amendments, the New Credit Facility, the New Money Collateral Agreements, or any amendment or restatement, executed and delivered as of the date hereof (copies of which have been provided to each Lender) to any documents governing, relating to or evidencing Indebtedness secured by a first priority Lien on the assets of the Shuttle or the Plaza Hotel in each case, as in effect on the date hereof.
ARTICLE III
PRINCIPAL PAYMENTS AND
PREPAYMENTS OF EXISTING DEBT

SECTION 3.1 Notes. (a) Deferred Principal Obligations. Each Obligor’s obligation to pay the Deferred Principal of the Existing Debt Obligations of each Lender shall be evidenced by the promissory note or other agreement or instrument which as of the date hereof evidences such Existing Debt Obligation of such Lender, as amended by or pursuant to the applicable Existing Agreement Amendments (individually, a "Deferred Principal Obligation" and, collectively, the "Deferred Principal Obligations"). Each Deferred Principal Obligation shall be payable at the time or times, in the amounts and in the manner provided therein.

(b) Payment. Each Obligor shall pay, or cause to be paid, the Deferred Principal Obligations in respect of which it is an Obligor in accordance with the terms thereof; provided, however, that the exercise of remedies in respect of any default thereunder shall be subject to Section 2.2(g).

(c) Maturity. (i) Subject to Section 2.2(g) and to Section 3.1(c)(v), unless otherwise specified herein, each Existing Debt Credit Agreement shall be amended by the applicable Existing Agreement Amendment to provide that the Deferred Principal Obligation owed to each Lender shall be due and payable on the first to occur of (x) the Regular Maturity Date or (y) the Accelerated Maturity Date, in each case, with respect to such Deferred Principal Obligation. Subject to Section 3.1(d), the term "Regular Maturity Date" with respect to any Deferred Principal Obligation shall mean (I) in the case of any Deferred Principal Obligation listed on Schedule VII, June 30, 1993, (II) in the case of the Princess Loan and the Princess $10 Million Loan, the first to occur of June 30, 1991 and the date of the sale or other disposition of the Princess, (III) in the case of the Mar-a-Lago Loan, December 30, 1993, and (IV) in the case of any other Deferred Principal Obligation, June 30, 1995.

(ii) Subject to Section 3.1(d), an "Accelerated Maturity Date" with respect to any Deferred Principal Obligation having a Regular Maturity Date of June 30, 1995 shall occur on June 30, 1993 (subject to extension as provided in Section 3.1(c)(iii)) if (I) the holder of such Deferred Principal Obligation is listed on Schedule XII and is secured, as of the date hereof, by any Lien pursuant to an Existing Collateral Agreement on any property (including any Equity
Interest) included in the Existing Collateral (each such holder as set forth on Schedule XII, a "Claimholder", and each such correlative property (including any property owned by any Person the Equity Interests of which are subject to the Lien), such "Claimholder’s Asset") and (2) such Claimholder shall, on or after March 31, 1993, have delivered a notice to DJT (with a copy to the Agent and to each other Lender) (an "Acceleration Notice") providing that such holder has elected to exercise its rights to cause an Accelerated Maturity Date with respect to such Deferred Principal Obligation to occur, unless DJT shall comply with the provisions of clause (x), (y) or (z) below:

(x) (i) Within 60 days after the date of the applicable Acceleration Notice, DJT delivers a written notice to such Claimholder (with a copy to the Agent and to each other Lender) stating that DJT intends to refinance such Claimholder’s Asset and to prepay the Indebtedness owed to such Claimholder represented by such Deferred Principal Obligation and any related Deferred Interest Obligation, which such notice shall include a bona fide commitment for such refinancing (subject only to customary conditions which are reasonably capable of satisfaction in a timely manner) and (ii) within 60 days after the date of such notice by DJT, such refinancing of such Claimholder’s Asset is consummated and the proceeds thereof are applied to repay in full (giving effect to the then applicable Prepayment Factor) such Deferred Principal Obligation and any related Deferred Interest Obligation and otherwise in accordance with the provisions of this Agreement; or

(y) DJT delivers to such Claimholder (and to the Agent and to each other Lender) within 60 days after the date of the applicable Acceleration Notice a notice (certified by each of the Certifying Persons and each reasonably acceptable in form and substance to such Claimholder) certifying that the amount of the projected Entity Operating Cash Flow (before debt service) of such Obligor (which projections shall be made in good faith, shall be based on the Entity Operating Cash Flow of such Claimholder’s Asset or the owner of such Claimholder’s Asset, as the case may be, for the six-month period immediately preceding the date of the Acceleration Notice and shall accompany each such notice and shall be reasonably acceptable in form and substance to such Claimholder) is adequate to satisfy the six month projected debt service of Indebtedness held by such Claimholder and secured by such Claimholder’s Asset and any Indebtedness secured by a perfected Lien in such Claimholder’s Asset senior to such Claimholder’s Lien (it being understood that the giving by
DJT of such notice shall result in an Accelerated Interest Payment Date to the extent set forth in Section 4.1(b)); or

(z) In the event that, on or prior to June 30, 1993, the Claimholder shall deliver a notice to DJT (with a copy to the Agent and each other Lender) indicating that such Claimholder has located a bona fide purchaser for such Claimholder’s Asset, which such notice shall be accompanied by an appraisal by an independent Person of nationally recognized standing who has been engaged in the business of valuing assets of the same type as the asset subject to valuation (a "Qualified Appraiser") which indicates that the fair market value of such Claimholder’s Asset is not greater than the consideration proposed to be paid by such bona fide purchaser (it being agreed by each DJT Entity and each Lender that no Claimholder or other Lender shall have any obligation whatsoever to seek or locate such a bona fide purchaser for any Claimholder’s Asset or any other property or to deliver any such notice if any such purchaser is located), DJT consummates a sale within 90 days of June 30, 1993 (such 90-day period, the "First Period"), of such Claimholder’s Asset to such bona fide purchaser and the proceeds of such sale are applied to the repayment of the applicable Deferred Principal Obligation and any related Deferred Interest Obligation and otherwise in accordance with the provisions of this Agreement. If DJT determines in good faith that the fair market value of such Claimholder’s Asset is greater than such proposed consideration, DJT may obtain a second such appraisal from another Qualified Appraiser and, in the event that the fair market value of such Claimholder’s Asset set forth in such second appraisal does not reflect a fair market value either lower than or within 5% of such proposed consideration, the two Qualified Appraisers shall designate a third Qualified Appraiser whose determination as to the fair market value thereof, which shall be based on the appraisals of such two other Qualified Appraisers, shall be binding. If the fair market value determined by such second or third Qualified Appraiser is either lower or within 5% of the fair market value as that proposed to be paid by such bona fide purchaser, DJT shall use his best efforts to consummate such sale as promptly as practicable and, in any event, by December 31, 1993. If the fair market value determined by such third Qualified Appraiser is not either lower or within 5% of the proposed consideration, DJT shall have an additional period of 90 days after the expiration of the First Period either to (I) consummate the sale of such Claimholder’s Asset for an amount not less than the value determined by such third Qualified Appraiser or (II) comply with all of the provisions of clause (y) above with respect to such Claimholder’s Asset (as if the date of the appraisal

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by the third Qualified Appraiser were the date of the Acceleration Notice) and irrevocably elect in a manner satisfactory to such Claimholder to cause the Regular Interest Payment Date with respect thereto to be a date no later than 90 days after the end of such First Period (a "Current Pay Election"). If DJT shall comply with either clause (I) or clause (II) above within such 90-day period after the end of the First Period, no Accelerated Maturity Date shall be deemed to have occurred with respect to such Deferred Principal Obligation and related Deferred Interest Obligation. If DJT shall not so comply with either clause (I) or clause (II) above within such 90-day period after the end of the First Period, an Accelerated Maturity Date with respect to such Deferred Principal Obligation and related Deferred Interest Obligation shall occur at the end of such 90-day period after the end of the First Period. All costs and expenses of all Qualified Appraisers shall be joint and several obligations of the DJT Entities. If any Claimholder shall not deliver the notice contemplated by the first sentence of this clause (z) to DJT on or prior to June 30, 1993, DJT shall not be entitled to rely on this clause (z) to avoid the occurrence of an Accelerated Maturity Date with respect to the Deferred Principal Obligations owed to such Claimholder.

(iii) No Accelerated Maturity Date (or Accelerated Interest Payment Date, if Section 4.1(b) shall be applicable) shall occur with respect to the Indebtedness of any Claimholder until the latest date specified in clauses (I)-(IV) below:

(I) June 30, 1993;

(II) In the event that DJT shall deliver the notice specified in Section 3.1(c)(ii)(x)(i) above with respect to the Indebtedness of such Claimholder, the expiration of the 60 day period referred to in Section 3.1(c)(ii)(x)(ii) above;

(III) In the event such Claimholder shall deliver the notice and appraisal provided for in the first sentence of Section 3.1(c)(ii)(z) above, the expiration of the First Period; and

(IV) In the event that DJT shall in good faith seek an appraisal from a second Qualified Appraiser as provided in the second sentence of Section 3.1(c)(ii)(z) above, the expiration of the 90-day period following the expiration of the First Period.
(iv) Each Claimholder shall promptly deliver to the Agent and each other Lender a copy of each notice, appraisal and other communication between such Claimholder and any DJT Entity pursuant to this Section 3.1(c) and shall promptly give notice to the Agent and each other Lender of the occurrence of any Accelerated Maturity Date or Accelerated Interest Payment Date.

(v) Any default by the Obligor in the payment of principal on any Deferred Principal Obligation with respect to which an Accelerated Maturity Date has occurred shall constitute an Existing Foreclosure Event; provided, however, that the occurrence of any Accelerated Maturity Date with respect to any Deferred Principal Obligation (or any related Accelerated Interest Payment Date) shall not entitle (except as expressly contemplated by Section 2.2(g)) such Claimholder, directly or indirectly, to assert or enforce any claim in respect of the correlative Existing Debt Obligation against DJT (including, without limitation, DJT in his capacity as an Obligor, a general or limited partner of any partnership, a participant in any joint venture, a stockholder, officer or director of a corporation or in any other capacity, whether by operation of law or otherwise) or to enforce any Contingent Debt Obligation against DJT (including, without limitation, DJT in his capacity as an Obligor, a general or limited partner of any partnership, a participant in any joint venture, a stockholder, officer or director of a corporation or in any other capacity, whether by operation of law or otherwise), in each case until June 30, 1995 (other than as permitted by Article V and the respective Lender's Existing Debt Credit Agreements), and shall not result in an Accelerated Maturity Date with respect to any other Deferred Principal Obligation, including, without limitation, any Contingent Debt Obligation in respect of the Existing Debt Obligation represented by the Deferred Principal Obligation with respect to which such Accelerated Maturity Date has occurred. The occurrence of certain Accelerated Maturity Dates shall give rise to an Accelerated Interest Payment Date to the extent provided in Section 4.1.

(d) Special Cases. (i) Penn Yards. Notwithstanding Section 3.1(c) or anything set forth in Section 4.1 to the contrary, the Regular Maturity Date and the Regular Interest Payment Date for the Penn Yards Loan and the $9 million Penn Yards Loan (together, the "Yards Loan") shall be June 30, 1993 unless on or after May 1, 1993 but prior to June 1, 1993 Yards shall irrevocably elect in a manner satisfactory to Chase to pay interest on the Yards Loan on a current basis going forward in which event (A) the Regular Maturity Date for the Yards Loan shall be June 30, 1995 and
(B) the Yards Loan shall bear interest at the rate provided for in the applicable Existing Agreement Amendment. Any subsequent default by the Obligor thereof in the payment of interest on the Deferred Principal Obligation or the occurrence of any other event of default under the Yards Loan shall constitute an Existing Foreclosure Event with respect to the premises encumbered by the mortgage securing the Yards Loan, but Chase shall not be entitled to assert or enforce any deficiency or similar claim in respect of the Yards Loan against DJT (including, without limitation, DJT in his capacity as an Obligor, a general or limited partner of any partnership, a participant in any joint venture, a stockholder, officer or director of a corporation or in any other capacity, whether by operation of law or otherwise) or to otherwise enforce any Contingent Debt Obligation against DJT (including, without limitation, DJT in his capacity as an Obligor, a general or limited partner of any partnership, a participant in any joint venture, a stockholder, officer or director of a corporation or in any other capacity whether by operation of law or otherwise) (other than as expressly set forth in Section 2.2(g)) until June 30, 1995. It is hereby understood and agreed by the parties to this Agreement that the Existing Agreement Amendments relating to the Yards Loan do not effect a deferral of the principal and interest with respect to the Deferred Principal Obligations relating to the Yards Loan but do effect and embody an agreement by Chase to forbear, during the period covered by this Agreement and the applicable Existing Agreement Amendment, from exercising remedies under the Existing Collateral Agreements and Special Collateral Agreements relating to the Yards Loan as a result of the Obligor’s failure to pay principal and interest prior to and during the term of this Agreement, subject, however, to the terms of the applicable Existing Agreement Amendment. Accordingly references in this Agreement to deferral and like and similar concepts as they relate to the Yards Loan shall be deemed to refer to the forbearance by Chase referenced above and reflected in the Existing Agreement Amendments and furthermore any acceleration provided for in Article V shall with respect to the Yards Loan be deemed to refer to a termination of such forbearance. It is hereby further understood and agreed by the parties to this Agreement and the Existing Agreement Amendments applicable to the Yards Loan that any provision thereof relating to the acceleration of the Yards Loan as of the Closing Date shall not in and of itself effect the applicability of the Prepayment Factor the right of any DJT Entity to retain any portion of Residual Net Cash Proceeds or Operating Cash Flow to which it would otherwise be entitled pursuant to this Agreement or affect or expand DJT’s obligation under his existing guaranty of the Penn Yards Loan.
(ii) Shuttle. Notwithstanding anything in Section 3.1 to the contrary, the Regular Maturity Date of the $9 million note issued by DJT to the Shuttle shall be June 30, 1995; provided, however, that, if the Deferred Recourse Interest Obligations shall be accelerated pursuant to Article V, such note shall be payable in accordance with the terms thereof; provided, further, however, that, if any of the Shuttle Lenders shall realize upon any of their Existing Collateral with respect to the Trump Shuttle, Inc., and thereby, directly or indirectly, assume control of the management and operations of the Trump Shuttle, Inc., such Lenders shall not demand any payment or take any other action with respect thereto until the first to occur of June 30, 1995 and the date of acceleration of the Deferred Recourse Interest Obligations pursuant to Article V.

(iii) (A) Midlantic Letters of Credit. Notwithstanding anything in Section 3.1(c) or in Article IV or otherwise to the contrary, (I) the expiration date of each of the Midlantic Letters of Credit shall be May 16, 1991 in accordance with the respective terms thereof, and Midlantic shall have no obligation hereunder to extend or renew any of the Midlantic Letters of Credit. Subject to Section 2.2(g), in the event that any amounts are drawn under any Midlantic Letter of Credit, (II) such amounts, and any interest thereon, shall be payable by the respective Obligors thereof in accordance with the terms thereof (after giving effect to the applicable Existing Agreement Amendment), and (III) any recourse to DJT personally as account party of such Midlantic Letters of Credit or otherwise shall be subject to Section 2.2(g). Any obligations of DJT to pay any principal under the Midlantic Letters of Credit shall constitute Deferred Principal Obligations with a Regular Maturity Date of June 30, 1995 and interest on each such obligation of DJT shall constitute Deferred Recourse Interest Obligations with a Regular Interest Payment Date of June 30, 1995.

(B) Midlantic-Castle Loan. Notwithstanding anything in Section 3.1(c) or Article IV or otherwise to the contrary, but subject to Section 2.2(g), the Regular Maturity Date of the Midlantic Castle Working Capital Loan shall be June 30, 1995 and the interest thereon shall be payable currently in accordance with the terms thereof (after giving effect to the applicable Existing Agreement Amendment).

(iv) First Fidelity. Notwithstanding anything in Section 3.1 or Article IV or otherwise to the contrary, (A) subject to Section 2.2(g), any principal of or interest on any amounts drawn, whether prior to or after the Closing
Date, on any First Fidelity Letter of Credit, shall be payable in accordance with the terms thereof; and (B) subject to Section 2.2(g), the First Fidelity Auto Loans shall be payable in accordance with their terms. Any obligations of DJT (including without limitation, in his capacity as an Obligor, a general or limited partner of a partnership, a participant in any joint venture, a stockholder, officer or director of a corporation or in any other capacity, whether by operation of law or otherwise) to pay any principal under the First Fidelity Letters of Credit or First Fidelity Auto Loan shall be subject to Section 2.2(g).

Unless DJT delivers to First Fidelity on or within ten (10) days prior to May 31, 1993, a notice (certified by each of the Certifying Persons) certifying that the amount of the projected Entity Operating Cash Flow (after the deduction for the current debt service on the Taj Mahal Bonds but before the deduction for any other debt service) of the Taj Mahal (which projections shall be in reasonable detail and made in good faith, shall be based on the Entity Operating Cash Flow of the Taj Mahal for the twelve-month period immediately preceding March 31, 1993 and shall accompany such notice) is inadequate to satisfy the twelve-month projected debt service of the First Fidelity Taj Term Loan then, notwithstanding anything in Section 3.1 or Article IV or otherwise to the contrary and subject to Section 2.2(g), commencing on June 30, 1993, and at all times thereafter during the term of this Agreement (a) First Fidelity shall be deemed to be a Claimholder listed on Schedule XII with respect to the First Fidelity Taj Term Loan, (b) the Existing Collateral securing the First Fidelity Taj Term Loan pursuant to First Fidelity’s Existing Collateral Agreement shall be deemed to be the Claimholder’s Asset of First Fidelity, (c) First Fidelity shall be deemed to have given an Acceleration Notice to DJT pursuant to Section 3.1(c)(ii), (d) DJT shall be deemed to have complied with the provisions of clause (y) of Section 3.1(c)(ii) and (e) thereafter the Taj Mahal shall pay to Trump Management the semi-annual installments of the management fees payable under the Taj Mahal Management Contract (in order to cover the debt service on the First Fidelity Taj Term Loan) on the 16th day of November and May of each year during the term of this Agreement, subject to and contingent upon the payment of interest and principal, if any, due on the day preceding any such installment payment date with respect to the Taj Mahal Bonds (and any due and unpaid interest and principal amounts accrued to any such date) and Trump Management will (and DJT shall cause Trump Management to) pay such installment payment funds to First Fidelity (it being understood that nothing in this clause (iv)(e) shall impair or alter, or affect the right of the Taj
Mahal to pay, the obligations of Taj Mahal with respect to any of the Indebtedness of Taj Mahal as of the date hereof owing to National Westminster Bank USA or preclude Taj Mahal from paying any such Indebtedness).

(e) East 61 St. Note. Notwithstanding anything to the contrary contained herein, in accordance with the terms of a Restructuring Agreement of even date herewith (the "Restructuring Agreement"), between DJT and Manufacturers Hanover Trust Company ("MHT"), on the Closing Date (as defined in the Restructuring Agreement) MHT shall accept, in satisfaction of DJT's promissory note to MHT in the aggregate principal amount of $23,751,566.42 (the "DJT Note") plus all accrued and unpaid interest thereon through the Closing Date, the assignment by The East 61 St. Company ("East 61 St.") of a promissory note in the aggregate principal amount of $24,000,000 (the "East 61 St. Note") and a mortgage securing the East 61 St. Note (the "Mortgage"), each representing an obligation of the Trump Plaza Owners, Inc. (the "Cooperative") in favor of East 61 St. and each of which currently secures the DJT Note. In addition, on the Closing Date (as defined in the Restructuring Agreement) DJT shall deliver to MHT two term notes payable on the earlier to occur (the "Termination Date") of February 28, 1994 (the maturity date of the East 61 St. Note) or such earlier date on which MHT releases the East 61 St. Note and the Mortgage in connection with the prepayment, sale, assignment, foreclosure or other disposition thereof. One such term note (the "Interest Note") shall evidence DJT's obligation to MHT with respect to (a) the amount, if any, by which, (i) the sum of the outstanding principal balance of the DJT Note plus all accrued and unpaid interest thereon through the Closing Date (as defined in the Restructuring Agreement) shall exceed (ii) $24,000,000; and (b) payment on a monthly basis to and including the Termination Date of the amount, if any, by which the amount of interest that would have been payable under the DJT Note shall exceed the lesser amount of interest that will be payable under the East 61 St. Note (the "Interest Differential"). The second term note (the "Term Loan Note") shall evidence DJT's obligation with respect to (a) a series of term loans to be made by MHT to DJT on a monthly basis during the period when the Initial Business Plan shall be in effect in each case in the principal amount of $70,000, all in accordance with the terms and subject to the conditions set forth in the Restructuring Agreement; and (b) the amount, if any, by which, (i) $24,000,000 shall exceed (ii) the amount realized by MHT on account of the East 61 St. Note and the Mortgage upon any prepayment, foreclosure, sale, assignment or other disposition thereof. Pursuant to the
Restructuring Agreement, amounts outstanding under the Interest Note and interest accrued on the Term Loan Note shall constitute Deferred Recourse Interest Obligations hereunder, and the principal amount outstanding under the Term Loan Note shall constitute Deferred Principal Obligations which are Covered Debt Obligations hereunder; provided, however, that the Interest Differential shall not be calculated for any period from and after the Termination Date; provided, further, however that amounts outstanding under the East 61 St. Note shall in no way be subject to any provision of this Agreement other than this Section 3.1(e); provided, however, that the Term Loan Note and the Interest Note shall be subject to Section 2.2(g).

(f) Nothing contained in paragraphs (c) through (e) of this Section 3.1 shall apply to the Palm Beach Debt Obligations. The maturity of the Palm Beach Debt Obligations is amended solely as provided in the Existing Amendment Agreement for the Palm Beach Credit Agreement.

SECTION 3.2 Application of Capital Event Proceeds and Operating Cash Flow to Existing Debt Obligations.

(a) Allocation Prior to Allocation to New Credit Facility. Except with respect to any Existing Debt Obligation for which prepayment provisions are specifically set forth in this Section 3.2 or on Schedule VIII, Net Cash Proceeds arising as a result of a Capital Event shall be paid (without limiting any additional requirement contained therein with respect to such Capital Event) in the manner and to the extent required by the Existing Debt Credit Agreements and the Existing Collateral Agreements, each as amended by the applicable Existing Agreement Amendment, as in effect as of the Closing Date, in accordance with the respective priorities set forth therein, except as expressly provided herein. Any Net Cash Proceeds arising in respect of any Capital Event remaining after any payments required pursuant to the immediately preceding sentence shall be referred to herein as the "Special Net Cash Proceeds." Upon receipt, directly or indirectly, by any DJT Entity, or any other Affiliate of DJT, of any Special Net Cash Proceeds, DJT shall prepay, or cause to be prepaid, by delivery thereof to the Agent (or, in the case of the Alexander’s Loan, the Princess Loan, the $10 million Princess Loan, the Mar-a-Lago Loan, the Plaza Junior, the Shuttle Junior and the Trump Palace Loan, to the respective Lenders thereunder), whether or not then due and payable any Existing Debt Obligation for which prepayment provisions are specifically set forth in this Section 3.2 or on Schedule VIII in the order of priority and as otherwise provided in this Section 3.2 and on such Schedule
VIII. Any DJT Entity which receives any Net Cash Proceeds shall hold the same in trust for the benefit of the Lender or Lenders entitled thereto and such DJT Entity will deliver the same to such Lender or Lenders or the Agent, as the case may be, in the form received, with only such endorsements as may be required. Intercompany Notes shall be prepaid from Net Cash Proceeds arising as a result of a Capital Event with respect to the Obligor thereof or its assets to the extent provided in Article XI and Schedule VIII. DJT shall give the Agent ten days' prior notice of the consummation of any Capital Event and shall cause any Net Cash Proceeds arising as a result thereof to be delivered to the Agent for distribution, or to the Lender entitled thereto, pursuant to any Existing Debt Credit Agreement or this Agreement to the extent required to be so distributed pursuant to Section 3.2 or Schedule VIII.

(i) Allocation Among Lenders. Notwithstanding the terms and conditions of any Existing Collateral Agreement, Special Collateral Agreement or Collateral Agreement or the order of creation or perfection of any Liens thereunder, any Special Net Cash Proceeds from any Capital Event in respect of any Equity Interest (including, without limitation, any proceeds thereof or rights therein, including, without limitation, any distributions therefrom) in, or asset of, any property specified on Schedule VIII (as applicable, the "Covered Property") shall, subject to Section 3.2(a)(ii), be applied to prepay then outstanding amounts of Existing Debt Obligations in the order of priority specified on the schedule included in Schedule VIII with respect to such Covered Property. Unless expressly indicated to the contrary on Schedule VIII, Special Net Cash Proceeds (and, in the case of Covered Debt Obligations, Net Cash Proceeds) shall be applied first to the prepayment of principal, next to the prepayment of interest and then to the prepayment of any remaining Existing Debt Obligations. For purposes of this Article III, whenever any reference is made to the prepayment of interest, the amount to be so prepaid shall include, without limitation, all amounts accrued both before and after the commencement of a case against any Obligor as debtor under any chapter of the Bankruptcy Code.

(ii) Certain Exceptions. (x) Notwithstanding the foregoing, but subject to Section 3.8:

(A) any Special Net Cash Proceeds (calculated pursuant to Section 3.2(b)(ii)(C)) arising as a result of a Capital Event relating to the Plaza Casino shall be allocated to the prepayment of the NatWest Letters of Credit and NatWest Notes (without duplication) (until
there are no outstanding Covered Debt Obligations in respect thereof) in the priority set forth in the applicable schedule of Schedule VIII in an amount equal to the lesser of (x) $20,000,000, or so much thereof as may then be outstanding as provided in the applicable Existing Agreement Amendment, plus the then outstanding amount of any related Deferred Recourse Interest Obligation (less any amount previously applied pursuant to this Agreement), giving effect to any applicable Prepayment Factor, and (y) the product of (I) the amount of the applicable Special Net Cash Proceeds and (II) the applicable Adjustment Factor;

(B) any Special Net Cash Proceeds (calculated pursuant to Section 3.2(b)(ii)(C)) arising as a result of a Capital Event relating to the Castle shall be allocated to the prepayment of the Midlantic Castle Working Capital Loan (until there are no outstanding Existing Debt Obligations in respect thereof) in the priority set forth in the applicable schedule of Schedule VIII in an amount equal to the lesser of (x) $13,000,000 (less any amount previously applied pursuant to this Agreement) and (y) the product of (I) the amount of the applicable Special Net Cash Proceeds and (II) the applicable Adjustment Factor.

The term "Adjustment Factor" shall mean, (I) in the case of any transaction specified in clause (a) or clause (b) of the definition of Casino Equity Sale, the percentage (calculated pursuant to Section 3.2(b)(ii)(A)(I), 3.2(b)(ii)(C) and 3.2(b)(ii)(E)) of the then outstanding Equity Interests of the applicable Casino Entity represented by the Equity Interests of such Casino Entity sold in the applicable Capital Event, (II) in the case of any transaction specified in clause (c) of the definition of Casino Equity Sale (x) involving the sale of all or substantially all the assets of the applicable Casino Entity, 100%, and (y) involving the sale of less than all or substantially all the assets of the applicable Casino Entity, 50%, and (III) in the case of any other Capital Event involving the applicable Casino Entity, 100%.

(C) any Special Net Cash Proceeds arising as a result of any lease of residential condominium units by Trump Palace shall be allocated to prepay the Covered Debt Obligations of the Trump Palace Loan and then to any remaining Existing Debt Obligations in respect thereof in accordance with the terms thereof (it being understood and agreed by the parties hereto that nothing in this Agreement shall be deemed to amend or waive any provision of the Trump Palace Loan
which restricts any lease of residential condominium units by Trump Palace);

(D) in the event of a Capital Event involving the Princess, if the Special Net Cash Proceeds therefrom equals or exceeds $45,000,000 (it being understood that, for purposes of calculating such amount, such Special Net Cash Proceeds shall not be reduced by any payments to Boston Safe Deposit and Trust Company in respect of any Indebtedness secured by a Lien in the Princess), any excess, up to $2,000,000 of such Special Net Cash Proceeds shall be allocated to the prepayment of the Mar-A-Lago Loan;

(y) Upon the occurrence of any Capital Event relating to the Taj Mahal, the applicable Special Net Cash Proceeds shall be distributed as follows:

(1) First Fidelity shall receive proceeds of up to $50,000,000 (the "First Tranche") thereof to be applied to the Deferred Principal of the First Fidelity Taj Term Loan.

(2) First Fidelity shall receive 50% of the balance of such Special Net Cash Proceeds, if any (the "Second Tranche"), to be applied first to the Deferred Principal of the First Fidelity Taj Term Loan and second to the Deferred Interest on the First Fidelity Taj Term Loan (after giving effect to any applicable Prepayment Factor).

(3) If after giving effect to clause (2) above, the entire Deferred Principal and Deferred Interest on the First Fidelity Taj Term Loan are paid in full, then the balance of the Special Net Cash Proceeds shall be paid to the Agent to be paid or applied in accordance with Section 3.2(a)(iii) of this Agreement.

(4) If after giving effect to clause (2) above, there remains outstanding Deferred Principal or Deferred Interest on the First Fidelity Taj Term Loan, First Fidelity shall receive the balance of such proceeds, if any (the "Third Tranche"), to be applied first to the balance of the Deferred Principal of the First Fidelity Taj Term Loan and second to the Deferred Interest on the First Fidelity Taj Term Loan (after giving effect to any applicable Prepayment Factor).

(5) If after giving effect to clause (4) above, the entire Deferred Principal and Deferred Interest on the First Fidelity Taj Term Loan are paid in full, then the balance of the Third Tranche shall be paid to the Agent and applied by the Agent pursuant to Section 3.2(a)(iii).
If after (a) the occurrence of the final maturity of the New Credit Facility (whether by scheduled maturity, by acceleration or otherwise) and (b) the enforcement of all material remedies for the repayment of the New Credit Facility reasonably available to the agent under the New Credit Facility, including, without limitation, the practical realization upon all or substantially all collateral for the New Credit Facility, there remains any unpaid balance of the New Credit Facility, First Fidelity shall indemnify the agent under the New Credit Facility for the ratable benefit of the banks party to the New Credit Facility in an amount equal to the lesser of (i) such deficiency or (ii) the amount actually applied by First Fidelity to the payment of the principal of and accrued and unpaid interest on the First Fidelity Taj Term Loan from the Third Tranche pursuant to clause (4) above and not required to be repaid by First Fidelity as a result of any case under the Bankruptcy Code against Taj Mahal or DJT as debtor under any preference or similar theory; provided that, in the event that any amount applied by First Fidelity to the payment of the First Fidelity Taj Term Loan shall thereafter be required to be so repaid, the banks party to the New Credit Facility shall reimburse First Fidelity therefor up to the amount paid by First Fidelity to the agent under the New Credit Facility pursuant to this clause (6).

In the event that more than one Capital Event involving the Taj Mahal shall occur, credit for any prior allocations pursuant to this Section shall be given in any subsequent allocation.

(iii) Allocation to New Credit Facility. In the case of any Capital Event, after application as provided pursuant to the foregoing provisions of this Section 3.2(a), until either the New Money Termination Event or the satisfaction of the Collateralization Condition, the Agent (or other Lenders, as the case may be) shall deliver any remaining Special Net Cash Proceeds to the agent under the New Credit Facility for the pro rata payment or collateralization of the obligations to the banks under the New Credit Facility in accordance with the terms thereof. Any remaining Net Cash Proceeds not required to be so allocated and any Net Cash Proceeds remaining after application pursuant to the terms of the New Credit Facility shall be allocated pursuant to Section 3.2(b) and Section 3.3.

(b) Allocation of Residual Net Cash Proceeds After Allocation to New Credit Facility - Allocation Between Lenders and DJT Entities. The provisions of this Section 3.2(b)
shall govern the allocation of the amount (the "Residual Net Cash Proceeds") of any Special Net Cash Proceeds remaining after application thereof pursuant to Section 3.2(a), Schedule VIII or pursuant to the New Credit Facility; provided, however, that, prior to the occurrence of the New Money Termination Event or the satisfaction of the Collateralization Condition, no amount shall be allocable to DJT or any other DJT Entity and 100% of any Residual Net Cash Proceeds shall be allocated to repay the Covered Debt Obligations pursuant to Section 3.3. The provisions of Section 3.3 shall govern allocation of such amounts among the Lenders.

(i) Casino Equity Sales. Any Residual Net Cash Proceeds of any Casino Equity Sale shall be utilized to prepay the Covered Debt Obligations as follows:

(A) subject to clause (D) below, if, (x) as of the consummation of such Casino Equity Sale, less than $625,000,000 of the Covered Debt Obligations shall have been prepaid, and (y) as of the consummation of such Casino Equity Sale, less than 20% of the Equity Interests of the Casino Entity or Casino Entities that are the subject of the Casino Equity Sale outstanding at the time of such Casino Equity Sale (calculated as provided in Section 3.2(b)(ii)) shall have been the subject of a Casino Equity Sale (in one transaction or a series of transactions, whether or not related, including such Casino Equity Sale), an amount equal to 50% of the Residual Net Cash Proceeds of such Casino Equity Sale shall be utilized to prepay the Covered Debt Obligations on the date of such sale;

(B) subject to clause (D) below, if, (x) as of the consummation of such Casino Equity Sale, less than $625,000,000 of the Covered Debt Obligation shall have been prepaid, and (y) as of the date of consummation of such Casino Equity Sale, 20% or more of the Equity Interests of the Casino Entity or Casino Entities that are the subject of the Casino Equity Sale outstanding at the time of such Casino Equity Sale shall have been the subject of a Casino Equity Sale (in one transaction or series of transactions, whether or not related, including such Casino Equity Sale), then an amount equal to the sum of the amounts determined pursuant to clauses (I) and (II) below shall be utilized to prepay the Covered Debt Obligations on the date of such sale:

(I) 50% of the product of (A) the amount of such Residual Net Cash Proceeds and (B) the Applicable Percentage;
90% of the excess of (A) such Residual Net Cash Proceeds over (B) the product of (X) the amount of such Residual Net Cash Proceeds and (Y) the Applicable Percentage.

The term "Applicable Percentage" shall mean the fraction, the numerator of which is .2 and the denominator of which is the percentage of the then outstanding Equity Interests of such Casino Entity which, as of the date of consummation of such Casino Equity Sale, have been sold or otherwise disposed of in one or more Casino Equity Sales with respect to such Casino Entity (including such Casino Equity Sale) (expressed as a decimal);

(C) if, as of the consummation of such Casino Equity Sale, $625,000,000 or more of the Covered Debt Obligations shall have been prepaid, then an amount equal to 50% of the Residual Net Cash Proceeds of such Casino Equity Sale shall be utilized to prepay the Covered Debt Obligations on the date of such sale; and

(D) notwithstanding clauses (A) and (B) above, but subject to clause (C) above, (i) if, as of the date of consummation of such Casino Equity Sale, the aggregate Residual Net Cash Proceeds of all Casino Equity Sales (including the subject Casino Equity Sale) shall exceed $100,000,000, any Residual Net Cash Proceeds in excess of such amount shall be utilized to prepay the Covered Debt Obligations in an amount equal to 90% of such excess Residual Net Cash Proceeds on the date of such sale or (ii) to the extent the applicable Casino Equity Sale involves any refinancing, directly or indirectly, of any Indebtedness of any Casino Entity or the sale of any of the assets of any Casino Entity, an amount equal to 82% of the Residual Net Cash Proceeds arising therefrom shall be utilized to prepay the Covered Debt Obligations on the date of such sale.

Notwithstanding the foregoing, (x) if application of any portion of the Residual Net Cash Proceeds of any Casino Equity Sale would cause the condition specified in clause (D)(i) above to be satisfied, the applicable Residual Net Cash Proceeds shall be applied without giving effect to such clause (D)(i) until such condition shall so be satisfied and shall thereafter be applied pursuant to such clause (D)(i) or (y) if application of any portion of the Net Cash Proceeds of any Casino Equity Sale would cause $625,000,000 or more of the Covered Debt Obligations to be prepaid, the applicable Residual Net Cash Proceeds shall be applied without giving
effect to clause (C) above until such condition shall so be satisfied and shall thereafter be applied pursuant to such clause (C).

If there shall occur any related series of Casino Equity Sales which, if consummated as a single Casino Equity Sale, would have resulted in a greater amount of the aggregate Residual Net Cash Proceeds from such related Casino Equity Sales being applied to the prepayment of the Covered Debt Obligations, the DJT Entities shall cause such greater amount to be so applied. If there shall occur any Casino Equity Sale involving more than one Casino Entity which, if consummated as separate Casino Equity Sales would have resulted in a greater amount of the aggregate Residual Net Cash Proceeds thereof being applied to the prepayment of the Covered Debt Obligations, the DJT Entities shall cause such greater amount to be so applied.

(ii) Calculation of Percentage of Equity Sold.

(A) For purposes of this Section 3.2, whenever a determination is required to be made as to what percentage of the then outstanding Equity Interests in any Casino Entity have been sold or otherwise disposed of in one or more Casino Equity Sales, such percentage shall be equal to the greater of the following:

(I) the percentage of the rights of all then outstanding Equity Interests in such Casino Entity to receive any dividends, distributions or other payments at any time or from time to time (whether upon any voluntary or involuntary liquidation, dissolution or winding up or otherwise) represented by the Equity Interests in such Casino Entity which have been so sold or otherwise disposed of (including the interests issued in connection with the applicable Casino Equity Sale); and

(II) in the event that (after giving effect to the applicable Casino Equity Sale) DJT shall no longer control, directly or indirectly, such Casino Entity, the percentage of the power to vote in the election of directors (or to otherwise influence, direct or control the operations or management) of such Casino Entity of all then outstanding Equity Interests in such Casino Entity represented by the Equity Interests in such Casino Entity which have been so sold or otherwise disposed of (including the interests issued in connection with the applicable Casino Equity Sale). For purposes of this Clause (II), DJT shall not be deemed to control, directly or indirectly, any Casino Entity.
solely as a result of any contract or similar arrange-
ment.

(B) In making any such determination, if any of the rights specified in clause (I) or (II) above would be satisfied only upon the passage of time, the exercise of any right (whether or not any additional payment, or the surrender, conversion or exchange of any security, is required in connection therewith), the occurrence (or failure to occur) of any event, or the satisfaction (or failure to be satisfied) of any other condition (any such passage of time, exercise, payment, surrender, conversion, exchange, occurrence (or failure to occur) or satisfaction (or failure to be satisfied), a "Trigger Event"), each and every such Trigger Event shall be deemed to have occurred (or to have failed to occur, as the case may be), but only with respect to the Equity Interests which have been so sold or otherwise transferred. All such calculations of Equity Interests outstanding as of any time shall be made after giving effect to the issuance of any securities in connection with the Casino Equity Sale with respect to which the determination has been made.

(C) In the event that more than one Casino Entity is included in any Casino Equity Sale, the Special Net Cash Proceeds and Residual Net Cash Proceeds arising therefrom shall be allocated among each such Casino Entity by a Qualified Appraiser selected by the Agent and each Lender whose prepayment would be affected thereby (other than as a result of such Lender's pro rata entitlement pursuant to Section 3.3) (the costs and expenses of which shall be the joint and several obligations of the DJT Entities) taking into account the relative fair market value of the Casino Entities covered thereby and the interests of each included in such Casino Equity Sale.

(D) In the event that more than one Casino Entity is included in any Casino Equity Sale, 20% or more of the Equity Interests of such Casino Entities shall be deemed to have been the subject of such Casino Equity Sale (and therefore the provisions of Section 3.2(b)(i)(B) shall apply) if the amount equal to (x) the aggregate Net Cash Proceeds of such Casino Equity Sales divided by (y) the sum of the Gross Amount of each Casino Entity which is the subject of such Casino Equity Sale is equal to or greater than .2. The term "Gross Amount" of any such Casino Entity shall mean the ratio of the Net Cash Proceeds allocable to such Casino Entity
to the percentage of the then outstanding Equity Interests of such Casino Entity which are the subject of such Casino Equity Sale (determined in accordance with clauses (A) and (B) above). If less than 20% of the Equity Interests of such Casino Entities shall be so deemed to have been the subject of such Casino Equity Sale, the provisions of clause (C) above shall apply in the determination of the percentage of the Equity Interests so sold for purposes of Section 3.2(b)(i)(B). If 20% or more of such Equity Interests shall so be deemed to have been the subject of such Casino Equity Sale, a percentage equal to (x) the aggregate Net Cash Proceeds of such Casino Equity Sales divided by (y) the sum of the Gross Amount of each Casino Entity which is the subject of such Casino Equity Sale shall be deemed to be the percentage of the Equity Interests so sold for purposes of Section 3.2(b)(i)(B).

(E) In the event of any bona fide dispute as to the calculation of any amount hereunder, any provision may be interpreted and any ambiguity resolved with the consent of the Required Lenders (and of each Lender whose prepayment would be affected thereby (other than as a result of such Lender’s pro rata entitlement pursuant to Section 3.3)).

(iii) Facility Fee. (A) Until the Determination Date shall occur, an amount equal to 10% of any Residual Net Cash Proceeds of any Capital Event with respect to any Casino Entity or other Casino Equity Sale not otherwise allocated to the prepayment of the Covered Debt Obligations (whether because DJT is entitled to retain such Residual Net Cash Proceeds or because there are not then outstanding Covered Debt Obligations or otherwise) pursuant to this Section 3.2(b) shall be paid to the Lenders as specified herein as a deferred facility fee (the "Facility Fee") on the date of such sale.

(B) In the event that any DJT Entity shall beneficially own, directly or indirectly, any Equity Interests in any Casino Entity on the first to occur of the repayment in full of all Existing Debt Obligations and June 30, 1995 (such earlier date, the "Determination Date"), DJT shall pay or deliver to the Agent for the benefit of each Lender as specified herein, not later than 30 days after the Determination Date, at his option, either (x) an amount in cash equal to the product of (I) 10% of the sum of the Appraised Amounts of each such Casino Entity, calculated as of the Determination Date, and (II) a fraction, the numerator of which is the Facility Fee Share of such Lender as of such date and the denominator of which is the sum of the Facility Fee
Fee Shares of all Lenders as of such date, or (y) a 5-year note, bearing interest at the Federal Funds Rate, payable quarterly, with collateralization terms reasonably acceptable to the Lenders, in the aggregate principal amount equal to the amount calculated pursuant to clause (x) above. For purposes of this Agreement, the term "Facility Fee Share" of any Lender as of any time shall mean the sum of (x) the aggregate outstanding amount as of such time of all Deferred Interest Obligations of such Lender which are at any time subject to prepayment at a discount pursuant to Section 4.1(e) and which have a Regular Interest Payment Date of no earlier than June 30, 1993 and (y) the aggregate amounts of such Deferred Interest Obligations (whether or not then outstanding or prepaid in full) which were paid or prepaid prior to the time of determination; provided, however, that, in calculating such amount the amount shall include any payments or prepayments, deemed to have been made as a result of any applicable Prepayment Factor.

The term "Appraised Amount" with respect to any Casino Entity shall mean the amount determined by multiplying (A) the percentage of the equity then beneficially owned, directly or indirectly, by DJT in such Casino Entity by (B) the amount determined by a Qualified Appraiser (whose costs and expenses shall be the joint and several obligations of the DJT Entities) and, in the event of a dispute, the amount determined in accordance with the procedures set forth in Section 3.1(c)(ii)(z), as the fair market value of all then outstanding Equity Interests in such Casino Entity (regardless of the owner thereof), without taking into account any reduction in value resulting from the existence of any Lien on such Equity Interests (or proceeds thereof or distributions therefrom); and subtracting from such product the sum of the following items, calculated as if such remaining Equity Interests beneficially owned, directly or indirectly, by DJT were sold in a single transaction as of the Determination Date:

(a) reasonable and customary transaction costs;

(b) an amount equal to the federal income tax liability of DJT as a result thereof, calculated at the applicable federal rate for individuals, after deducting for any tax attributes which were available as of the beginning of such tax year; and

(c) an amount equal to the amount of the Covered Debt Obligations outstanding as of the Determination Date.
(iv) **Other Capital Events.** Any Residual Net Cash Proceeds of any Capital Event (other than a Casino Equity Sale) shall be utilized to prepay on the date of such sale the Covered Debt Obligations in an amount equal to 50% of such Residual Net Cash Proceeds.

(c) **Deferred Consideration.** Upon receipt by DJT or any Affiliate of DJT (or the Agent, as the case may be) of any deferred cash payment (whether as principal, interest, dividends, other distributions or otherwise) pursuant to any note, receivable, other security or otherwise constituting Net Cash Proceeds or Residual Net Cash Proceeds of any Capital Event, DJT shall prepay, or cause to be prepaid, by delivery of the applicable portion of such amount to the Agent, the Covered Debt Obligations. Such amounts shall be allocated pursuant to this Article III among the Lenders and the DJT Entities, on the one hand, and among the Lenders, on the other, as if such cash constituted Net Cash Proceeds received pursuant to a Capital Event as of the date of the receipt thereof by any DJT Entity (or the Agent, as the case may be).

(d) **Certificate.** Concurrently with the making of any prepayment pursuant to this Section 3.2, DJT shall deliver to the Agent a certificate, in form and substance reasonably acceptable to the Agent and the Required Lenders, certified by each of the Certifying Persons, demonstrating the derivation of Net Cash Proceeds, Special Net Cash Proceeds and Residual Net Cash Proceeds from the gross sales price of any correlative Capital Event and in form and substance reasonably satisfactory to the Required Lenders.

(e) **DJT Utilization.** DJT agrees that, to the extent that any Net Cash Proceeds of any Capital Event or any Operating Cash Flow are entitled to be retained by any DJT Entity pursuant to this Section 3.2, DJT shall utilize such amounts for the payment of taxes, proper business purposes in connection with the DJT Entities’ existing major business operations or pursuant to Section 3.4. DJT shall promptly advise the Lenders in writing as to the use of any such proceeds.

(f) **Operating Cash Flow.** On or before February 1, May 1, August 1 and November 1 in each calendar year, DJT shall prepay or cause to be prepaid the Covered Debt Obligations in an amount equal to 50% of the Operating Cash Flow for the prior calendar quarter; provided, however, that no such amount shall be payable in respect of any calendar quarter (or portion thereof, as the case may be) prior to the first to occur of (i) the New Money Termination Event and
(ii) the date of satisfaction of the Collateralization Condition. Concurrently with the making of each such payment, DJT shall deliver to the Agent a certificate, in form and substance reasonably acceptable to the Agent and the Required Lenders, certified by each of the Certifying Persons, detailing the calculation of Operating Cash Flow of such Person for such period and in form and substance reasonably satisfactory to the Required Lenders. In the event that any interest earned on any Cash Collateral (as defined in the New Credit Facility) shall be delivered to the Agent pursuant to Section 2.08(b)(iv) of the New Credit Facility, the Agent shall distribute such amount as if it were Operating Cash Flow hereunder.

(g) Adjustments After Default. Notwithstanding anything in this Agreement to the contrary, in the event that any Uniform Event of Default or any Event of Default (as defined in the New Credit Facility) shall occur and be continuing, or in the event that a Capital Event with respect to any Covered Property arises in connection with, or follows, the exercise of any Foreclosure Right, or the occurrence of any Foreclosure Event, in either event, with respect to such Covered Property, any portion of Net Cash Proceeds, Special Net Cash Proceeds or Residual Net Cash Proceeds, as the case may be, of any Capital Event with respect to such Covered Property and any portion of Operating Cash Flow which any DJT Entity is not required to apply to the prepayment of the Existing Debt Obligations but is permitted hereunder to retain shall nonetheless be paid to the Agent and applied in accordance with the provisions of Section 3.3.

(h) No Disgorgement. Notwithstanding anything to the contrary contained in Section 3.2(a) or in any schedule included in Schedule VIII or otherwise in this Agreement, (i) in the event that any Lien of any Lender in any Existing Collateral shall be invalid or unenforceable or otherwise is avoided for any reason, no Lender entitled to any distribution of Net Cash Proceeds or Special Net Cash Proceeds in respect of a Capital Event relating to such Existing Collateral having a priority of distribution as set forth in this Section 3.2 or on the applicable schedule included in Schedule VIII either higher than or lower than such affected Lender shall be required to pay over or otherwise disgorge to such affected Lender any distribution of Net Cash Proceeds or Special Net Cash Proceeds received by such Lender in respect of such Capital Event or any other amounts in respect thereof, (ii) in the event that any Lien of any Lender in any Special Collateral shall be avoided pursuant to Section 547, 548 or 544 (in respect of applicable state fraudulent conveyance laws only) of the Bankruptcy Code or pursuant to any
state fraudulent conveyance laws, no Lender entitled to any distribution of Net Cash Proceeds or Special Net Cash Proceeds in respect of a Capital Event relating to such Special Collateral having a priority of distribution as set forth in this Section 3.2 or on the applicable schedule included in Schedule VIII either higher or lower than such affected Lender shall be required to pay over or otherwise disgorge to such affected Lender any distribution of Net Cash Proceeds or Special Net Cash Proceeds received by such Lender in respect of such Capital Event or any other amounts in respect thereof and (iii) in the event that any Lien of any Lender in any Special Collateral shall be invalid or unenforceable or otherwise is avoided for any reason, other than as described in clause (ii) above or pursuant to Section 510(c) of the Bankruptcy Code, the agent under the New Credit Facility (or, if distributions of Special Net Cash Proceeds to the banks under the New Credit Facility shall have theretofore been made by such agent in respect of a Capital Event relating to such Special Collateral, such banks) shall be required to pay over and disgorge to such affected Lender a portion (but not more than all) of the Net Cash Proceeds received by such agent or banks in respect of such Capital Event equal to the Special Net Cash Proceeds that such affected Lender would have been entitled to receive in the absence of such invalidity, unenforceability or avoidance (net of any available recoveries under any applicable title insurance policy). In the event that any Lien of any Lender in any Special Collateral shall be invalid or unenforceable or otherwise is avoided for any reason (other than pursuant to Section 510(c) of the Bankruptcy Code) and such Lien is preserved directly or indirectly for the benefit of DJT or any of his Affiliates pursuant to Section 551 of the Bankruptcy Code or the benefits of such Lien are otherwise received by DJT or any of his Affiliates, an amount equal to the amount received by each Lender from DJT or any of his Affiliates attributable to, or otherwise on account of such preserved Lien or benefits received (but not, in the aggregate, in excess of the amount of Net Cash Proceeds that such affected Lender would have been entitled to receive in the absence of such invalidity, unenforceability or avoidance, net of any available recoveries under any applicable title insurance policy), shall be paid by each such Lender to (x) the agent under the New Credit Facility for the benefit of the banks thereunder (in the case of any avoidance pursuant to Section 547, 548 or 544 (in respect of applicable state fraudulent conveyance laws only) of the Bankruptcy Code or pursuant to any state fraudulent conveyance laws), or (y) the Lender whose Lien is invalid or unenforceable or otherwise is avoided (in the case of any invalidity, unenforceability or avoidance, other than as described in
clause (x) above or pursuant to Section 510(c) of the Bankruptcy Code). This provision shall not be amended without the written consent of all the Banks (as defined in the New Credit Facility). Nothing contained in this Section 3.2(h) shall impair or restrict the provisions of the proviso to Section 3.2(a)(ii)(y)(6).

SECTION 3.3 Allocation of Residual Net Cash Proceeds Among Lenders. (a) Capital Events. Notwithstanding the terms and conditions of any Existing Collateral Agreement, Special Collateral Agreement or Collateral Agreement or the order of creation or perfection of any Liens thereunder, any Residual Net Cash Proceeds which are required to be utilized to prepay the Covered Debt Obligations pursuant to Section 3.2(b) shall be allocated first to the payment of all amounts owed to the Agent or the Collateral Agent under Section 12.4 to the extent arising in connection with the exercise of Foreclosure Rights in respect of any Capital Event and then shall be allocated among the Lenders holding Covered Debt Obligations, whether or not then due and payable (with no payment made or allocated in respect of any Existing Debt Obligation which is not a Covered Debt Obligation), as follows:

(i) Until there is no outstanding Deferred Principal of any Covered Debt Obligation of any Lender, each Lender shall be allocated an amount equal to the product of (x) the amount of such Residual Net Cash Proceeds allocated to the prepayment of the Covered Debt Obligations pursuant to Section 3.2(b) and (y) a fraction, the numerator of which is the amount of such Lender's Principal Deficiency Claim immediately prior to its receipt of such prepayment and the denominator of which is the sum of the Principal Deficiency Claims of all the Lenders immediately prior to their receipt of such prepayment. For purposes of this Agreement, the term "Principal Deficiency Claim" of any Lender at any time shall mean the outstanding amount of such Lender's Deferred Principal of any Covered Debt Obligation at the time of determination, giving effect to any prepayment of such Deferred Principal from the proceeds of the applicable Capital Event which is required to be made as a result of any Prior Lien or which is required to be made pursuant to Section 3.2(a) or Schedule VIII or any covenant, or the application of any other remedy, contained in any agreement or other instrument with respect to any Indebtedness which is secured by any Prior Lien (other than pursuant to this Section 3.3(a)(i)), regardless of whether such other prepayments
are made prior to, or contemporaneously with, any such prepayment pursuant to this Article III:

(ii) If there is no Deferred Principal of any Covered Debt Obligation of any Lender outstanding, each Lender shall be allocated an amount equal to the product of (x) the amount of such Residual Net Cash Proceeds allocated to the prepayment of the Covered Debt Obligations pursuant to Section 3.2(b) and (y) a fraction, the numerator of which is the amount of such Lender's Interest Deficiency Claim immediately prior to its receipt of such prepayment and the denominator of which is the sum of the Interest Deficiency Claims of all Lenders immediately prior to their receipt of such prepayment. For purposes of this Agreement, the term "Interest Deficiency Claim" of any Lender at any time shall mean the outstanding amount of such Lender's Deferred Interest of any Covered Debt Obligation at the time of determination, giving effect to any prepayment of such Deferred Interest from the proceeds of the applicable Capital Event which is required to be made as a result of any Prior Lien or which is required to be made pursuant to Section 3.2(a) or Schedule VIII or any covenant, or the application of any other remedy, contained in any agreement or other instrument with respect to any Indebtedness which is secured by any Prior Lien (other than pursuant to this Section 3.3(a)(ii)), regardless of whether such other prepayments are made prior to, or contemporaneously with, any such prepayment pursuant to this Article III;

(iii) If there is no Deferred Interest of any Covered Debt Obligation of any Lender outstanding, each Lender shall be allocated an amount equal to the product of (x) the amount of such Residual Net Cash Proceeds allocated to the prepayment of the Covered Debt Obligations pursuant to Section 3.2(b) and (y) a fraction, the numerator of which is the amount of such Lender's Covered Debt Deficiency Claim immediately prior to its receipt of such prepayment and the denominator of which is the sum of the Covered Debt Deficiency Claims of all Lenders immediately prior to their receipt of such prepayment. For purposes of this Agreement, the term "Covered Debt Deficiency Claim" of any Lender at any time shall mean the outstanding amount of such Lender's Covered Debt Obligations (other than those described in clauses (i) and (ii) above) at the time of determination, giving effect to any prepayment of such Covered Debt Obligations from the proceeds of the applicable Capital Event which is required to be made as a result.
of any Prior Lien or which is required to be made pursuant to Section 3.2(a) or Schedule VIII or any covenant, or the application of any other remedy, contained in any agreement or other instrument with respect to any Indebtedness which is secured by any Prior Lien (other than pursuant to this Section 3.3(a)(iii)), regardless of whether such other prepayments are made prior to, or contemporaneously with, any such prepayment pursuant to this Article III; and

(iv) If there is no outstanding Covered Debt Obligation, any amounts remaining after application pursuant to clauses (i), (ii) and (iii) above shall be paid to DJT or as otherwise required by law.

(b) Facility Fees. Any Residual Net Cash Proceeds which are required to be allocated to the Lenders as a Facility Fee pursuant to Section 3.2(b)(iii)(A) shall be allocated among the Lenders as follows:

(i) Each Lender shall be allocated an amount equal to the product of (x) the amount of such Residual Net Cash Proceeds so allocated pursuant to Section 3.2(b)(iii)(A) and (y) a fraction, the numerator of which is the amount of such Lender’s Facility Fee Share at such time and the denominator of which is the sum of the Facility Fee Shares of all Lenders at such time.

(c) Operating Cash Flow. Any Operating Cash Flow which is required to be utilized to prepay the Covered Debt Obligations pursuant to Section 3.2(f) shall be allocated among the Lenders holding Covered Debt Obligations (with no payment made or allocated in respect of any Existing Debt Obligation which is not a Covered Debt Obligation). Any such amount shall be applied, first, to Deferred Principal under the Covered Debt Credit Facilities (until all such Deferred Principal is paid in full), next, to Deferred Interest under the Covered Debt Credit Facilities (until all such Deferred Interest is paid in full) and then to any remaining Covered Debt Obligations. Such payments shall be allocated among the Covered Debt Obligations pro rata according to the amount of the then outstanding Deferred Principal under the Covered Debt Credit Facilities, Deferred Interest under the Covered Debt Credit Facilities or remaining Covered Debt Obligations, as the case may be, of the respective Lenders immediately prior to receipt of such prepayment.

SECTION 3.4 Optional Prepayments. (a) Permitted Optional Prepayments. Any Obligor may, from time to time, at its option (it being understood that any amount required to
be prepaid pursuant to this Article III or pursuant to the terms of any Existing Debt Credit Agreement shall not be deemed to be a payment subject to this Section 3.4) upon at least five (5) Business Days' prior notice received by the Agent (which shall promptly advise each Lender thereof) prepay the Covered Debt Obligations with respect to which it is obligated in whole or in part, without premium or penalty, provided, however, that no such prepayment may be made until the first to occur of (i) the New Money Termination Event and (ii) the satisfaction of the Collateralization Condition. Any prepayment shall be applied first to the prepayment of the Deferred Principal Obligations under the Covered Debt Credit Facilities (until all such Deferred Principal is paid in full), next to the prepayment of the Deferred Recourse Interest Obligations (until all such Deferred Recourse Interest Obligations are paid in full) and then to the prepayment of any remaining Covered Debt Obligations; provided, however, that any such prepayment may be applied to the prepayment of the Deferred Recourse Interest Obligations (x) if such prepayment is from either Residual Net Cash Proceeds or Operating Cash Flow which any DJT Entity is entitled to retain pursuant to this Article III; or (y) if such prepayment is not from either such Residual Net Cash Proceeds or Operating Cash Flow, a DJT Entity shall prepay an amount of the Deferred Principal Obligations under the Covered Debt Credit Facilities, equal to nine multiplied by the amount of any such prepayment of the Deferred Recourse Interest Obligations, without giving effect to any Prepayment Factor) contemporaneously with any such prepayment of Deferred Recourse Interest Obligations. No prepayment shall be made unless in an aggregate amount of $1,000,000 or more (or, if less, the then remaining Covered Debt Obligations). Any such prepayment of Deferred Principal Obligations under the Covered Debt Credit Facilities, Deferred Recourse Interest Obligations or remaining Covered Debt Obligations, as the case may be, shall be allocated among the Lenders holding Covered Debt Obligations pro rata according to the outstanding respective amounts of such Deferred Principal Obligations, Deferred Recourse Interest Obligations or remaining Covered Debt Obligations immediately prior to any such prepayment.

(b) Additional Restrictions. Except as provided in this Article III, no prepayments of any Existing Debt Obligations (other than the Palm Beach Debt Obligations in accordance with the terms thereof) shall be made by any DJT Entity or otherwise received by any Lender.

SECTION 3.5 Procedures. Except as otherwise provided herein, all scheduled principal payments and all
prepayments pursuant to Sections 3.2, 3.3 and 3.4 shall be made in immediately available funds by a DJT Entity to the Agent for the account of the Lenders for application to the Existing Debt Obligations in accordance with the applicable provisions of Sections 3.2, 3.3 and 3.4. All such payments shall be made in immediately available funds not later than 11:00 a.m., local time, on the date due, if to the Agent, at its corporate service center in New York, New York, and, if to any other Person or Persons entitled thereto, as such Person or Persons shall direct; and funds received after such hour shall be deemed to have been received by the Agent or other Person or Persons entitled thereto on the next following Business Day. For the purposes of calculating interest accruals under this Agreement, when any such payment is deemed to have been received by the Agent or other Person or Persons entitled thereto, each Lender shall be deemed to have received its appropriate share of such payment. The Agent shall remit in immediately available funds to each Lender its share of all such payments received by the Agent for the account of such Lender, promptly upon the calculation of such share in accordance with the terms of this Agreement. In the event that the Agent shall retain such funds for more than 72 hours, the Agent shall invest such funds and any subsequent distribution shall include an allocable portion of any interest earned by the Agent thereon.

SECTION 3.6 Payments by Obligors. Any optional or scheduled prepayment or payment of any principal, interest or other Existing Debt Obligation by any DJT Entity shall have the effect of satisfying and extinguishing the corresponding Existing Debt Obligation of all primary Obligors thereon to the extent of such payment; provided, however, that, regardless of the identity of the Obligor making such prepayment or payment, all such prepayments and payments shall be allocated among the Lenders in accordance with the provisions of this Agreement.

SECTION 3.7 Sharing of Set-Offs. Any amount received by any Lender in respect of Existing Debt Obligations (other than MMB under any cash collateral agreement between DJT and MMB established in connection with the Existing Agreement Amendments relating to the Palm Beach Credit Facility) pursuant to Section 12.5, or otherwise by exercise of setoff, banker's lien or similar right against DJT (including, without limitation, DJT in his capacity as an Obligor, a general or limited partner of any partnership, a participant in any joint venture, a stockholder, officer or director of a corporation or in any other capacity, whether by operation of law or otherwise), shall be delivered to the Agent by such Lender upon receipt thereof and allocated among
the Lenders as if such amount were an optional prepayment in accordance with Section 3.4; provided, however, that,
notwithstanding this Section 3.7, but subject to the New Credit Facility, the right of any Lender to exercise any
setoff, banker's lien or similar right against DJT (including, without limitation, DJT in his capacity as an Obligor, a
general or limited partner of any partnership, a participant in any joint venture, a stockholder, officer or director of a
corporation or in any other capacity, whether by operation of law or otherwise) shall be subject to Section 2.2(g).

SECTION 3.8 Contingent Claims. For the purposes of
this Agreement and the Loan Documents, if, pursuant to any
provision of this Agreement or any Loan Document, any payment
is to be made with respect to any outstanding Existing Debt
Obligation, and at the time such payment is to be made, the
portion of the Existing Debt Obligation in respect of which
such payment is to be made is still contingent in nature as
to all Obligors liable, contingently or absolutely, with
respect to such Existing Debt Obligation, because none of
such Obligors has been called upon, or none of such Obligors
is required, to honor any unused commitment or other li-
ability thereunder, a proportionate part of such payment
reflecting such contingent claim shall be held by the Agent
for the benefit of such Lender as cash collateral for ap-
lication to such Existing Debt Obligation and if such
Existing Debt Obligation ceases to be contingent. Except as
expressly provided in this Section 3.8, if any such
contingent claim shall reduce, expire or otherwise terminate
at a time when any such cash collateral is still held by the
Agent for the benefit of such Lender, the Agent shall no
longer hold such cash collateral or such part thereof which
is in excess of the Existing Debt Obligation as so reduced,
expired or terminated for the benefit of such Lender and
shall apply such amount (together with any interest earned by
the Agent thereon) pursuant to Section 3.2 to the agent under
the New Credit Facility and/or the Lenders (as the case may
be) as if such amount were Net Cash Proceeds arising as of
such time in respect of a Capital Event involving the asset
which gave rise to such proceeds. Any such amount to be so
allocated to the prepayment of the Existing Debt Obligations
shall be allocated to the Existing Debt Obligations then held
by the Lenders pro rata according to the respective outstand-
ing Existing Debt Obligations thereof at the time of such
delivery. Any such amount shall be applied first to the
prepayment of the Deferred Principal Obligations until all
Deferred Principal has been paid in full, next to the prepay-
ment of the Deferred Recourse Interest Obligations until all
Deferred Recourse Interest Obligations have been paid in full
and then to the prepayment of any remaining Existing Debt
Obligations. Any such prepayment of Deferred Principal Obligations, Deferred Recourse Interest Obligations and remaining Existing Debt Obligations, as the case may be, shall be allocated pro rata according to the outstanding respective amounts thereof immediately prior to any such prepayment. For purposes of determining the amount payable or allocable to any Lender pursuant to Section 3.2, 3.3, 3.4 or 3.7, whenever any amount is held by the Agent for the benefit of any Lender pursuant to this Section 3.8, for purposes of calculations under this Agreement such Existing Debt Obligation shall be deemed to have been prepaid by such amount. For purposes of this Section 3.8, the amount of any Existing Debt Obligation arising as a result of any indemnification obligation by DJT shall be equal to the amount, if any, paid by the respective Lender in order to fund required insurance, maintenance, environmental cleanup, real estate taxes or other costs or expenses reasonably necessary to protect the value of Existing Collateral, Special Collateral or Collateral in respect of which such Lender is entitled to indemnification by DJT. For purposes of this Section 3.8, the outstanding amount of the BT Interest Rate Swap, the Palace Swap or the CB Interest Rate Swap at any time shall be determined pursuant to Section 1.4. In the event that the outstanding amount thereof shall be reduced, the Agent shall nonetheless continue to hold such amount for the benefit of the applicable Lender pursuant to this Section. No such obligation shall be deemed to cease to be contingent until the applicable agreement shall be terminated and the final liability established thereunder, at which time such cash collateral shall be distributed in accordance with this Section 3.8. For purposes of clarification, any reference to any Existing Debt Obligation in Section 3.8 shall include each Existing Debt Obligation, regardless of whether such Existing Debt Obligation is a Contingent Debt Obligation. The Covered Debt Obligations in respect of the guaranty by DJT of the Penn Yards Loans and the Interest Reserve for the Trump Palace Loan each shall be deemed to be contingent until (x) in the case of the Penn Yards Loans, a Special Event of Default (as defined in the applicable Existing Debt Credit Agreement, as amended by the applicable Existing Agreement Amendment) or (y) in the case of the Trump Palace Loan, an event of default under the applicable Existing Debt Credit Agreement, as amended by the applicable Existing Agreement Amendment relating to any of (i) failure to pay principal or interest on the relevant obligation when due, (ii) failure to pay real estate taxes when due, (iii) intentional breach by the mortgagor of its obligations under the applicable mortgage, (iv) failure by mortgagor to comply with any obligation under the applicable mortgage which, as a result of such failure, may ripen into a financial cost or
obligation on the part of the mortgagee, or (v) the acceleration of the Deferred Recourse Interest Obligation pursuant to Article V hereof, has occurred under such respective document. The cash collateral in respect of such Covered Debt Obligation referred to in this Section 3.8 may be held by the respective Lenders instead of the Agent if required by such Existing Debt Credit Agreement, as so amended. Nothing contained in this Section 3.8 shall be deemed to affect or impair the amount of the obligation in respect of the guaranty by DJT of the Penn Yards Loan or such Interest Reserve, except that for all purposes of this Agreement the reference on Schedule VIII to the Penn Yards Guaranty under the heading "Trump Tower" shall be deemed to be limited to the maximum amount of $35,000,000 and the reference on such Schedule VIII to the Trump Palace Loan - Interest Reserve under the heading "Trump Parc 5'A" line units, garage, laundry room and commercial space (as specified in the applicable Special Collateral Agreement) shall be deemed to be limited to the maximum amount of $40,000,000. Any amount paid to the applicable Lender out of such cash collateral in respect of either such obligation shall reduce by such amount the Covered Debt Obligations in respect of such respective Indebtedness. The Trump Palace Loan Interest Reserve obligations shall be deemed to be contingent, except as set forth in the preceding four sentences.

SECTION 3.9 Determining Amounts. For purposes of this Agreement and the Loan Documents, upon request of the Agent or the Collateral Agent, any Lender holding any Existing Debt Obligation shall promptly execute and deliver to DJT, the Agent, the Collateral Agent and each other Lender a certificate setting forth the calculation of the outstanding principal, interest and other amount thereof at any specified date, calculated in accordance with any applicable provisions of this Agreement and the applicable Existing Debt Credit Agreements, and the Agent and the Collateral Agent shall have the right to rely upon any such certificate. If any such certificate is not delivered to the Agent and the Collateral Agent within five (5) Business Days after any such request therefor, the Agent and the Collateral Agent: (A) may allocate payments, collateral distributions and other rights held by the Agent on the basis of this Agreement and any subsequent certificates theretofore so provided and based upon the assumption, unless otherwise notified by any such certificate, that all scheduled payments have been made on any such Existing Debt Obligation when due as set forth in the Schedules and Exhibits hereto and that any such Existing Debt Obligation shall have reduced, expired or terminated in

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accordance with its respective terms as set forth in this Agreement; (b) may delay distribution to any Lender of any portion of any payment or other recovery until receipt of such certificate; or (c) may distribute such amounts based on the assumption that any challenged certificate is correct, in which event the Agent shall have no liability to any Lender or to any DJT Entity as a result of so relying on any such challenged certificate (it being agreed that any such distribution shall not alter the obligations of the Lenders pursuant to the last sentence of this Section 3.9). If any Lender furnishing a certificate, the Agent and the Collateral Agent shall receive written notice from DJT (or any other Lender) that DJT (or such other Lender) disagrees with any such calculation of any such outstanding amount set forth therein, setting forth in reasonable detail DJT's (or such other Lender's) calculation of such outstanding amount and the basis for DJT's (or such other Lender's) disagreement with such Lender, and if such Lender ultimately agrees with DJT’s (or such other Lender's) calculation or it is determined by any court of competent jurisdiction by a final, non-appealable order that DJT's (or such other Lender’s) calculation was correct, such Lender shall promptly return to the Agent or the Collateral Agent the amount misallocated to such Lender (together with the interest provided for in the last sentence of this Section 3.9) as a result of such miscalculation. Notwithstanding the foregoing provisions of this Section 3.9, if the Agent and the Collateral Agent deem it appropriate in their sole and absolute discretion to delay any distribution or allocation of payments or collateral until any certificate or certificates are received from any Lender or Lenders, or until resolution of any dispute as to any outstanding amount shown in such certificate, the Agent and the Collateral Agent shall have the right so to delay any such distribution or allocation and neither the Agent nor the Collateral Agent shall be liable in any manner for such delay, provided, however, that any funds so held shall be invested in cash equivalents during the period of any such delay and the income earned thereon shall be correspondingly allocated and distributed upon the distribution and allocation of such delayed funds. If written notice as to any such disagreement is not received within three (3) Business Days of the date of the receipt of any such certificate, such certificate shall be final and binding on all parties hereto in the absence of manifest error. Each Lender agrees that in the event it is ultimately determined that such Lender shall have received any amount pursuant to this Article III which should have properly been allocated to any other Lender hereunder or to the agent under the New Credit Facility or to any DJT Entity, such Lender shall promptly remit any such excess amount (together with interest thereon at the Federal
Funds Rate, from the date of receipt thereof through the date of such remittance) to the Agent for allocation to the Lender, such agent under the New Credit Facility or DJT Entity to whom any such amount should have been paid. For purposes of this Section 3.9, the Agent shall not be deemed to be the Agent of MMB except to the extent that the Palm Beach Debt Obligations constitute Covered Debt Obligations. It is understood and agreed that properly conducted auction sales of condominium units shall be deemed to be for fair market value on commercially reasonable terms.

ARTICLE IV
INTEREST PROVISIONS

SECTION 4.1 Interest. (a) Forms of Deferred Interest Obligations. The Existing Debt Obligations set forth on Schedule IX shall bear interest from the Closing Date, which such interest shall be payable, in each case at the time or times, in the amount and in the manner provided in the respective Existing Debt Credit Agreement, without any deferral thereof. Each Obligor’s obligation to pay interest on the Existing Debt Obligations set forth on Schedule X shall be as set forth in such Lender’s respective Existing Debt Credit Agreement and Note, if any, as amended by the applicable Existing Agreement Amendment (such interest obligations, together with each Princess Note to the extent not constituting Covered Debt Obligations, being referred to herein individually as a "Deferred Project Interest Obligation," and, collectively as the "Deferred Project Interest Obligations"). Each Obligor’s obligation to pay interest on the Princess Loan and the Princess $10 Million Loan shall be as set forth in such Lender’s respective Existing Debt Credit Agreement, as amended by the applicable Existing Agreement Amendment (such interest obligations being referred to herein together as the "Princess Notes"). Each Obligor’s obligation to pay interest on the remaining Existing Debt Obligations of each Lender shall be as set forth in such Lender’s respective Existing Debt Credit Agreement and Note, if any, as amended by or pursuant to the applicable Existing Agreement Amendment (such interest obligations being referred to herein individually, together with each Princess Note, to the extent constituting Covered Debt Obligations, as a "Deferred Recourse Interest Obligation" and collectively as the "Deferred Recourse Interest Obligations"). Subject to Section 3.1(d) and Section 4.1(b), the Deferred Principal of each Existing Debt Credit Obligation (other than the Princess Notes, such Existing Debt Credit Obligations set forth on Schedule IX, the Palm Beach Debt Obligations and such Existing Debt Credit Obligations which by their terms do not immediately prior to the date hereof accrue or pay interest)
shall bear interest from the Closing Date at the Applicable Rate, and as of each July 1 on which any such Existing Debt Obligation remains outstanding, the Deferred Interest Obligation accrued during the preceding 12-month period (which for the purposes of the first year shall mean the period commencing on the Closing Date to and including June 30, 1991) on the Deferred Principal and (commencing from and after July 1, 1991) on any Deferred Interest (including, without limitation, pursuant to this sentence) shall commence to bear interest at the Applicable Rate and shall continue to bear interest as aforesaid until paid in full.

(b) Payment Dates. Except as expressly provided herein, subject to Section 2.2(g), no interest shall be payable on any Deferred Principal Obligation or any Deferred Interest Obligation of any Lender (other than any Existing Debt Obligation listed on Schedule IX) until the earlier of the Regular Interest Payment Date with respect to such Deferred Interest Obligation and the Accelerated Interest Payment Date, if any, with respect to such Deferred Interest Obligation. Subject to Section 2.2(g), any interest accruing on any Deferred Principal (but not on any Deferred Interest) on or after the earlier of the applicable Regular Interest Payment Date or Accelerated Interest Payment Date, if any, shall be payable at the rate and on the dates provided in the applicable Existing Debt Credit Agreement. Subject to Section 2.2(g), any interest accruing on any Deferred Principal on or after the Closing Date and prior to the earlier of the applicable Regular Interest Payment Date or Accelerated Interest Payment Date, if any, or accruing at any time on any Deferred Interest shall be due and payable on the earlier of the Regular Maturity Date or the Accelerated Maturity Date of the related Deferred Principal Obligation. Subject to Section 3.1(d), the term "Regular Interest Payment Date" with respect to any Deferred Interest Obligation shall mean (i) in the case of any Deferred Project Interest Obligation or Deferred Recourse Interest Obligation listed on Schedule XI, June 30, 1993, (ii) in the case of each of the Princess Notes, the Regular Maturity Date thereof, and (iii) in the case of any other Deferred Project Interest Obligation or Deferred Recourse Interest Obligation, June 30, 1995; provided, however, that interest on the Trump Palace Loan shall be currently payable from and after the Closing Date from and only to the extent of the budget reserve for interest provided under the Trump Palace Loan and that interest on the MHT Regency Loan shall be currently payable to the extent of the rent payable under the Regency Lease Agreement, made as of August 8, 1990, between Trump Crystal Tower Associates Limited Partnership, as landlord, and Trump Plaza Associates, as tenant (the "Regency Lease"), which rent is
payable to MHT pursuant to the Assignment and Recognition Agreement, dated as of August 8, 1990, made by Trump Crystal Tower Associates Limited Partnership and Trump Plaza Associates to MHT. Subject to Section 3.1(d), the term "Accelerated Interest Payment Date" shall mean, with respect to any Deferred Interest Obligation, (x) the next date on which interest is payable pursuant to any Existing Debt Credit Agreement (without giving effect to this Agreement) following any date on which a notice specified in Section 3.1(c)(ii)(y) shall be given by DJT with respect to the related Deferred Principal Obligation or (y) the next date on which interest is payable pursuant to any Existing Debt Credit Agreement (without giving effect to this Agreement) following the date of any Current Pay Election by DJT pursuant to clause (II) of Section 3.1(c)(ii)(z). Subject to Section 2.2(g), any subsequent default by the Obligor in the payment of interest on such Deferred Principal Obligation or Deferred Interest Obligation shall constitute an Existing Foreclosure Event with respect to such Claimholder's Asset. Each Obligor shall pay, or cause to be paid, each Deferred Project Interest Obligation or Deferred Recourse Interest Obligation in respect of which it is an Obligor in accordance with its terms; provided, however, that any default thereunder shall be subject to Section 2.2(g).

(c) Procedures. All payments pursuant to Section 3.1 and all payments of interest on the Deferred Interest Obligations shall be made directly to the respective Lenders holding such Deferred Interest Obligations and the Agent shall have no duties or obligations with respect thereto. On or prior to the fifth Business Day following the commencement of any Interest Period, the Agent shall notify each Lender of the Applicable Rate for such Interest Period.

(d) Exceptions. Notwithstanding anything to the contrary contained in this Agreement, any Note or any other Loan Document, in the event that the Deferred Recourse Interest Obligations shall have been declared to be due and payable as provided in Section 5.1(a) or shall automatically have become due and payable as provided in Section 5.1(b) (it being understood that this sentence shall not apply to any acceleration pursuant to Section 2.3(h)), (i) the Prepayment Factor shall no longer be utilized in calculating the amount by which any Deferred Interest Obligation shall be reduced, (ii) all Existing Debt Obligations (other than the Existing Debt Obligations listed on Schedule IX) shall immediately be deemed amended to bear interest at the higher, from time to time in effect, of the Applicable Rate or the rate applicable to such Existing Debt Obligations immediately prior to the Closing Date (giving effect to any penalty interest, default
interest or similar provisions) and (iii) without limiting Section 3.2(g), all provisions of this Agreement under which a portion of any Net Cash Proceeds, Special Cash Proceeds, Residual Net Cash or Operating Cash Flow is entitled to be retained by any DJT Entity shall immediately be deemed amended so that such portion allocated to such DJT Entity shall instead be allocated to the payment of Covered Debt Obligations in accordance with Section 3.3. Without limiting the foregoing, but notwithstanding anything in this Agreement to the contrary, any provisions of any Deferred Interest Obligation relating to the prepayment thereof in a discounted amount shall not be applicable to any prepayment out of any amounts arising pursuant to or in connection with the exercise of any Foreclosure Right.

(e) Prepayment Factor. Subject to Section 4.1(d) and to the conditions set forth in Section 3.4, each Existing Agreement Amendment, other than the Existing Agreement Amendment applicable to the Palm Beach Credit Facility, the Trump Palace Loan, the Princess Loan and the Princess $10 Million Loan, shall provide that any prepayment of any Deferred Interest Obligation accrued but not due and payable at the time of any such prepayment shall be in accordance with this Section 4.1(e). Other than in the case of any prepayment to the extent utilizing proceeds resulting from the exercise of Foreclosure Rights, any amount of any Deferred Interest Obligation prepaid shall reduce the amount of the then outstanding Deferred Interest of such Deferred Interest Obligation by an amount equal to the product of (x) the amount of such prepayment and (y) the applicable Prepayment Factor (but never to less than zero). The Prepayment Factor at any time shall be that amount specified below:

<table>
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<tr>
<th>For Prepayments Made</th>
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<td>or before June 30, 1994</td>
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<td>After June 30, 1994</td>
<td>1</td>
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(f) The following provisions of this Section 4.1(f) shall be applicable only to the Deferred Interest Obligations which this Agreement contemplates shall bear interest at the Applicable Rate.

(i) In the event that the Agent shall have determined (which determination shall, absent manifest error, be final, conclusive and binding upon all parties) that on any date for determining the Applicable Rate for any Interest Period, by reason of any changes arising after the date of this Agreement affecting the interbank Eurodollar market or any Lender's position in such markets, adequate and fair means do not exist for ascertaining the applicable interest rate on the basis provided for in the definition of Applicable Rate then, and in any such event, the Agent shall forthwith give notice (by telephone confirmed in writing) to DJT and to the Lenders of such determination. Until the Agent notifies DJT that the circumstances giving rise to the suspension described herein no longer exist, the Applicable Rate shall be deemed to be equal to the Prime Lending Rate plus 1% per annum.

(ii) In the event that any Lender shall have determined (which determination shall, absent manifest error, be final, conclusive and binding upon all parties) at any time that the making or continuance of any Deferred Interest Obligation has become unlawful by compliance by such Lender in good faith with any applicable law, governmental rule, regulation, guideline or order (whether or not having the force of law and whether or not failure to comply therewith would be unlawful), then, in any such event, the Lender shall give prompt notice (by telephone confirmed in writing) to DJT and to the Agent of such determination (which notice the Agent shall promptly transmit to the other Lenders). Upon the giving of the notice to DJT referred to above, and until the Lender notifies DJT that the circumstances giving rise to such illegality described herein no longer exist, the Applicable Rate shall be deemed to be equal to the Prime Lending Rate plus 1% per annum.

(iii) If, by reason of (x) after the date hereof, the introduction of or any change (including, without limitation, any change by way of imposition or increase of reserve requirements) in or in the interpretation of any law or regulation, or (y) the compliance with any guideline or request from any central bank or other governmental authority or quasi-governmental authority exercising control over banks or financial institutions generally (whether or not having the force of law):
(A) any Lender (or its applicable lending office) shall be subject to any tax, duty or other charge with respect to its Deferred Interest Obligation or its obligation to make Deferred Interest Obligations, or shall change the basis of taxation of payments to any Lender of the principal of or interest on its Deferred Interest Obligations or its obligation to make Deferred Interest Obligations (except for changes in the rate of tax on the overall net income of such Lender or its applicable lending office imposed by the jurisdiction in which such Lender's principal executive office or applicable lending office is located); or

(B) any reserve (including, without limitation, any imposed by the Board of Governors of the Federal Reserve System), special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Lender's applicable lending office shall be imposed or deemed applicable or any other condition affecting its Deferred Interest Obligations or its obligation to make Deferred Interest Obligations shall be imposed on any Lender or its applicable lending office or the interbank Eurodollar market;

and as a result thereof there shall be any increase in the cost to such Lender of agreeing to make or making, funding or maintaining Deferred Interest Obligations (except to the extent already included in the determination of the applicable Adjusted London Interbank Offered Rate), or there shall be a reduction in the amount received or receivable by such Lender or its applicable lending office, then DJT shall from time to time, upon written notice from and demand by such Lender (with a copy of such notice and demand to the Agent), pay to the Agent for the account of such Lender, within five Business Days after the date specified in such notice and demand, additional amounts sufficient to indemnify such Lender against such increased cost. A certificate as to the amount of such increased cost, submitted to DJT and the Agent by such Lender, shall, except for manifest error, be final, conclusive and binding for all purposes.

(iv) DJT shall compensate each Lender, upon its written request (which request shall set forth the basis for requesting such amounts and which request shall, absent manifest error, be final, conclusive and binding upon all of the parties hereto), for all losses, expenses and liabilities (including, without limitation, any interest paid by such Lender to lenders of funds borrowed by it and to make or carry its Deferred Interest Obligations to the extent not
recovered by the Lender in connection with the re-employment of such funds and including loss of anticipated profits), which the Lender may sustain: (i) if any repayment of any of its Deferred Interest Obligations occurs on a date which is not the last day of an Interest Period applicable thereto, or (ii) if, for any reason, DJT defaults in its obligation to repay its Deferred Interest Obligations when required by the terms of this Agreement.

(v) In the event that any Lender shall have determined that any law, treaty, governmental (or quasi-governmental) rule, regulation, guideline or order regarding capital adequacy (including, in any event, any law, regulation, interpretation, guideline or request contemplated by the report dated July, 1988 entitled "International Convergence of Capital Measurement and Capital Standards" issued by the Basle Committee on Banking Regulations and Supervisory Practices) or the adoption thereof, or any change therein or in the interpretation or application thereof, or compliance by any Lender with any request or directive regarding capital adequacy (whether or not having the force of law and whether or not failure to comply therewith would be unlawful) from any central bank or governmental agency or body having jurisdiction does or shall have the effect of reducing the rate of return on such Lender's capital as a consequence of its Deferred Interest Obligations to a level below that which such Lender could have achieved but for such adoption, change or compliance (taking into consideration such Lender's policies with respect to capital adequacy) by any amount, then DJT shall from time to time, within 15 days after receipt of a written request by such Lender (with a copy to the Agent), pay to such Lender additional amounts sufficient to compensate such Lender for such reduction. A certificate as to the amount of such reduction setting forth the calculation thereof in reasonable detail, submitted to DJT and the Agent by such Lender, shall, absent manifest error, be final, conclusive and binding for all purposes.

ARTICLE V
REMEDIES UPON THE OCCURRENCE OF ANY UNIFORM EVENT OF DEFAULT

SECTION 5.1 Acceleration of Maturity.

(a) Acceleration of All Deferred Recourse Interest Obligations. If any Uniform Event of Default (other than a Uniform Event of Default specified in clause (5) with respect to DJT) shall occur and be continuing then, and in any such event (and regardless of whether any acceleration of all or any portion of such Indebtedness shall have occurred pursuant
to Section 2.3(h) or otherwise), the Agent, upon the direction of the Required Lenders, shall declare all then outstanding Deferred Recourse Interest Obligations to be forthwith due and payable, whereupon all such Deferred Recourse Interest Obligations shall become and be forthwith due and payable, without presentment, demand, protest or notice of any kind, all of which are expressly waived. The Agent shall, forthwith upon such declaration, deliver notice thereof to DJT and to each Lender; provided, however, that the failure to so deliver, or any delay in so delivering, such notice shall not affect the validity of such declaration; provided, further, that, prior to the first to occur of (i) the New Money Termination Event and (ii) the date of the satisfaction of the Collateralization Condition, no such notice may be given with respect to any Uniform Event of Default (other than a Uniform Event of Default specified in clause (1) or clause (5) with respect to DJT) if the banks party to the New Credit Facility shall have waived any such comparable Default or Event of Default (as such terms are defined in the New Credit Facility). The Lenders hereby agree to be bound by the provisions of Section 5.04(h)(ii) of the New Credit Facility. The Lenders hereby authorize the Agent to act on their behalf in accordance with the provisions of this Section 5.1(a), and each DJT Entity hereby acknowledges that any such notice by the Agent to DJT shall be effective to accelerate the Deferred Recourse Interest Obligations in accordance with the provisions hereof.

(b) Automatic Acceleration of All Deferred Recourse Interest Obligations. If any Uniform Event of Default specified in clause (5) with respect to DJT shall occur, all Deferred Recourse Interest Obligations shall automatically become immediately due and payable, without declaration, presentment, demand, protest, notice or other requirements of any kind, all of which are expressly waived. Upon such acceleration of the Deferred Recourse Interest Obligations, all other Covered Debt Obligations shall also automatically become immediately due and payable, without declaration, presentment, demand, protest, notice or other requirements of any kind, all of which are expressly waived.

(c) Allocation Among Lenders. All amounts received by any Lender pursuant to an acceleration in accordance with this Section 5.1 shall be subject to Article III.

(d) Notice to Lenders. In the event that any Lender shall declare the Existing Debt Obligations held by it to be due and payable pursuant to the terms of its Existing Debt Credit Agreement, as amended by the applicable Existing
Agreement Amendment, such Lender shall promptly give notice thereof to the Agent and to each other Lender.

(e) Effect of Acceleration. If the Deferred Recourse Interest Obligations become due and payable pursuant to this Article V, the provisions of Section 2.2(g) and of clause (i) - clause (viii) of Section 2.3(h) shall no longer be applicable and, in addition to any right or remedy otherwise available to any Lender, each Lender shall be entitled to exercise Foreclosure Rights in accordance with Section 2.3.

(f) Existing Debt Credit Agreements. Subject to Section 2.2(g), nothing in this Agreement (including, without limitation, Section 2.3(h)) shall prevent any Lender from declaring any Existing Debt Obligation to be due and payable pursuant to the terms of any Existing Debt Credit Agreement.

ARTICLE VI
UNIFORM COVENANTS

SECTION 6.1A Uniform Covenants.

Following (and only following) the first to occur of the satisfaction of the Collateralization Condition or the New Money Termination Event, DJT shall comply with the provisions of Exhibit E. For purposes of clarification, all references on Exhibit E to "the date hereof" shall mean the date of execution and delivery of this Agreement.

ARTICLE VII
COLLATERAL PROVISIONS

SECTION 7.1 Agreement to Grant Security Interests.

(a) Security Interest in Collateral. On or before the Closing Date, each DJT Entity which is listed on Schedule IV shall grant, or cause to be granted, pursuant to the Collateral Agreements, to the Collateral Agent for the benefit of the holders of the Deferred Recourse Interest Obligations, Liens in the Collateral set forth on such Schedule IV to secure the Deferred Recourse Interest Obligations and, to the extent specified in the Collateral Agreements, reaffirm and acknowledge the Liens previously granted in any of such Collateral.

(b) Security Interest in Special Collateral. On or before the Closing Date, each DJT Entity which is listed
on Schedule V shall grant, or cause to be granted, to the respective Lenders for the benefit of the holders of the respective Covered Debt Obligations specified on such Schedule, Liens in the Special Collateral set forth on such Schedule V to secure such respective Covered Debt Obligations, and, to the extent specified in the respective Special Collateral Agreement, reaffirm and acknowledge the Liens previously granted in such Special Collateral.

SECTION 7.2 Further Assurances. Each DJT entity shall, at its expense, give, execute, deliver, file and record any notice, statement, instrument, document, agreement or other papers and take such other action that, from time to time, may be necessary, or that the Collateral Agent or any Lender with respect to its Special Collateral may reasonably request, in order:

(a) to create, preserve, perfect, confirm, continue or validate the Liens granted to the Collateral Agent or the respective Lenders under the Collateral Agreements or the respective Lenders under the Special Collateral Agreements in any Collateral or Special Collateral, or

(b) to enable each of the Collateral Agent or any of such respective Lenders to exercise and enforce any of its respective rights and remedies under the Collateral Agreements and the Special Collateral Agreements, respectively.

SECTION 7.3 Releases. Each Lender hereby agrees to release any Special Collateral or Collateral to the extent set forth in the applicable Special Collateral Agreement or Collateral Agreement, as the case may be.

ARTICLE VIII
REPRESENTATIONS AND WARRANTIES

SECTION 8.1A Representations and Warranties of DJT Entities. To induce the Lenders to enter into this Agreement and to amend the Existing Debt Credit Agreements and the Existing Collateral Agreements in accordance with the terms and provisions of this Agreement, DJT hereby represents and warrants to the Agent and the Collateral Agent and the Lenders as to the matters set forth on Exhibit D.
ARTICLE IX
CONDITIONS PRECEDENT TO CLOSING DATE

SECTION 9.1 Occurrence of Closing Date. The Closing shall take place at the offices of Wachtell, Lipton, Rosen & Katz, 299 Park Avenue, New York, New York, or at such other location as shall be agreed upon by the Required Lenders, the Agent and the Collateral Agent. The Closing shall be subject to the satisfaction (or waiver by each Lender) of the following conditions:

(a) Documents. The Agent shall have received a sufficient number of copies for each Lender of all of the following, each duly executed and dated the Closing Date (or such other date as shall be acceptable to the Lenders), in form and substance satisfactory to each Lender:

(i) Agreement. Counterparts of this Agreement, duly executed and delivered by each DJT Entity and each Lender or, in the case of any Lender from which an executed counterpart shall not have been so received by the Agent, the Agent shall have received telegraphic, telex, or other written confirmation from such Lender that it has executed and dispatched by courier to the Agent a counterpart of this Agreement;

(ii) Resolutions. Certified copies of the resolutions (or equivalent partnership action) of each DJT Entity and, if the DJT Entity is a partnership, of each partner of such DJT Entity which is not an individual and whose consent to the transactions herein, in any Existing Agreement Amendment or in any other Loan Document is necessary or which is an Affiliate approving the execution and delivery of this Agreement, any Existing Agreement Amendment and all other Loan Documents, if any, to which such DJT Entity is a party and the consummation by such DJT Entity of the transactions contemplated hereby and thereby;

(iii) Certificates. A certificate of the Secretary or an Assistant Secretary (or equivalent partnership officer) of each DJT Entity, certifying the name, title and true signature of each officer of such DJT Entity authorized to execute this Agreement, the Notes of such DJT Entity, any Existing Agreement Amendment and all other Loan Documents, to which such DJT Entity is a party;
(iv) **DJT Counsel Opinion.** An opinion of outside counsel to DJT, such counsel to be acceptable to the Lenders (which shall provide that DJT has requested that such opinion be so delivered), addressed to the Lenders, in form and substance reasonably satisfactory to each Lender, and covering such other matters as the Lenders may reasonably request;

(v) **DJT Entity Counsel Opinion.** An opinion of outside counsel to each of the DJT Entities and counsel to each of the partners whose consent to the transactions contemplated by this Agreement, any Existing Agreement Amendment and any other Loan Document is necessary or which is an Affiliate and which are not individuals of each DJT Entity which is a partnership, such counsel in each case to be acceptable to the Lenders, addressed to the Lenders (which shall provide that each of the DJT Entities has requested that such opinion be so delivered), in form and substance reasonably satisfactory to each Lender, and covering such other matters as the Lenders may reasonably request;

(vi) **Good Standing.** Documents reasonably requested by the Lenders relating to the existence and good standing of each DJT Entity and, if the DJT Entity is a partnership, of each partner of such DJT Entity which is not an individual and whose consent to the transactions herein in any Existing Agreement Amendment or in any other Loan Document is necessary or which is an Affiliate;

(vii) **Guaranties.** The Guaranties and the Special Guaranties and all Collateral Agreements and all Special Collateral Agreements duly executed and delivered by each of the parties thereto, in full force and effect, in the case of any of the foregoing which are to be recorded, in recordable form, together with evidence satisfactory to the Lenders, the Agent and the Collateral Agent that all filings with Governmental Authorities necessary to perfect the Liens in the Collateral granted under the Collateral Agreements and the Liens in the Special Collateral granted under the Special Collateral Agreements have been made, and delivery to the Agent or the Collateral Agent (or other party contemplated by the applicable Collateral Agreements) of all Collateral possession of which is necessary for perfection (including, without
limitation, all stock certificates, stock powers executed in blank, instruments, certificate of title, chattel paper, and recognition agreements), and delivery to the respective Lenders of all Special Collateral possession of which is necessary for perfection (including, without limitation, all stock certificates, stock powers executed in blank, instruments, certificate of title, chattel paper, and recognition agreements);

(viii) Consents. All consents, in form and substance satisfactory to the Lenders, from third parties (including, without limitation, the Casino Control Commission, the Division of Gaming Enforcement and any other Governmental Authorities) necessary to permit the execution, delivery and consummation of this Agreement, each Existing Agreement Amendment and each other Loan Document, including, without limitation, the effective granting of the Liens (including the Liens on Equity Interests of the Casino Entities) under the Collateral Agreements and the Special Collateral Agreements, in each case with the priority contemplated thereby;

(ix) Loan Documents. Each of the Loan Documents, duly executed and delivered by each of the parties thereto and in full force and effect, in form and substance satisfactory to the Lenders;

(x) Existing Agreement Amendments. Evidence satisfactory to the Lenders that (A) all conditions to the effectiveness of the Existing Agreement Amendments have been satisfied or duly waived and that the Existing Agreement Amendments and all documents being executed in connection therewith have been fully executed and delivered, which Existing Agreement Amendments and all documents being executed in connection therewith shall be in form and substance satisfactory to each Lender and (B) all conditions to the effectiveness of the First Amendment to Mortgage, Assignment of Rentals, Security and Consolidation, Modification, Extension and Spreader Agreement, dated as of the date hereof, between Plaza Operating Partners Ltd., a Texas Limited Partnership and Citibank, N.A.; the First Amendment to Mortgage Notes Modification Agreement, dated as of the date hereof, between Plaza Operating Partners Ltd., and Citibank, N.A.; and the First Amendment to Amended and Restated Credit Agreement, dated as of the date hereof,
between Citibank, N.A. as Agent and Trump Shuttle, Inc. have been satisfied or duly waived and that such amendments and all documents being executed in connection therewith have been fully executed and delivered, which such amendments and all documents being executed in connection therewith shall be in form and substance satisfactory to each Lender;

(xi) Capital Events. A certificate of DJT, certifying all Capital Events which have occurred on or after May 1, 1990, in form and substance satisfactory to the Lenders;

(xii) Reliance Letters. A reliance letter addressed to each Lender, the Agent and the Collateral Agent, in form and substance satisfactory to the Lenders, providing that the Lenders, the Agent and the Collateral Agent may rely on any financial statement, certificate, report, opinion or other document delivered to the Banks or the Agent in connection with the closing of the New Credit Facility as if such financial statement, certificate, report, opinion or other document were addressed to, certified for, or executed and delivered to, such Lender, Agent or Collateral Agent. Each such reliance letter shall be duly executed and delivered by the Person or Persons certifying or executing and delivering, as the case may be, such financial statements, certificate, report, opinion or other document pursuant to the New Credit Facility, or, if there is no such Person, by the DJT Entities;

(xiii) Named Insured. The Lenders shall have been added as additional insureds on liability insurance policies to the extent contemplated by Section 6.1(f) of Exhibit E as if such provision were in effect; and

(xiv) Other. Such other documents as the Agent, the Collateral Agent or any Lender may reasonably request.

(b) No Default. No Uniform Event of Default, Foreclosure Event, Existing Foreclosure Event or Special Foreclosure Event shall have occurred and shall be continuing, and the representations and warranties of each Lender contained in Section 2.1 and of each DJT Entity contained in Article VIII shall be true and correct in all material respects as of the Closing Date.
(c) **Net Cash Proceeds.** If any Capital Event shall have occurred on or after May 1, 1990 and prior to the Closing Date, the procedures set forth in Article III shall have been followed as if such sale had taken place after the Closing Date and, concurrently with or prior to the Closing Date, the proceeds of such sale shall be applied in accordance with Article III as if such sale had occurred immediately following the Closing Date.

(d) **New Credit Facility.** The initial funding contemplated by the New Credit Facility shall have occurred or shall occur contemporaneously with the Closing Date; the New Credit Facility shall be in full force and effect; and no default or event of default shall have occurred thereunder.

(e) **Payments of Fees and Expenses.** DJT shall have delivered to each Lender a bank check or immediately available funds constituting payment in full of all costs, legal fees and related disbursements for which any DJT Entity is responsible pursuant to this Agreement.

**SECTION 9.2 Conditions for the Benefit of the Lenders.** The conditions set forth in Section 9.1 are for the exclusive benefit of the Lenders. If the Closing Date shall be deemed to have occurred, no transaction which is deemed to take place or to have become effective in connection therewith may be rescinded by any Lender or any DJT Entity or any Person claiming by, through or on behalf of any Lender or any DJT Entity as a result of the subsequent discovery or allegation that in fact any of such conditions precedent failed to be satisfied at the Closing Date. The provisions of this Agreement (other than Articles X and XII) shall terminate if the Closing Date shall not have occurred on or before August 24, 1990 (as such date may be extended from time to time by the consent of all Lenders).

**ARTICLE X**

**THE AGENT AND THE COLLATERAL AGENT**

**SECTION 10.1 Appointment of Agent.** Each Lender hereby approves Bankers Trust Company acting as Agent and as Collateral Agent as herein specified. Each Lender hereby irrevocably authorizes the Agent and the Collateral Agent to take such action on its behalf under the provisions of this Agreement and the Collateral Agreements and to exercise such powers and to perform such duties hereunder and thereunder as are specifically delegated to or required of the Agent or the Collateral Agent by the terms hereof and thereof and such
other powers as are reasonably incidental thereto. The Agent and the Collateral Agent may perform any of their respective duties hereunder by or through their respective agents or employees. Neither the Agent nor the Collateral Agent shall be deemed the agent or collateral agent of any Lender under any Existing Collateral Agreement or Special Collateral Agreement nor the agent or the collateral agent of MMB for any Palm Beach Debt Obligation which is not a Covered Debt Obligation.

SECTION 10.2 Nature of Duties of Agent and Collateral Agent. Neither the Agent nor the Collateral Agent shall have any duties or responsibilities hereunder except those expressly set forth in this Agreement. Neither the Agent nor the Collateral Agent nor any of their respective officers, directors, employees or agents shall be liable for any action taken or omitted by it as such hereunder or in connection herewith, unless caused by its gross negligence or willful misconduct. The duties of the Agent and Collateral Agent shall be mechanical and administrative in nature; neither the Agent nor the Collateral Agent shall have by reason of this Agreement, or any of the Collateral Agreements, a fiduciary relationship in respect of any Lender; and nothing in this Agreement or any of the Collateral Agreements, expressed or implied, is intended to or shall be so construed as to impose upon the Agent or the Collateral Agent any obligations in respect of this Agreement or the Collateral Agreements except as expressly set forth herein. Without limiting the generality of the foregoing, DJT shall be entitled to rely on the accuracy and authority of any written communication given to DJT by the Agent or the Collateral Agent and expressly signed by the Agent or the Collateral Agent, respectively, in that capacity.

SECTION 10.3 Lack of Reliance on the Agent and Collateral Agent. (a) Independently and without reliance upon the Agent or the Collateral Agent, each Lender, to the extent it deems appropriate, has made and shall continue to make (i) its own independent investigation of the financial condition and affairs of each DJT Entity in connection with the taking or not taking of any action in connection herewith, and (ii) its own appraisal of the creditworthiness of each DJT Entity, and, except as expressly provided in this Agreement or the Collateral Agreements, neither the Agent nor the Collateral Agent shall have any duty or responsibility, either initially or on a continuing basis, to provide any Lender with any credit or other information with respect thereto, whether coming into its possession before the Closing Date or at any time or times thereafter.
(b) Neither the Agent nor the Collateral Agent nor any Lender shall be responsible to any Lender for any recitals, statements, information, representations or warranties herein, in any Existing Agreement Amendment, in any of the Collateral Agreements, in any other Loan Document or in any document, certificate or other writing delivered in connection herewith or therewith or for the execution, effectiveness, genuineness, validity, enforceability, collectibility, priority or sufficiency of this Agreement, any Existing Agreement Amendment, the Collateral Agreements, the Notes, any other Loan Document or any such other document, certificate or writing or the financial condition of any DJT Entity or be required to make any inquiry concerning either the performance or observance of any of the terms, provisions or conditions of this Agreement, any Existing Agreement Amendment, the Notes, any of the Collateral Agreements, any other Loan Document or any such other document, certificate or writing, or the financial condition of any DJT Entity, or the existence or possible existence of any Uniform Default or Uniform Event of Default.

SECTION 10.4 Certain Rights of the Agent and Collateral Agent. If the Agent or the Collateral Agent shall request instructions from the Required Lenders with respect to any act or action (including the failure to act) in connection with this Agreement, the Agent or the Collateral Agent, as the case may be, shall be entitled to refrain from such act or taking such action unless and until the Agent or the Collateral Agent, as the case may be, shall have received instructions from the Required Lenders; and neither the Agent nor the Collateral Agent shall incur liability to any Person by reason of so refraining. Without limiting the foregoing, no Lender shall have any right of action whatsoever against either the Agent or the Collateral Agent as a result of the Agent or the Collateral Agent, as the case may be, acting or refraining from acting hereunder in accordance with the instructions of the Required Lenders.

SECTION 10.5 Reliance by Agent and Collateral Agent. The Agent and the Collateral Agent each shall be entitled to rely, and shall be fully protected in relying, upon any note, writing, resolution, notice, statement, certificate, telex, teletype or telexier message, cablegram, radiogram, order or other documentary, teletransmission or telephone message believed by it to be genuine and correct and to have been signed, sent or made by the proper Person. The Agent and the Collateral Agent may consult with legal counsel (including counsel for any DJT Entity), independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken by
it in good faith in accordance with the advice of such counsel, accountants or experts.

SECTION 10.6 Indemnification of Agent and Collateral Agent. To the extent the Agent or the Collateral Agent is not reimbursed and indemnified by any DJT Entity, each Lender will reimburse and indemnify the Agent and the Collateral Agent, in proportion to the amount of its respective Deferred Principal Obligation representing a Covered Debt Obligation outstanding as of the Closing Date, for and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses (including reasonable counsel fees and disbursements) or disbursements of any kind or nature whatsoever which may be imposed on, incurred by or asserted against the Agent or the Collateral Agent in performing its duties hereunder or under the Collateral Agreements, in any way relating to or arising out of this Agreement or the Collateral Agreements; provided that no Lender shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from, in the case of the Agent, the Agent's gross negligence or willful misconduct or, in the case of the Collateral Agent, the Collateral Agent's gross negligence or willful misconduct. Without limiting the rights of the Agent or the Collateral Agent pursuant to this Section 10.6, if any Lender is an agent for participants, assignees or otherwise under any Existing Debt Credit Agreement, such Lender shall nonetheless be required to reimburse and indemnify the Agent or the Collateral Agent, as the case may be, to the extent set forth in this Section 10.6 as if such Lender were the holder of all the Existing Debt Obligations in respect thereof and neither the Agent nor the Collateral Agent shall be required to seek reimbursement or indemnification from any such participant or assignee or otherwise. In the event a court of competent jurisdiction shall have determined in any action or proceeding that any conduct of the Agent or the Collateral Agent, including any act taken or omitted, did not constitute gross negligence or willful misconduct, no Lender shall later assert, including in any action or proceeding, that such conduct constituted gross negligence or willful misconduct hereunder.

SECTION 10.7 The Agent and Collateral Agent in Their Individual Capacity. With respect to their obligations under this Agreement and the Collateral Agreements, their Existing Debt Obligations and any Notes issued to them, the Agent and the Collateral Agent each shall have the same rights and powers hereunder as any other Lender or holder of a Note and may exercise the same as though they were not
performing the duties specified herein; and the terms "Required Lenders", "holders of Notes", or any similar terms shall, unless the context clearly otherwise indicates, be determined as if the Agent and the Collateral Agent were not the Agent and the Collateral Agent hereunder, respectively, but only one of the Lenders. The Agent and the Collateral Agent may accept deposits from, lend money to, and generally engage in any kind of banking, trust, financial advisory or other business with, any DJT Entity or any Affiliate of DJT as if they were not performing the duties specified herein, and may accept fees and other consideration from any DJT Entity or any such Affiliate for services in connection with this Agreement and otherwise without having to account for the same to the Lenders.

SECTION 10.8 Holders of Notes. The Agent and the Collateral Agent may deem and treat the Lenders specified on Schedule III as the owners of any Notes which such Schedule III indicates have been issued to such respective Lenders for all purposes hereof unless and until a written notice of the assignment or transfer thereof shall have been filed with the Agent and the Collateral Agent. Any request, authority or consent of any Person who, at the time of making such request or giving such authority or consent, is the holder of any Note shall be conclusive and binding on any subsequent holder, transferee or assignee of such Note or of any Note or Notes issued in exchange therefor.

SECTION 10.9 Successor Agent. (a) Either of the Agent and the Collateral Agent may resign at any time by giving written notice thereof to the Lenders and the DJT Entities and may be removed at any time with or without cause by the Required Lenders (calculated, for purposes of this clause of this Section 10.9(a) only, as if any Lender which is the Agent or the Collateral Agent, as the case may be, held no Covered Debt Obligations); provided, however, that neither the Agent nor the Collateral Agent may give notice and resign, or be removed, as Agent or Collateral Agent hereunder unless the Agent and the Collateral Agent shall give notice and resign, or be removed, as both Agent and Collateral Agent hereunder; and provided, further, that neither the Agent nor the Collateral Agent may give notice and resign, or be removed, as Agent or Collateral Agent under this Agreement without simultaneously giving notice and resigning, or being removed, as the case may be, as agent under the New Credit Facility. Upon any such resignation or removal, the Required Lenders shall have the right, upon five days' notice to the DJT Entities, to appoint a successor Agent or Collateral Agent; provided, however, that any successor Agent or Collateral Agent shall also simultaneously be appointed as both
Agent and Collateral Agent hereunder; and provided, further, that any such successor Agent or Collateral Agent shall also simultaneously be appointed as agent under the New Credit Facility. If no successor Agent or Collateral Agent, as the case may be, shall have been so appointed by the Required Lenders and shall have accepted such appointment, within 30 days after the retiring Agent’s or Collateral Agent’s giving of notice of resignation or the removal of the Agent or Collateral Agent by the Required Lenders, then, upon 5 days’ notice to the DJT Entities, the retiring Agent or Collateral Agent may, on behalf of the Lenders, appoint a successor Agent or Collateral Agent, as the case may be, in either case which shall be a bank which maintains an office in the United States, or a commercial bank organized under the laws of the United States of America or of any State thereof, or any Affiliate of such bank, having a combined capital and surplus of at least $50,000,000; provided, however, that any such successor Agent or Collateral Agent shall also simultaneously be appointed as both Agent and Collateral Agent hereunder; and provided, further, that any such successor Agent or Collateral Agent shall also simultaneously be appointed as agent under the New Credit Facility.

(b) Upon the acceptance of any appointment as Agent or Collateral Agent hereunder by a successor Agent or Collateral Agent, as the case may be, such successor Agent or Collateral Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent or Collateral Agent, and the retiring Agent or Collateral Agent shall be discharged from its duties and obligations under this Agreement and all other Loan Documents and, in the case of the Collateral Agent, under this Agreement, the Collateral Agreements and all other Loan Documents. After any retiring Agent’s or Collateral Agent’s resignation, in either case, arising thereafter, or removal hereunder as Agent or Collateral Agent, as the case may be, the provisions of this Article X shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent or Collateral Agent under this Agreement or any Collateral Agreement, as the case may be.

(c) In the event that neither the Required Lenders nor the Agent appoint a successor Agent and Collateral Agent within the periods described in paragraph (a) above, each of the Agent and Collateral Agent may in its sole discretion immediately resign without any further notice to either the Lenders or any DJT Entity. Upon such resignations, each of the retiring Agent and Collateral Agent shall be discharged from its duties and obligations thereafter arising under this Agreement, the Collateral Agreements and all other Loan Documents.
Documents. Simultaneously with the retiring Agent's and Collateral Agent's resignations under this Agreement, the retiring Agent and Collateral Agent shall also be deemed to have resigned under each of the New Credit Facility, New Money Collateral Agreements and any other Loan Document in connection with which the retiring Agent and Collateral Agent acted as agent, all without further notice of any kind. Upon such resignation, the Collateral Agent shall promptly assign all Liens created in favor of the Collateral Agent under the Collateral Agreements to each of the Lenders, jointly. Immediately upon such resignation, all references in this Agreement, the Collateral Agreements and the other Loan Documents to the Agent or the Collateral Agent shall be deemed to be references to each Lender severally and each Lender hereby accepts any such assignment.

SECTION 10.10 Authorization. Each Lender hereby authorizes the Agent to act as Agent as contemplated by this Agreement on behalf of and for the benefit of that Lender. Each Lender hereby authorizes the Collateral Agent to receive or acknowledge the Guaranties and the Collateral Agreements (if required thereunder) and to take all actions contemplated to be taken by the Agent or the Collateral Agent under this Agreement or any Collateral Agreement, as the case may be. Each Lender agrees that no Lender shall have any right individually to seek or to enforce any Guaranty or to exercise any Foreclosure Rights with respect to any Collateral pursuant to the Collateral Agreements, it being understood and agreed that such rights and remedies may be exercised by the Collateral Agent for the benefit of the Lenders upon the terms of the Guaranties, the Collateral Agreements and this Agreement.

ARTICLE XI
INTERCOMPANY NOTES

SECTION 11.1 Intercompany Notes.

(a) In the event that, on or after June 26, 1990, DJT shall loan or advance any cash to any other DJT Entity, such DJT Entity shall duly execute and deliver payable to the order of DJT, as evidence of such DJT Entity's obligation to pay principal of and interest on (at an annual interest rate which is 1% above the Prime Lending Rate) such loan or amount a non-negotiable note in the form and having the terms and conditions contemplated by the New Credit Facility and this Article XI (an "Intercompany Note"). Each Obligor on any Intercompany Note shall cause such note to be paid in accordance with the terms hereof and thereof. Except as provided
in Section 11.2 or as expressly provided on Schedule VIII, the principal of and interest on any Intercompany Note shall be paid monthly from (and shall be due and payable to the extent of) the Entity Operating Cash Flow of the DJT Entity which is the Obligor thereof to the extent such Entity Operating Cash Flow would be included in Operating Cash Flow in the applicable period and from the Net Cash Proceeds of any Capital Event with respect to any asset owned by such DJT Entity (but not from the proceeds of any Capital Event with respect to any Equity Interest of such DJT Entity) prior to the repayment of any Indebtedness other than any Indebtedness which is secured by a Lien created by an Existing Collateral Agreement or first priority mortgage on any asset owned by (as compared to an Equity Interest in) such Obligor. Each Intercompany Note shall be subordinate to any Indebtedness of the Obligor thereof which is secured by a Lien created by an Existing Collateral Agreement on any asset owned by (as compared to an Equity Interest in) such Obligor. No Intercompany Note shall be amended to increase the interest rate thereon, alter any other payment terms thereof or alter the order of priority of prepayment thereof as contemplated by this Agreement (including, without limitation, Schedule VIII) without the consent of any Lender which is entitled, pursuant to this Agreement (including, without limitation, Schedule VIII), to receive any Net Cash Proceeds with respect to a Capital Event involving any asset owned by such Obligor (as compared to an Equity Interest in such Obligor) prior to any prepayment of such Intercompany Note.

SECTION 11.2 Special Intercompany Note Provisions.

(a) Notwithstanding Section 11.1, the following Intercompany Notes shall be paid out of Net Cash Proceeds pursuant to the provisions of Section 3.2(a):

(i) any Intercompany Note of the Trump Tower (the "Tower Note"), which shall be paid as provided on Schedule VIII;

(ii) any Intercompany Note of Plaza Operating Partners Ltd. (the "Plaza Note"), which shall be paid as provided on Schedule VIII; and

(iii) any Intercompany Note of the Shuttle (the "Shuttle Note"), which shall be paid as provided on Schedule VIII.

(b) Notwithstanding Section 11.1, the principal of and interest on the following Intercompany Notes shall be paid from the Entity Operating Cash Flow of the Obligor.
thereof to the extent, and only to the extent, provided below:

(i) the Tower Note shall be paid from the Entity Operating Cash Flow of the Obligor thereof prior to the establishment of an $1,400,000 operating reserve to the extent that the proceeds of such Tower Note were utilized by such Obligor to pay real estate taxes or other expenses approved by Chase;

(ii) the Plaza Note shall be paid from the Entity Operating Cash Flow of the Obligor thereof only to the extent the proceeds of such Plaza Note were utilized by such Obligor to pay real estate taxes owed in respect of the property known as the "Plaza Hotel" (plus an additional amount equal to the amount of interest which would accrue on the amount of such taxes to the extent such Plaza Note has not been prepaid at a rate equal to the Prime Lending Rate plus 1% per annum, compounded monthly) and only if the Obligor has available funds in an operating reserve account at Citibank N.A. (after first deducting therefrom any outstanding and unpaid checks) in an amount greater than the sum of (x) $5,000,000 and (y) any accrued and unpaid interest in connection with the Indebtedness secured by the existing first mortgage on the property known as the "Plaza Hotel" and any accounts payable of such Obligor outstanding for more than 60 days; provided, however, that the proceeds of the Plaza Note shall be deemed to have been utilized to pay real estate taxes either (x) to the extent the Obligor thereof has so utilized such proceeds, or (y) has an obligation to pay such taxes and has deposited such proceeds in escrow for the payment thereof; and

(iii) the Shuttle Note shall not be payable or prepayable from any Entity Operating Cash Flow of the Obligor thereof.

(c) Notwithstanding Section 11.1, any Intercompany Note of Trump Taj Mahal Associates Limited Partnership (the "Taj Note") shall be paid solely from the Entity Operating Cash Flow of the Obligor thereof and not from the Net Cash Proceeds of any Capital Event.

(d) Notwithstanding Section 11.1, any Intercompany Note of the Castle shall be paid from (and shall be due and payable to the extent of) the Net Cash Proceeds of any Capital Event with respect to any asset owned by Castle only
after the prepayment of the Midlantic Castle Working Capital Loan pursuant to Section 3.2(a)(ii)(B).

ARTICLE XII
MISCELLANEOUS

SECTION 12.1 Notices. All notices, requests and other communications to any party hereunder shall be in writing (including bank wire or telex) and shall be given to such party at its address by registered mail or air courier or telex number set forth on the signature pages hereof or such other address or telex number as such party may hereafter specify by notice to the Agent, the Collateral Agent, the Lenders and DJT; provided, however that no notices, requests or other communications may be given by telecopy or similar teletransmission. Any notice, request or other communication permitted or required to be given to any DJT Entity hereunder shall be valid if given to DJT. Each such notice, request or other communication shall be effective (i) if given by telex, when such telex is transmitted to the telex number specified on the signature pages hereof and the appropriate answerback is received, (ii) if given by mail, 72 hours after such communication is deposited in the mails with first class postage prepaid, addressed as aforesaid or (iii) if given by any other means (including, without limitation, by air courier), when delivered at the address specified on the signature pages hereof; provided that notices to any Lender, the Agent or any Collateral Agent shall not be effective until received.

SECTION 12.2 Amendments, Etc. No amendment of any provision of this Agreement, any Note or any other Loan Document (other than the Existing Debt Credit Agreements) shall in any event be effective unless the same shall be in writing and approved by the Required Lenders, and no waiver of any provision of this Agreement, any Note or any other Loan Document (other than the Existing Debt Credit Agreements), nor any consent to any departure by any DJT Entity therefrom, shall in any event be effective unless the same shall be in writing and approved by the Required Waiving Lenders, and, in any such case, then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided that no such amendment, waiver or consent shall, unless in writing and approved by all the Lenders, do any of the following: (i) subject to Section 9.2, waive any of the conditions specified in Article IX, (ii) subject the Lenders to any additional obligations, (iii) reduce the principal of, or interest on, any Note or any fees to be paid hereunder,
(iv) postpone any date any payment in respect of principal of, or interest on, any Note is to be made, or any fees hereunder are to be paid, (v) change the unpaid principal amount of any Note, or the number or identity of Lenders, which shall be required for the Lenders or any of them to take any action hereunder, (vi) amend this Section 12.2 or Section 12.4, (vii) amend or waive Article II, Article III or Article IV (or any provision providing for consent, acceptance or other action by all Lenders to require less than all Lenders) or the definitions of the terms used in such Articles (or provisions) or (viii) release (other than as may be required in order to consummate a Capital Event) any Collateral; and provided, further, that no such amendment, waiver or consent shall, unless in writing and signed by the Agent and the Collateral Agent in addition to the Lenders required hereinabove to take such action, affect the rights or duties of the Agent or the Collateral Agent, respectively, under this Agreement or any Note. Notwithstanding anything herein to the contrary, a waiver of a Uniform Event of Default following the declaration thereof pursuant to Exhibit A shall not be deemed effective unless the same shall be in writing and signed by the Required Waiving Lenders. Without limiting the generality of the foregoing, the Required Waiving Lenders shall be entitled (x) to waive a Uniform Default arising pursuant to the events described in clause (b) of Item 13 of Exhibit A or any other breach of the terms and conditions of this Agreement arising out of the events described in such clause (b) or (y) to consent to the action which, without such consent, would constitute such a Uniform Default. Any consent, acceptance or other action hereunder which requires the consent of the Required Lenders when so taken shall be deemed to bind all Lenders hereunder. Notwithstanding the foregoing, amendments to Article X shall not require the consent of any DJT Entity. Notwithstanding anything to the contrary contained herein, no term or provision of this Agreement or any other Loan Documents shall be construed to limit or otherwise affect the rights, remedies or obligations (including, without limitation, the right to amend, restate or otherwise modify the terms or conditions of any agreements, instruments or other documents) of any of the lenders (or the agent therefor) under or otherwise in connection with, or the rights and obligations of Trump-Equitable Fifth Avenue Company, Plaza Hotel or DJT or any of his other Affiliates under or otherwise in connection with, the first mortgage loans in respect of the properties of DJT and his Affiliates known as the "Trump Tower" and the "Plaza Hotel" and all agreements, instruments or other documents executed and delivered in connection therewith, as the same may be amended, restated, modified, extended, renewed or refinanced.
SECTION 12.3 No Waiver: Remedies Cumulative. No failure or delay on the part of the Agent, the Collateral Agent or any Lender or any holder of any Note in exercising any right or remedy hereunder, thereunder or under any Existing Debt Credit Agreement and no course of dealing between any DJT Entity and the Agent, the Collateral Agent or any Lender or the holder of any Note shall operate as a waiver thereof, nor shall any single or partial exercise of any right or remedy hereunder or under any Note preclude any other or further exercise thereof or the exercise of any other power, privilege, right or remedy hereunder. The rights and remedies herein expressly provided are cumulative and not exclusive of any rights or remedies which the Agent, the Collateral Agent or any Lender or the holder of any Note would otherwise have. No notice to or demand on any DJT Entity not required hereunder or under any Note in any case shall entitle any DJT Entity to any other or further notice or demand in similar or other circumstances or constitute a waiver of the rights of the Agent, the Collateral Agent, the Lenders or the holder of any Note to any other or further action in any circumstances without notice or demand.

SECTION 12.4 Payment of Expenses, Etc. The DJT Entities jointly and severally agree to:

(i) pay to the Agent for its own account a non-refundable fee of $100,000 payable on the Closing Date and an annual nonrefundable fee of $100,000, payable on each anniversary of the Closing Date until there are no outstanding Existing Debt Obligations;

(ii) whether or not the transactions hereby contemplated are consummated, pay, promptly after invoice therefor, all out-of-pocket costs and expenses of each Lender, the Agent and the Collateral Agent incurred in connection with this Agreement, including in the administration (both before and after the execution hereof and including advice of counsel as to the rights and duties of the Agent or the Collateral Agent or such Lender with respect thereto) of, and in connection with the preparation, execution and delivery of, preservation of rights under, enforcement of, and refinancing, renegotiation or restructuring of, this Agreement, the Notes, the Existing Debt Credit Agreements, the Loan Documents and any other documents and instruments referred to herein or therein and any amendment, supplement, waiver, consent or other modification relating hereto or thereto (including, without limitation, the fees and disbursements of counsel (including allocated

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costs of internal counsel), accountants and consultants for the Agent or the Collateral Agent and for any of the Lenders);

(iii) pay and hold each of the Lenders harmless from and against any and all present and future stamp, mortgage recording taxes and other similar taxes with respect to the foregoing matters and save each Lender harmless from and against any and all liabilities with respect to or resulting from any delay or omission to pay such taxes; and

(iv) indemnify the Agent, the Collateral Agent, and each Lender and the respective officers, directors, employees, representatives and agents of each from and hold each of them harmless against, any and all costs, losses, liabilities, claims, damages or expenses incurred by any of them (whether or not any of them is designated a party thereto) arising out of or by reason of any investigation, litigation or other proceeding, or threatened proceeding, related to any actual or proposed use by any DJT Entity or any Affiliate of DJT of the proceeds of any of the Existing Debt Obligations or any DJT Entity’s entering into and performing, or otherwise arising in connection with, this Agreement, any Note, any Existing Debt Credit Agreement or the Loan Documents, including, without limitation, the fees and disbursements of counsel (including allocated costs of internal counsel) incurred in connection with any such investigation, litigation or other proceeding.

If and to the extent that the obligations of the DJT Entities under this Section 12.4 are unenforceable for any reason, each DJT Entity hereby jointly and severally agrees to make the maximum contribution to the payment and satisfaction of such obligations which is permissible under applicable law. The obligations of the DJT Entities under this Section 12.4 shall survive any termination of this Agreement and the payment of any Note.

SECTION 12.5 Right of Setoff. Subject to Article III, in addition to and not in limitation of all rights of offset that any Lender or other holder of any Note may have under applicable law, each Lender or other holder of any Note shall, upon the occurrence of any Uniform Event of Default and whether or not such Lender or such holder has made any demand or any DJT Entity’s obligations are matured, have the right to appropriate and apply to the payment of any DJT Entity’s obligations hereunder and under any Note, all deposits (general or special, time or demand, provisional or
final) then or thereafter held by and other indebtedness or property then or thereafter owing to DJT by such Lender or other holder, whether or not related to this Agreement or any transaction hereunder.

SECTION 12.6 Benefit of Agreement. (a) This Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective successors and assigns, and heirs, distributees, legatees and administrators, of the parties hereto, provided that no DJT Entity may assign or transfer any of its interest hereunder without the prior written consent of the Lenders.

(b) Any Lender may make, carry or transfer the Existing Debt Obligations at, to or for the account of, any of its branch offices or the office of an Affiliate of such Lender.

(c) Subject to Section 12.6(d) and to any applicable consent required by the Casino Control Commission, any Lender may assign its rights (but may not delegate its obligations) under this Agreement or assign, or sell participations in, all or any part of any Existing Debt Obligations made by it or any other interest herein or in any Note to another bank or other entity in which event (i) in the case of an assignment, upon notice thereof by such Lender to DJT and the Agent, the assignee shall have, to the extent of such assignment (unless otherwise provided therein), the same rights and benefits as it would have if it were a Lender hereunder and the holder of a Note; and (ii) in the case of a participation, the participant shall not have any rights under this Agreement or any Note or any other document delivered in connection herewith (the participant's rights against such Lender in respect of such participation to be those set forth in the agreement executed by such Lender in favor of the participant relating thereto) and all amounts payable by the DJT Entities under Article III hereof shall be determined as if the Lender had not sold such participation. Subject to the terms of any applicable confidentiality agreement, the Lender may furnish any information concerning any DJT Entity in the possession of the Lender from time to time to assignees and participants (including prospective assignees and participants).

(d) Notwithstanding Section 12.6(c), no Lender may assign all or any part of any Existing Debt Obligation to DJT, any other DJT Entity, any other Affiliate of DJT or any Person listed on Schedule 1(a); provided, however, that the foregoing shall not prevent any payment on any guaranty in
accordance with the terms of this Agreement and the applicable Existing Debt Credit Agreement.

SECTION 12.7 Governing Law; Submission to Jurisdiction. (a) This Agreement and the rights and obligations of the parties heretofore and under any other Loan Document (except to the extent explicitly provided to the contrary therein) shall be construed in accordance with and be governed by the law (without giving effect to the conflict of law principles thereof) of the State of New York.

(b) Any legal action or proceeding with respect to this Agreement, any Note, any Existing Debt Credit Facility or any Loan Document or any document related hereto or thereto may be brought in the courts of the County of New York, State of New York or of the United States of America for the Southern District of New York, and, by execution and delivery of this Agreement, each DJT Entity hereby accepts for himself or itself and in respect of his or its property, generally and unconditionally, the non-exclusive jurisdiction of the aforesaid courts.

(c) Nothing in this Section 12.7 shall affect the right of the Lender or any holder of any Note to serve process in any manner permitted by law or to commence legal proceedings or otherwise proceed against any DJT Entity in any other jurisdiction.

(d) WITH RESPECT TO ANY SUCH ACTION OR PROCEEDING, THE PARTIES HERETO HEREBY IRREVOCABLY WAIVE TRIAL BY JURY, AND EACH DJT ENTITY HEREBY IRREVOCABLY WAIVES ANY OBJECTION, INCLUDING, WITHOUT LIMITATION, ANY OBJECTION TO THE LAYING OF VENUE OR BASED ON THE GROUNDS OF FORUM NON CONVENIENS, WHICH IT MAY NOW OR HEREAFTER HAVE TO THE BRINGING OF ANY SUCH ACTION OR PROCEEDING IN SUCH RESPECTIVE JURISDICTIONS.

SECTION 12.8 Acknowledgments. Each DJT Entity hereby severally acknowledges that (a) it has been advised by counsel in the negotiation, execution and delivery of this Agreement and the other Loan Documents to which it is a party, (b) it has made an independent decision to enter into this Agreement and the other Loan Documents to which it is a party, without reliance on any representation, warranty, covenant or undertaking by the Agent, the Collateral Agent or any Lender, (c) there are no representations, warranties, covenants, undertakings or agreements by the parties hereto as to this Agreement or any other Loan Documents except as specifically provided herein and therein, (d) neither the Agent, the Collateral Agent nor any Lender has any fiduciary obligation toward any DJT Entity or any of their respective
Affiliates with respect to this Agreement or any other Loan Document, (e) the relationship between the DJT Entities, on the one hand, and each Lender, on the other hand, pursuant to this Agreement and the other Loan Documents is and shall be solely that of debtor and creditor, respectively, and (f) no joint venture exists either between the DJT Entities and the Lenders or any Lender or among any one or more of the Lenders as a group.

SECTION 12.9 Counterparts. This Agreement may be executed in any number of counterparts and by the different parties hereto on separate counterparts, each of which when so executed and delivered shall be an original, but all of which shall together constitute one and the same instrument.

SECTION 12.10 Effectiveness; Survival of Indemnities. This Agreement shall become effective on the date on which all of the parties hereto shall have signed a copy hereof (whether the same or different copies) and shall have delivered the same to the Agent pursuant to Section 12.1 or, in the case of the Lenders, shall have given to the Agent written or telex notice (actually received) at such office that the same has been signed and mailed to it. Each DJT Entity's obligations under Sections 4.1(f) and 12.4 hereof shall survive the payment in full of the Existing Debt Obligations. All representations and warranties made hereunder and in any document, certificate or statement delivered pursuant hereto or in connection herewith shall survive the execution and delivery of this Agreement.

SECTION 12.11 Palm Beach Existing Agreement Amendment to Govern. Notwithstanding anything to the contrary contained herein, other than Section 2.1 (as in effect on the Closing Date), as between this Agreement and the Existing Agreement Amendment applicable to the Palm Beach Credit Agreement (as in effect on the Closing Date), if the express terms of such Existing Agreement Amendment (as in effect on the Closing Date) conflict with any provision of this Agreement, the provisions of such Existing Agreement Amendment, to the extent inconsistent with any provision of this Agreement, shall govern.

SECTION 12.12 Headings Descriptive. The headings of the several sections and subsections of this Agreement, and any Table of Contents, are inserted for convenience only and shall not in any way affect the meaning or construction of any provision of this Agreement.

SECTION 12.13 Severability. Every provision of this Agreement, every Existing Agreement Amendment and other
Loan Document delivered pursuant hereto, is intended to be severable. In the event any term or provision of this Agreement, any Existing Agreement Amendment or other Loan Document shall be declared by a court of competent jurisdiction to be illegal or invalid for any reason whatsoever, such illegality or invalidity shall not affect the balance of the terms and provisions of this Agreement, or of such Existing Agreement Amendment or other Loan Document, as the case may be, which terms and provisions shall remain binding and enforceable.
IN WITNESS WHEREOF, the parties hereto have signed, or caused their duly elected officer to sign, their name hereto as of the date first written above.

DONALD J. TRUMP
TRUMP TAJ MAHAL ASSOCIATES LIMITED PARTNERSHIP
TRUMP TAJ MAHAL, INC.
TRUMP TAJ MAHAL FUNDING, INC.
TRUMP TAJ MAHAL REALTY CORP.
TRUMP PLAZA ASSOCIATES
TRUMP BOARDWALK REALTY CORPORATION
TRUMP PLAZA FUNDING, INC.
TRUMP SEASHORE ASSOCIATES
TRUMP SEASHORE ASSOCIATES, INC.
TRUMP'S CASTLE ASSOCIATES LIMITED PARTNERSHIP
TRUMP'S CASTLE HOTEL & CASINO, INC.
TRUMP'S CASTLE FUNDING, INC., f/k/a TCH Financial Corp.
TRUMP CRYSTAL TOWER ASSOCIATES LIMITED PARTNERSHIP, d/b/a
Trump Regency Hotel and Trump Regency
DJT ACQUISITION CORP., a New Jersey Corporation
HELIICOPTER AIR SERVICES, INC.
DONVAN ENTERPRISES, INC., f/k/a Donvan Aviation, Inc.
THE TRUMP-EQUITABLE FIFTH AVENUE COMPANY
TIPPERARY REALTY CORP.
REG-TRU EQUITIES, LTD.
THE TRUMP CORPORATION
PLAZA OPERATING PARTNERS LTD.
DJT PLAZA HOTEL CORP.
PENN YARDS ASSOCIATES
PENN YARDS REALTY CORP.
P.Y. PROPERTIES, INC.
PY ASSOCIATES, LTD.
PARK SOUTH ASSOCIATES
B. PLAZA REALTY CORP.
THE EAST 61 ST. COMPANY
PLAZA CONSULTING CORP.
TRUMP SHUTTLE, INC., f/k/a Trump Shuttle Operating Corp.
TRUMP PALM BEACHES CORPORATION
ALIBAN, INC.
THE TRUMP-ALEXANDER'S COMPANY
DJT ACQUISITION CORP., a New York Corporation
MONDAY REALTY CORP.
TRUMP WEST REALTY CORP.
DT AIR CORP.
TRUMP HOTEL MANAGEMENT CORP.
SEASHORE FOUR ASSOCIATES
TRUMP JFK HOTEL ASSOCIATES, L.P.
DJT TRUMP PARKING

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ST. MORITZ HOTEL ASSOCIATES
50-56 CENTRAL PARK SOUTH CORP.
AMELS USA, INC.
FOOTBALL GENERALS INC.
MORITZ REALTY CORP.
PARC CONSULTING, INC.
THE TRUMP HOTEL CORPORATION
THE TRUMP PLAZA CORPORATION
TOYS AT TRUMP, INC.
TRUMP AIRLINES HOLDING CORP.
TRUMP ASPEN PROPERTIES, INC.
TRUMP AUSTRALIA, INC.
TRUMP BASEBALL, INC.
TRUMP BEVERLY HILLS HOTEL CORP.
TRUMP CASH CALL CO., INC.
TRUMP CITY CORPORATION
TRUMP COLUMBIA, INC.
TRUMP ENTERPRISES, INC.
TRUMP ICE, INC.
TRUMP INTERNATIONAL MARKETING, INC.
TRUMP JFK HOTEL DEVELOPMENT CORP.
TRUMP NEVADA INC.
TRUMP ORGANIZATION, INC.
TRUMP PAYROLL CORP.
TRUMP PRINCESS CORP.
TRUMP SPORTS & ENTERTAINMENT CO., INC.
TRUMP TRAVEL AGENCY, INC.
TRUMP WEST PALM BEACH REALTY CORP.
DONALD J. TRUMP d/b/a THE TRUMP PALACE COMPANY

By: Donald J. Trump, individually and in his capacity as a duly authorized officer, general partner, or other authorized signator, as the case may be, of each of the above DJT Entities or of any entity that is a general partner of any entity listed above

725 Fifth Avenue
New York, N.Y. 10022
Telex: 427715; Answerback Code: TRUMP UI

Harvey Freeman
725 Fifth Avenue
New York, N.Y. 10022
Telex: 427715; Answerback Code: TRUMP UI
Senior Executive Officer  
The Trump Organization  
725 Fifth Avenue  
New York, N.Y. 10022  
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General Counsel  
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725 Fifth Avenue  
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Gerald Schrager, Esq.  
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New York, N.Y. 10178

Jack H. Nussbaum, Esq.  
Willkie Farr & Gallagher  
One Citicorp Center  
153 East 53rd Street  
New York, N.Y. 10022

BANKERS TRUST COMPANY,  
as a Lender, as Agent,  
and as Collateral Agent

By: Deborah L. Harmon  
Vice President  
Bankers Trust Company  
Real Estate Finance Group-21W  
Attn.: R. Gunthel  
280 Park Avenue  
New York, N.Y. 10017  
Telex: (ITT) 420066; Answerback Code: BANTRUST

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THE CHASE MANHATTAN BANK, N.A.

By: William C. McCahill, Jr.
Senior Vice President
The Chase Manhattan Bank, N.A.
Att.: Real Estate Finance
101 Park Avenue
New York, N.Y. 10018
Telex: (MCI) 62910; Answerback Code: CMBUW

CITIBANK, N.A.,
In its capacity as agent
under that certain $135,000,000
Credit Agreement, dated as of
June 7, 1989

By: Peter Baumann
Vice President
Citicorp, N.A.
599 Lexington Avenue
24th Floor, Zone 8
New York, N.Y. 10043
Telex: ______; Answerback Code: ______
[Telecopy: (212) 793-0158]
CITIBANK, N.A.,
In its capacity as agent
under that certain $125,000,000
Loan Agreement, dated as of
July 21, 1988, by and between
D.J. Trump and Citibank

By: Peter Baumann
Vice President
Citicorp, N.A.
599 Lexington Avenue
24th Floor, Zone 8
New York, N.Y. 10043
Telex: ; Answerback Code: 
[Telecopy: (212) 793-0158]

CITIBANK, N.A.,
In its capacity as Lender
under that certain Amended
and Restated Loan Agreement,
dated as of October 26, 1987
(as amended by letter amendments
dated October 26, 1986,
October 26, 1989 and April 26, 1990)

By: Peter Baumann
Vice President
Citicorp, N.A.
599 Lexington Avenue
24th Floor, Zone 8
New York, N.Y. 10043
Telex: ; Answerback Code: 
[Telecopy: (212) 793-0158]
CITICORP CREDIT SERVICES, INC.,
Card Acceptance Division
in connection with that certain
Agreement, dated as of June 7, 1989

By: Peter Baumann
Vice President
Citicorp, N.A.
599 Lexington Avenue
24th Floor, Zone 8
New York, N.Y. 10043
Telex: ______; Answerback Code: ________
[Telecopy: (212) 793-0158]

CITIBANK, N.A.,
In its capacity as an obligee
under that certain Interest Rate
Swap Agreement, dated as of
September 5, 1989

By: Peter Baumann
Vice President
Citicorp, N.A.
599 Lexington Avenue
24th Floor, Zone 8
New York, N.Y. 10043
Telex: ______; Answerback Code: ________
[Telecopy: (212) 793-0158]
CITIBANK, N.A.,
In its capacity as an agent
under the Notes Modification
Agreement, dated as of
February 14, 1989, made by
Donald J. Trump d/b/a/
The Trump Palace Company,
as amended and any related agreements

By: Peter Baumann
Vice President
Citicorp, N.A.
599 Lexington Avenue
24th Floor, Zone 8
New York, N.Y. 10043
Telex: __________; Answerback Code: __________
[Telecopy: (212) 793-0158]

MANUFACTURERS HANOVER TRUST COMPANY

By: Richard J. Peiser
Vice President
Manufacturers Hanover Trust Company
270 Park Avenue
New York, N.Y. 10017
Telex: 128145; Answerback Code: MHTCO(A)(B)NYK

-111-
MIDLANTIC NATIONAL BANK

By: W.T. Smith, III
Senior Vice President
Midlantic National Bank
Att.: National Corporate Banking Dept.
499 Thornall Street
Edison, N.J. 08837
Telex: 66499; Answerback Code: MIDL VW

FIRST FIDELITY BANK,
NATIONAL ASSOCIATION, NEW JERSEY

By: Francis X. Murphy
Senior Vice President
First Fidelity Bancorporation
550 Broad Street
Newark, N.J. 07102
Telex: 178108; Answerback Code: FFB NJ NWKUT

FIRST FIDELITY BANK,
NATIONAL ASSOCIATION, SOUTH JERSEY

By: 

Route 541 and Sunset Road
Burlington, NJ 08016
Telex: ; Answerback Code:
FIDELITY BANK, NATIONAL ASSOCIATION,

By:

______________________________

Broad and Walnut Streets
Philadelphia, PA 19109
Telex: ; Answerback Code:

NATIONAL WESTMINSTER BANK USA

By: Joseph G. Wessely
Vice President
National Westminster Bank USA
Real Estate Division
592 Fifth Avenue
New York, N.Y. 10036
Telex: 220999; Answerback Code: NBUP
BOSTON SAFE & DEPOSIT COMPANY

By: Steven R. Busch
Vice President
Boston Safe & Deposit Company
One Boston Place
2d Floor
Boston, MA 02108
Telex: 174393; Answerback Code: BSDTICG

MARINE MIDLAND BANK, N.A.

By: Jane S. O'Day
Vice President
Marine Midland Bank, N.A.
250 Park Avenue
Suite 1215
New York, N.Y. 10177
Telex: 62822; Answerback Code: MMB UW
Upon the occurrence of any of the following events (other than an event specified in Item 5(a)-(h) with respect to DJT, which shall immediately constitute a Uniform Event of Default), the Agent, upon the request of any Lender shall send a notice to each Lender specifying the circumstances described in such Lender's request and inquiring of each Lender whether it has determined to declare a Uniform Event of Default or to waive the occurrence of a Uniform Event of Default and the Uniform Default giving rise thereto. If within 20 Business Days of the date of such notice by the Agent, the Required Lenders shall have given notice to the Agent that they have elected to declare a Uniform Event of Default, a Uniform Event of Default shall be deemed to have occurred. If within such 20 Business Day period, the Required Waiving Lenders shall have elected to waive the occurrence of a Uniform Event of Default and the Uniform Default giving rise thereto, such waiver shall be deemed to have occurred. If neither such declaration or waiver shall occur within such 20 Business Day period, the Agent shall send a second notice to the Lenders making the same inquiry as such first notice. If within 20 Business Days of the date of such second notice, the Required Lenders shall have given notice to the Agent that they have elected to declare a Uniform Event of Default, a Uniform Event of Default shall be deemed to have occurred. If within such 20 Business Day period, the Required Waiving Lenders shall have elected to waive the occurrence of a Uniform Event of Default, and the Uniform Default giving rise thereto, such waiver shall be deemed to have occurred; PROVIDED, HOWEVER, THAT ANY LENDER THAT SHALL NOT HAVE RESPONDED TO SUCH SECOND NOTICE WITHIN 20 BUSINESS DAYS THEREOF SHALL BE DEEMED TO HAVE WAIVED THE OCCURRENCE OF SUCH UNIFORM EVENT OF DEFAULT AND THE UNIFORM DEFAULT GIVING RISE THERETO.

1. Non-Payment. Default in the payment when due of any amount (including any mandatory prepayment) of principal, interest or other amount payable by any DJT Entity pursuant to Section 3.2 or Schedule VIII.

2. Non-Compliance with Agreements. (a) The failure by DJT to observe or perform any covenant or agreement contained in Sections 6.1(c), (f), (g), (h) or (i), 6.3, or 6.4(a)-(g) of Exhibit E; or (b) the failure by DJT to observe or perform any other covenant or agreement under this Agreement or, except as may otherwise be specified therein,
any of the other Loan Documents (other than those referred to in Item 1 or in clause (a) above) and, if capable of being remedied, such failure shall remain unremedied for 30 days, in the case of clause (b), if such covenant or agreement is then in effect in accordance with Article VI.

3. Representations and Warranties. Any representation, statement or warranty made or deemed to be made by any DJT Entity under or in connection with this Agreement or any other Loan Document shall not have been true and correct in all material respects when made or deemed to be made.

4. Cross-Default. (a) Any Event of Default (as such term is defined in the New Credit Facility) shall occur if such default shall have continued without waiver or cure for 20 days after the expiration of any applicable grace period or (b) DJT or any of his Affiliates shall fail to make any payment in respect of any Indebtedness (other than Indebtedness under the New Credit Facility) for borrowed money (including leases) which payments aggregate $5,000,000 or more when due or within any applicable grace period if the holder of such Indebtedness would be able to take any action directly or indirectly against DJT as the obligor, a guarantor, a general or limited partner of any partnership, a participant in any joint venture, a stockholder, officer or director of a corporation or in any other capacity, whether by operation of law or otherwise, for the repayment of such Indebtedness (or any portion thereof or interest thereon or any other sums payable in respect thereof) either then or upon an acceleration of such Indebtedness, or any event or condition shall occur which results in the acceleration of the maturity of any such Indebtedness in the aggregate outstanding amount of $5 million or more which would enable (or, with the giving of notice or lapse of time or both, would enable) the holder of such Indebtedness or any Person acting on such holder’s behalf to accelerate the maturity thereof.

5. Bankruptcy. (a) DJT or any of his Affiliates shall commence a voluntary case concerning such Person under Title 11 of the United States Code entitled "Bankruptcy" as now or hereafter in effect, or any successor thereto (the "Bankruptcy Code"); or (b) an involuntary case is commenced against DJT or any of his Affiliates and the petition is not controverted within 90 days, or is not dismissed within 90 days, after commencement of the case; or (c) a custodian (as defined in the Bankruptcy Code) is appointed for, or takes charge of, all or any substantial part of the property of DJT.
or any of his Affiliates; or (d) DJT or any of his Affiliates commences any other proceeding under any reorganization, arrangement, adjustment of debt, relief of debtors, dissolution, insolvency or liquidation or similar law of any jurisdiction whether now or hereafter in effect relating to DJT or such Person or there is commenced against DJT or any of his Affiliates any such proceeding which remains undismissed for a period of 90 days; or (e) DJT or any of his Affiliates is adjudicated insolvent or bankrupt; or (f) any order of relief or other order approving any such case or proceeding is entered; or (g) DJT or any of his Affiliates suffers any appointment of any custodian or the like for such Person or any substantial part of such Person's property to continue undischarged or unstayed for a period of 90 days; or (h) DJT or any of his Affiliates makes a general assignment for the benefit of creditors; or (i) DJT or any of his Affiliates shall fail to pay, or shall state that such Person is unable to pay, or shall be unable to pay, such Person's debts generally as they become due; or (j) DJT or any of his Affiliates shall by any act or failure to act indicate such Person's consent to, approval of or acquiescence in any of the foregoing; or (k) any action is taken by DJT or any of his Affiliates for the purpose of effecting any of the foregoing; provided that, for purposes of this Item 5, the term "Affiliates" shall not be deemed to include any New Ventures or any other Person listed on Schedule 6.0 to the New Credit Facility.

6. Loan Documents. This Agreement or any other Loan Document shall cease for any reason to be in full force and effect, other than as a direct result of any action or inaction of the Agent, Collateral Agent or the Lenders not contemplated by this Agreement or any other Loan Documents, or any DJT Entity shall so assert in writing, or any of the Liens created by the Collateral Agreements or the Special Collateral Agreements shall cease to be enforceable or shall not have the priority purported to be created thereby.

7. Adverse Judgment. Judgments or orders for the payment of money in excess of $5,000,000 in the aggregate, or otherwise materially adverse to the business, condition (financial or otherwise), operations, prospects or assets of DJT or any of his Affiliates (other than those Affiliates which are New Ventures and the Shuttle), shall be rendered against DJT or any of his Affiliates (other than those Affiliates which are New Ventures and the Shuttle) and such judgments or orders shall continue unsatisfied (in the case of a money judgment) and in effect for a period of 60 days.
during which execution shall not be effectively stayed or deferred (whether by action of a court, by agreement or otherwise); provided, however, that this Item 7 shall not apply in the event of a judgment or order entered for the benefit of any Lender solely in connection with the exercise of Foreclosure Rights by such Lender pursuant to this Agreement in accordance with Section 2.2(g).

8. **Material Adverse Change.** Any material adverse change shall occur since May 31, 1990 in the business, condition (financial or otherwise), results of operations, assets, or prospects of DJT or any of his Affiliates (other than those Affiliates which are New Ventures, the Shuttle and those Affiliates listed on Schedule 6.0 to the New Credit Facility) which would materially impair the ability of DJT to perform his obligations under this Agreement and repay the Notes or to comply with the Business Plans or the ability of any DJT Entity to perform their obligations under the Guarantees, the Special Guarantees, the Collateral Agreements, the Special Collateral Agreements or other Loan Documents to which they are parties (the fact that a given occurrence or event (or the failure to occur of such occurrence or event) is not specifically identified in the other sections of this Exhibit A does not imply that such occurrence or event (or failure thereof to occur) does not or cannot constitute a material adverse change for purposes of this Item 8).

9. **ERISA.** A Plan shall fail to maintain the minimum funding standard required by Section 412 of the Code for any plan year or a waiver of such standard is sought or granted under Section 412(d), or a Plan is, shall have been or is to be imminently, terminated or the subject of termination proceedings under ERISA, or DJT or an ERISA Affiliate has incurred or is imminently to incur a liability to or on account of a Plan under Section 4062, 4063, 4064, 4201 or 4204 of ERISA, and there shall result from any such event or events either a liability or a material risk of incurring a liability to the PBGC or a Plan, which, in the reasonable opinion of the Required Lenders, will have a material adverse effect upon the business, financial condition, results of operations or prospects of DJT and his Affiliates, taken as a whole.

10. **DJT Death or Incapacity.** DJT shall die or become incapacitated.
11. **Casino Control.** Any license or other governmental consents material to the ownership or operation, or the holding of a Lien granted under any Collateral Agreement or Special Collateral Agreement on any Equity Interests, of any Casino Entity shall expire without renewal or be suspended or revoked or DJT or any of his Affiliates shall be prohibited from operating casinos, or holding any such Lien, under any of such licenses or consents and such prohibition shall not have been removed within 30 days; any regulatory or judicial body shall make any determination or take any action which materially adversely affects DJT's or any of his Affiliates' or any other Person's ability to own and operate, directly or indirectly, any Casino Entity, including, without limitation, a determination by the Casino Control Commission or the Division of Gaming Enforcement that DJT or any of his Affiliates or any other such Person is a "Disqualified Person" under Section 86 of the Casino Control Act; or a conservator shall be appointed for any of the Casino Entities by the Casino Control Commission.

12. **Property Loss.** There shall occur the loss, theft, substantial damage to or destruction of any portion of the Collateral or the Special Collateral not fully covered by insurance which by itself or with other such losses, thefts, damage or destruction of the Collateral or the Special Collateral shall materially impair the value or the operations of DJT or any of his Affiliates (except New Ventures and those Affiliates listed on Schedule 6.0) or there shall occur the exercise of the right of condemnation or eminent domain on any portion of the Collateral or the Special Collateral which by itself or with other such exercises of the right of condemnation or eminent domain shall materially impair the value or the operations of DJT or any of his Affiliates (except New Ventures and those Affiliates listed on Schedule 6.0).

13. **Casino Events.** Either (a) any Person or Persons (whether or not Lenders) shall institute any proceedings seeking to foreclose or otherwise to realize upon a consensual Lien in any asset of any Casino Entity or any Equity Interest in any Casino Entity securing Indebtedness in the amount of $5,000,000 or more in the aggregate or (b) DJT or any Affiliate of DJT shall take any action in connection with the refinancing or restructuring of any Casino Indenture which, directly or indirectly, results in, or will imminently result in, the dilution or reduction of DJT's ownership of Equity Interests in any Casino Entity.
Notwithstanding any of the foregoing provisions of this Exhibit A, none of the following shall in and of itself constitute an event which, upon declaration by the Required Lenders in accordance with the first paragraph of this Exhibit A, would become a Uniform Event of Default: (a) any Person commences to exercise, or exercises, any Foreclosure Rights with respect to the Shuttle or any Equity Interest in the Shuttle, (b) any Equity Interest in the Shuttle is transferred to any of the financial institutions who are lenders secured by any assets of, or Equity Interest in, the Shuttle immediately prior to the date hereof (or their successors and assigns) (collectively, the "Shuttle Lenders") whether as a result of the exercise of Foreclosure Rights or otherwise, or (c) any default or event of default occurs in any Existing Debt Credit Agreement, Existing Collateral Agreement, Special Collateral Agreement or Collateral Agreement relating to the Shuttle or any Equity Interest in the Shuttle.
UNIFORM REPRESENTATIONS AND WARRANTIES

DJT hereby represents and warrants as follows:

Section 8.1. Corporate Existence. Each DJT Entity, and each individual general partner of each DJT Entity which is a partnership, is an entity duly organized, validly existing and in good standing under the laws of the State of its organization.

Section 8.2. Authorization; No Violation. The execution, delivery and performance by each DJT Entity of the New Credit Facility, the Security Documents and the Loan Documents (as both such terms are defined in the New Credit Facility), this Agreement, the Existing Agreement Amendments and the other Loan Documents to which such DJT Entity is a party do not violate or create a default under any provision of any applicable Governmental Act or any contractual provision or other restrictions or limitations binding on or affecting DJT or any of his property. Except as may be set forth on Schedule 4.02 to the New Credit Facility, the execution, delivery and performance by each DJT Entity of the Guaranties, the Special Guaranties, the Collateral Agreements, the Existing Agreement Amendments and each other Loan Document to which it is a party, and the execution, delivery and performance by each DJT Entity of the New Credit Facility, and Security Documents and the other Loan Documents (as both such terms are defined in the New Credit Facility) to which it is a party, (i) are within such DJT Entity’s corporate, partnership or joint venture powers, as the case may be, (ii) have been duly authorized by all necessary corporate, partnership or joint venture actions, as the case may be, (iii) do not violate or create a default under any provision of applicable Governmental Act, or such DJT Entity’s organizational documents, and (iv) do not violate or create a default under any contractual provision or other restriction or limitation binding on or affecting such DJT Entity or any of its property, which violation or default referred to in this clause (iv) might have a material adverse effect on the business, condition (financial or otherwise), results of operations, assets or prospects of DJT or any of his Affiliates.

Section 8.3. Governmental Approvals. No authorization or approval or other action by, and no notice to or filing or registration with, any Governmental Authority is required in connection with the execution, delivery and performance by any DJT Entity of this Agreement, the Existing Agreement Amendments and the other Loan Documents to which it is a party, or in connection with the execution, delivery and performance by any DJT Entity of the New Credit Facility, the Security Documents and the other Loan Documents (as both such
terms are defined in the New Credit Facility) to which it is a party, except for the filings and consents scheduled on Schedule 4.03 to the New Credit Facility, all of which have already been obtained or made.

Section 8.4. Binding Effect. This Agreement constitutes, and the Existing Agreement Amendments and the other Loan Documents when executed and delivered will constitute, legal, valid and binding obligations of each DJT Entity which is a party thereto, and the New Credit Agreement, the Security Documents and the other Loan Documents (as both such terms are defined in the New Credit Facility) when executed and delivered will constitute legal, valid and binding obligations of each DJT Entity which is a party thereto, in each case enforceable against each such DJT Entity in accordance with their respective terms, except as may be subject to (i) the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar law affecting creditors' rights generally, and (ii) general principles of equity (regardless of whether such enforcement is sought in a proceeding in equity or at law).

Section 8.5 Financial Information. (a) The balance sheets of DJT and the Affiliates of DJT listed on Schedule 3.01(o) to the New Credit Facility, as at May 31, 1990, including in each case the related schedules and notes, true copies of which have been previously delivered to each of the Lenders, are complete and correct and fairly present the financial condition of DJT and each of such Affiliates as at May 31, 1990, in accordance with generally accepted accounting principles applied on a consistent basis, which principles, in the case of DJT, shall include, without limitation, Statement of Position (SOP) 82-1, Accounting and Financial Reporting for Personal Financial Statements, October 1, 1982, issued by the Accounting Standards Division of the American Institute of Certified Public Accountants.

(b) The June 14, 1990 Report gives effect to the restructuring of certain Indebtedness under this Agreement and the advance of Loans (as defined in the New Credit Facility) and the grant of Liens pursuant to the New Credit Facility and the New Money Collateral Agreements and pursuant to this Agreement and the Special Collateral Agreements and the Collateral Agreements; the assumptions made in preparing the projections in the June 14, 1990 Report are reasonable and all material assumptions with respect to such projections are set forth therein; and the June 14, 1990 Report provides a reasonable estimation of future performance on a cash basis, subject to the uncertainty and approximation inherent in any projections and subject to the limitations and qualifications set forth therein; except, in each case to the extent disclosed in a letter to be dated as of the Effective Date.
(as such term is defined in the New Credit Facility) from Kenneth Leventhal & Co. to the Lenders, a copy of which shall be delivered to each Lender no later than the Effective Date (as such term is defined in the New Credit Facility).

(c) Since May 31, 1990, there has been no material adverse change in the business, condition (financial or otherwise), results of operations, assets or prospects of DJT or of any of his Affiliates except those Affiliates of DJT set forth on Schedule 4.0 to the New Credit Facility.

For purposes of determining whether the representation and warranty in Section 8.5(c) is true and correct and for purposes of determining whether an event of the type described in Item 8 of Exhibit A has occurred at any time after the Closing Date, the disclosures made in the letter dated as of the date hereof from Kenneth Leventhal & Co. to the Lenders referred to in Section 8.5(b) shall be deemed not to constitute a material adverse change in and of themselves; provided that in the event that any other changes not so disclosed shall have occurred at any time, such disclosures shall be taken into account together with such other changes for the purpose of determining whether a material adverse change has occurred.

Section 8.6. Litigation. Except as set forth on Schedule 4.06 to the New Credit Facility, there is no action, suit or proceeding, or any governmental investigation or any arbitration, in each case pending or, to the knowledge of DJT, threatened against DJT or any of his Affiliates (except Affiliates of DJT set forth on Schedule 4.0 to the New Credit Facility), or any material property of any such Person before any court or arbitrator or any Governmental Authority (i) which challenges the validity of this Agreement, any Existing Agreement Amendment or any other Loan Document or (ii) which if adversely determined would have a material adverse effect on the business, condition (financial or otherwise), results of operations, assets or prospects of DJT or of any of his Affiliates.

Section 8.7. Use of Proceeds. The proceeds of the Loans (as defined in the New Credit Facility) will be used only for the purposes permitted by Section 5.01(h) thereof. No part of the proceeds of any Loan will be used to purchase or carry any Margin Stock.

Section 8.8. Compliance with ERISA. Each single-employer plan and, to the best of DJT's knowledge, each multiemployer plan, is in substantial compliance with ERISA; no Plan has an accumulated or waived funding deficiency within the meaning of Section 412 or Section 418B of the Code; as of the most recent valuation date for each Plan
which is a multiemployer plan, no withdrawal liability would be imposed on DJT, any of his Affiliates or any ERISA Affiliate if any ERISA Affiliate were to withdraw, completely or partially, from such Plan; no proceedings have been instituted to terminate any Plan; the sum of the liabilities in excess of assets of each Plan which is a single employer plan would not, in the aggregate, exceed $4,000,000 if each such Plan which has liabilities in excess of assets were to terminate on the date hereof; and none of DJT, any of his Affiliates or any ERISA Affiliate has incurred any material liability to or on account of a Plan under ERISA other than in the ordinary course of business, and no condition exists which presents a material risk to DJT or any of his Affiliates of incurring such a liability.

Section 8.9. Environmental Matters. Except as set forth in Schedule 4.09 to the New Credit Facility, to the best of DJT's knowledge no of the operations or properties of DJT or any of his Affiliates is the subject of Federal, state or foreign investigation evaluating whether any remedial action is needed to respond to a release of any Hazardous Substance (as hereinafter defined) into the environment, and none of DJT or any of his Affiliates has received any written communication since January 1, 1985 from a Governmental Authority that alleges that DJT or any of his Affiliates is not in compliance, and, with respect to their operations and properties set forth on Schedule 4.09 to the New Credit Facility, DJT and his Affiliates are in compliance in all material respects, and to the best of the DJT’s knowledge, the other operations or properties of DJT or any of his Affiliates are in compliance in all material respects, with all Federal, state, local or foreign laws, ordinances, codes, rules and regulations relating to the environment ("Environmental Laws"). Each of DJT and each of his Affiliates has filed all notices required to be filed under any Environmental Law indicating past or present treatment, storage or disposal of a Hazardous Substance or reporting a spill or release of a Hazardous Substance into the environment. With respect to the operations and properties set forth on Schedule 4.09 to the New Credit Facility, neither DJT nor any of his Affiliates has, and to the best of DJT’s knowledge with respect to their other operations and properties, neither DJT nor any of his Affiliates has, any material contingent liability in respect of its business in connection with any Hazardous Substance. "Hazardous Substance" includes: (i) any hazardous, toxic or dangerous waste, substance or material defined as such in (or for the purposes of) the Comprehensive Environmental Response, Compensation and Liability Act, as amended, Superfund Amendments and Reauthorization Act and any so-called superfund or superlien law, or any other Environmental Law, including Environmental Laws relating to or imposing liability or standards or
conduct concerning any hazardous, toxic or dangerous waste, substance or material in effect on the date of this Agreement, (ii) asbestos or polychlorinated biphenyls (PCB’s), and (iii) any other chemical, material or substance, exposure to which is prohibited, limited or regulated by any Federal, state, foreign or local governmental authority pursuant to any Environmental Law or any health and safety or similar law, code, ordinance, rule or regulation, order or decree, and which may or could pose a hazard to the health and safety of workers at or users of any properties of DJT or any of his Affiliates or cause damage to the environment. Except as set forth in Schedule 4.09 to the New Credit Facility, with respect to the operations and properties set forth on Schedule 4.09 to the New Credit Facility, there are no, and to the best of DJT’s knowledge with respect to their other operations and properties, there are no, asbestos conditions existing at any property owned, leased or operated by DJT or any of his Affiliates that could give rise to any removal, encapsulation or other costs, whether in connection with any pending or future renovation, remodeling or otherwise.

Section 8.10. Partnerships and Other Affiliates. Schedule 4.10 to the New Credit Facility states as of the date hereof the name, jurisdiction of organization and organizational nature of each of DJT’s Affiliates, the name and percentage ownership of each holder who is an Affiliate and, to the best of DJT’s knowledge, each other holder of any capital stock, partnership interests or any other Equity Interests of DJT’s Affiliates, and all options, sales agreements, pledges, proxies, voting trusts, powers of attorney and other agreements or instruments binding on DJT, any of his Affiliates and, to the best of DJT’s knowledge, any other holder of any such capital stock, partnership interests or other Equity Interests with respect to such ownership.

Section 8.11. Assets: Contracts. Schedule 4.11 to the New Credit Facility sets forth a true and complete list as of the Closing Date of all assets having a book value or a fair market value in excess of $25,000 owned by DJT or any of his Affiliates and all Liens (whether direct or contingent) against DJT or any Affiliate or his or its assets. Neither the fair market value nor the book value of the assets owned by DJT or any of his Affiliates and not included on Schedule 4.11 to the New Credit Facility is, in the aggregate, in excess of $250,000. Except as set forth in Schedule 4.11 to the New Credit Facility and except with respect to the Affiliates of DJT set forth on Schedule 4.0 to the New Credit Facility, as of the Closing Date neither DJT nor any of his Affiliates is a party to or is subject to any loan agreement, indenture, ground lease or material equipment lease. Except as disclosed in Schedule 4.11 to the New Credit Facility as of the Closing Date neither DJT, any of his Affiliates nor,
to the best of DJT's knowledge, any other party to any such agreements or instruments is in default thereunder (and no event has occurred which, but for the giving of notice, the passing of time or both, would constitute a default) which could have a material adverse effect on the business, condition (financial or otherwise), operations or assets of DJT or any of his Affiliates (except Affiliates of DJT set forth on Schedule 4.0 to the New Credit Facility), nor do any grounds exist for claims of offset, counterclaim or recoupment which could be asserted against the DJT Taj Note, the Castle Note, the Intercompany Notes or any other intercompany Indebtedness which constitutes Collateral, all of which are, as of the date hereof, the only obligations for borrowed money between DJT or any of his Affiliates, on the one hand, and any of his Affiliates, on the other hand.

Section 8.12. Title to Property. Except with respect to those Affiliates of DJT set forth on Schedule 4.0 to the New Credit Facility, Schedule 4.12 to the New Credit Facility sets forth a description of all real property owned by or leased to DJT or any of his Affiliates as of the date hereof. Except with respect to those Affiliates of DJT set forth on Schedule 4.0 to the New Credit Facility, each of DJT and his Affiliates has good and marketable title to all real property purported to be owned by such Person and good and marketable title to all other property purported to be owned by such Person, subject only to Permitted Liens. Except as set forth in Schedule 4.12 to the New Credit Facility, such property as is material to the business, operations, condition (financial or otherwise) or prospects of DJT or any of his Affiliates (except those Affiliates set forth on Schedule 4.0 to the New Credit Facility) or to the ability of DJT or any other DJT Entity to perform such Person's obligations under this Agreement or the other Loan Documents to which such Person is a party is in good operating condition and repair (except for such defects as may arise from ordinary wear and tear and which are repaired in the ordinary course of business) and such Person's use thereof conforms in all material respects to all laws applicable thereto. Except as may be set forth on Schedule 4.12 to the New Credit Facility, each of DJT and his Affiliates (except those Affiliates set forth on Schedule 4.0 to the New Credit Facility) has full and complete right to the use and possession of all material properties purported to be leased by such Person. Except as set forth on Schedule 4.12 to the New Credit Facility, each of DJT and his Affiliates (except those Affiliates set forth on Schedule 4.0 to the New Credit Facility) is in compliance in all material respects with all material leases applicable thereto. No condemnation or similar proceedings are in progress, nor, to the best of DJT's or any of his Affiliates' knowledge, are any threatened, which affect or, to the best of DJT's knowledge, which could affect, any property of DJT or any of
his Affiliates (except those Affiliates set forth on Schedule 4.0 to the New Credit Facility).

Section 8.13. Insurance: Statements to Insurers. DJT and each other DJT Entity maintain with financially sound and reputable insurers insurance with respect to their properties and business against loss or damage of the kinds customarily insured against by prudent persons in the same or similar businesses of types and in amounts (with deductible amounts) as is customary for such persons under similar circumstances. All representations and warranties made by DJT or any other DJT Entity to any insurer in connection with any insurance required to be maintained hereunder or under any of the New Money Collateral Agreements were true and correct in all material respects when made.

Section 8.14. Payment of Taxes, etc. DJT and each other DJT Entity have paid or are paying on a timely basis (i) all taxes, assessments and governmental charges imposed upon such Person or upon such Person's property, and (ii) except to the extent set forth on Schedule 4.14 to the New Credit Facility, all claims (including, without limitation, claims for labor, materials, supplies or services) which might, if unpaid, become a Lien upon such Person's property, except for, in each case, such amounts the validity or amount of which is being contested in good faith by appropriate proceedings and as to which DJT or such other DJT Entity, as applicable, has maintained adequate reserves in accordance with generally accepted accounting principles.

Section 8.15. Compliance with Laws; Maintenance of Licenses, etc. DJT and each of his Affiliates (except those Affiliates set forth on Schedule 4.0 to the New Credit Facility) are in compliance in all material respects with all applicable Governmental Acts. DJT and his Affiliates have maintained in full force and effect all licenses and other governmental consents necessary for (x) the ownership and operation of the Casino Entities by DJT and those Affiliates of DJT which currently operate or own, directly or indirectly, the Casino Entities; (y) the maintenance, validity, enforceability and perfection of the Lien on such Person's Equity Interests in the Casino Entities in favor of the Collateral Agent on behalf of the Lenders provided for in the Collateral Agreements and in favor of the Lenders provided for in the Special Collateral Agreements; and (z) the ownership of any of his assets or the assets of any of his Affiliates (except those Affiliates set forth on Schedule 4.0 to the New Credit Facility) or the conduct by DJT or any of his Affiliates of any of their respective businesses. Neither DJT nor any of his Affiliates has received any notice
from any Governmental Authority, including, without limitation, the Casino Control Commission and the Division of Gaming Enforcement, of any violation of applicable Governmental Acts relating to the licenses and other consents and the operation and ownership of, or the holding of a Lien on any Equity Interest in, the Casino Entities.

Section 8.16. Investment Company Act, etc. None of DWT's Affiliates is (a) an "investment company" or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended, or (b) subject to regulation under the Public Utility Holding Company Act of 1935, the Federal Power Act or any Governmental Act limiting such Person's ability to incur indebtedness for money borrowed or guarantee such indebtedness or secure such indebtedness as contemplated hereby, by any other Loan Document or by any Existing Debt Credit Agreement Amendment.

Section 8.17. True and Complete Disclosure. All written information heretofore or contemporaneously furnished by or on behalf of DWT or any of his Affiliates, and all other such written information hereafter furnished, to or on behalf of any of the Lenders is or will be, true and accurate in all material respects on the date as of which such information is dated or certified (except for any projections included therein, which are subject to the uncertainty and approximation inherent in any projections) and not incomplete by omitting to state anything necessary to make such information not misleading at such time except to the extent later information could reasonably have been expected to supersede earlier information; provided that no such representation or warranty is made in this Section 8.17 with respect to the balance sheets, statements of operation and statements of operating cash flow, as of December 31, 1987, December 31, 1988, and December 31, 1989 of (a) those Affiliates of DJT whose financial statements for such periods were audited by Arthur Andersen & Co., (b) or of DJT, it being expressly understood that the exclusion of such financial statements is only an exclusion from this representation and warranty and that none of the Lenders are waiving, or should be deemed to be waiving, any rights and remedies they may have with respect to such financial statements against any Person. There is nothing of which DWT is aware which would have a materially adverse effect on the business, condition (financial or otherwise), prospects, operations or assets of DJT or any of his Affiliates which has not been disclosed to the Lenders in writing. All written statements of fact and representations herein, in any Existing Agreement Amendment or in any of the other Loan Documents, and in any other document, report, certificate, or other written statement or information delivered in connection herewith or therewith, are true and
correct in all material respects and all assumptions with respect thereto are reasonable in all material respects, each as of the date such statement of fact or representation is dated or certified.

Section 8.18. **New Credit Facility; Defaults; etc.** The New Credit Facility and the Existing Agreement Amendments have become, or will become contemporaneously with the Closing Date, effective in accordance with the terms thereof and are in full force and effect. Neither DJT nor any of his Affiliates is in default of any of such Person's obligations under the New Credit Facility, this Agreement, any Existing Agreement Amendment or any other Loan Document. The businesses of DJT and his Affiliates are being managed and operated, the assets of such Persons are being maintained, and capital expenditures and other expenses and liabilities are being incurred and expended by such Persons in accordance with the Business Plans.
UNIFORM COVENANTS

Section 6.1. Certain Affirmative Covenants. So long as any Covered Debt Obligations shall remain unpaid, DJT shall:

(a) Corporate Existence, Etc. Preserve and keep, and cause each of the other DJT Entities to preserve and keep, in full force and effect at all times its rights and franchises (other than any such rights and franchises the absence of which would not have a material adverse effect on the business, condition (financial or otherwise), operations or assets of DJT or any of his Affiliates) and, in the case of each DJT Entity, its existence.

(b) Compliance with Laws, Etc. Comply, and cause each of the other DJT Entities (except those DJT Entities set forth on Schedule 5.0 to the New Credit Facility) to comply, in all material respects, with all applicable Governmental Acts.

(c) Payment of Taxes and Claims, Etc. Timely pay, and cause each of the other DJT Entities to pay timely, (i) all taxes, assessments and governmental charges imposed upon such Person or upon such Person's property, and (ii) except as disclosed on Schedule 5.01(c) to the New Credit Facility all claims (including, without limitation, claims for labor, materials, supplies or services) which might, if unpaid, become a Lien upon such Person's property, unless, in each case, the validity or amount thereof is being contested in good faith by appropriate proceedings and DJT or such other DJT Entity as applicable, has maintained adequate reserves with respect thereto in accordance with generally accepted accounting principles.

(d) Keeping of Books. Keep, and cause each of the other DJT Entities to keep, proper books of record and account, containing complete and accurate entries of all financial and business transactions of DJT and each other DJT Entity.

(e) Visitation, Inspection, Etc. Permit, and cause each of the other DJT Entities to permit, any representative of any Lender to visit and inspect any of DJT's or such other DJT Entity's property, to examine such Person's books and records and to make copies and take extracts therefrom, and to discuss such Person's affairs, finances and accounts with its officers and public accountants, all at such reasonable times and as often as any Lender may reasonably request.
(f) Insurance. Maintain, or cause to be maintained, with financially sound and reputable insurers, insurance with respect to DJT’s and his Affiliates’ properties and business against liability, loss or damage of the kinds customarily insured against by prudent Persons in the same or similar businesses, such insurance to be of such types and in such amounts (with such deductible amounts) as is customary for such Persons under similar circumstances. Each policy shall provide that the Agent will be entitled to receive at least 30 days’ prior notice of cancellation. The Lenders shall be added as additional insureds on any and all such liability insurance. With respect to each policy, upon the request of the Required Lenders (to be made no more frequently than once every twelve months (or if more frequently, upon the expiration of such policy)), DJT shall use his best efforts, and cause each of his Affiliates to use its best efforts, to have a certification for such policy executed by the insurer or by an authorized representative of the insurer or by the broker of such insurance where it is not practical for such insurer to execute the certificate itself. Such certification shall identify underwriters, the type of insurance, the insurance limits and the policy term, and shall specifically state that such policy, when taken together with all of DJT’s and his Affiliates’ other insurance policies, are adequate to comply with the provisions of this Section and that it is in full force and effect, accompanied by evidence that all premiums then due have been paid. Upon request by the Agent, DJT shall furnish the Agent with copies of all insurance policies, binders and cover notes or other evidence of such insurance obtained by DJT and each of his Affiliates.

(g) Distributions. Cause each Affiliate (other than Affiliates which are New Ventures) of which DJT or any of his Affiliates owns or controls more than 50% of the Equity Interests (other than Plaza Operating Partners, Ltd., Plaza Hotel Corp., Trump Shuttle, Inc. and Penn Yards Associates and, to the extent of a cash reserve for operations in an amount not in excess of $1,400,000, with respect to the Commercial Unit in Trump Tower Condominium), to declare and pay dividends or other distributions on its capital stock, partnership interests or other Equity Interests at such times and in such amounts such that such Person retains no cash or Cash Equivalents except the greater of (i) cash or Cash Equivalents retained in the ordinary course of business to the extent necessary for the payment of reasonably anticipated expenses in accordance with the Business Plans and (ii) the amount of cash and Cash Equivalents
equal to the sum of (A) the amount of cash and Cash Equivalents with respect to each Casino Entity which is not then permitted to be distributed by such Casino Entity by the Casino Indenture (without giving effect to any restriction not in effect on the date of execution and delivery of this Agreement) relating to such Casino Entity or under the Casino Control Act or the regulations issued pursuant to the Casino Control Act, or under any order or resolution of the Casino Control Commission or the Division of Gaming Enforcement and (B) the amount of cash and Cash Equivalents (without duplication of amounts under clause (A)) with respect to each corporate Affiliate which is prohibited from being distributed under applicable corporate law.

(h) Compliance with Business Plans. DJT shall conduct, and shall cause each of his Affiliates to conduct, his or its business in compliance in all material respects with the Business Plans (including, without limitation, the limitations on expenditures and on payments or other transfers, directly or indirectly, between any of DJT and his Affiliates incorporated or otherwise reflected therein). Without limiting the generality of the foregoing, DJT shall use, and shall cause each of his Affiliates to use, all of his or its cash and Cash Equivalents solely for proper business purposes in connection with DJT’s and his Affiliates’ existing major business operations (including distributions made in accordance with Section 5.01(g) to the New Credit Facility) and, except for that portion of Capital Event proceeds which DJT is permitted to retain once the Collateralization Condition has been satisfied (and after giving effect to distributions required to be made hereunder and under the New Credit Facility), in accordance with the Business Plans; provided that in no event will any cash or Cash Equivalents of DJT or any of his Affiliates (except Aliban) in excess of $5 million in the aggregate after the date of execution and delivery of this Agreement be used directly or indirectly for the benefit of Aliban or any of its assets now owned or hereafter acquired, including the vessel known as the “Princess”. In the event any Capital Event shall occur, DJT shall promptly revise all Business Plans to appropriately reduce expenditures and revenues attributable to the asset which was the subject of such Capital Event, all in form and substance reasonably satisfactory to the Required Lenders.

(i) Appointment of Senior Executive Officer: Implementation of Financial Controls. In connection with the formulation of and compliance with the Business Plans, continue his current retention of Kenneth
Leventhal & Co., such retention to include the duties which are currently being performed by Kenneth Leventhal & Co., until DJT has employed a Senior Executive Officer. In the event that prior to the time DJT has employed a Senior Executive Officer, Kenneth Leventhal & Co. shall cease to be employed in its current capacity, DJT shall promptly, diligently and in good faith seek to find, and shall thereafter promptly employ, either another nationally recognized accounting firm to act in such capacity or a Senior Executive Officer. A Senior Executive Officer shall be employed, together with such staff members to assist as may be necessary or otherwise advisable in the opinion of such Person or Kenneth Leventhal & Co., no later than September 30, 1990. In the event such Senior Executive Officer shall cease to be so employed at any time thereafter, DJT shall promptly, diligently and in good faith seek to find, and shall promptly thereafter employ, another Senior Executive Officer of comparable experience and stature. No later than September 30, 1990, Kenneth Leventhal & Co. (or, if applicable, a substitute firm acting in the same capacity or the Senior Executive Officer then retained or employed by DJT) shall recommend to DJT the implementation of any accounting controls and procedures and mechanisms for business operations and planning necessary or, in such Person’s judgment, advisable for the prudent management and operation of DJT’s businesses and assets. Promptly after such recommendation, DJT shall install, and thereafter shall maintain, all accounting controls and procedures and mechanisms for business operations and planning which may be so recommended by Kenneth Leventhal & Co. or which are otherwise advisable and adequate for the prudent management and operation of DJT’s businesses and assets.

(j) Licenses. Cause to be maintained in full force and effect all licenses and other governmental consents necessary for (x) the ownership and operation of the Casino Entities by DJT, those Affiliates of DJT and all other Persons which operate or own, directly or indirectly, the Casino Entities; (y) the maintenance, validity, enforceability and perfection of the Lien on any Equity Interests in the Casino Entities in favor of the Collateral Agent on behalf of the Lenders provided for in the Collateral Agreements and in favor of the Lenders provided for in the Special Collateral Documents; and (z) the ownership of any of his assets or the assets of his Affiliates (except those Affiliates set forth on Schedule 4.0 to the New Credit Facility) or the conduct of any of their respective businesses.
(k) **Tax Returns.** From time to time upon request of any Lender, permit such Lender to review copies of DJT's tax returns filed with any Governmental Authority at a location specified by DJT in the Borough of Manhattan, New York, New York; provided that such Lender shall, if requested by DJT, first enter into the Agent's standard form of confidentiality agreement with respect to such tax return.

Section 6.2. **Reporting Covenants.** So long as any Covered Debt Obligation shall remain unpaid, DJT shall furnish two copies of each of the following to each Lender:

(a) **Annual Financial Statements.** As soon as available and in any event within 90 days after the end of each calendar year, the balance sheet, statement of operations and statement of cash flows for the Persons, and in the manner, indicated on Schedule 5.02 to the New Credit Facility, setting forth in each case in comparative form the figures for the previous calendar year, all in reasonable detail, certified as to completeness and correctness by each Certifying Person of each of such Persons and, except for those Persons specifically identified on Schedule 5.02 to the New Credit Facility as having internal auditors only, accompanied by a report thereon of Kenneth Leventhal & Co. or other independent public accountants of comparable recognized national standing acceptable to the Required Banks (as defined in the New Credit Facility) and Required Lenders, which such report shall be unqualified as to scope of audit and shall state that such financial statements present fairly the financial condition as at the end of such calendar year, and the results of operations and changes in financial position for such calendar year, of such Persons in accordance with generally accepted accounting principles consistently applied, which principles, in the case of DJT, shall include, without limitation, Statement of Position (SOP) 82-1, Accounting and Financial Reporting for Personal Financial Statements, October 1, 1982, issued by the Accounting Standards Division of the American Institute of Certified Public Accountants. WT shall deliver with such annual financial statements a comparison of each of the above-described financial statements with the Business Plans, discussing material deviations from the Business Plans in reasonable detail, explaining the causes for such deviations, the likely impact of such deviations and what remedial action, if any, the Borrower proposes to take with respect thereto;

(b) **Quarterly Financial Statements.** As soon as available and in any event within 45 days after the end
of each of the first three calendar quarters of each calendar year, the balance sheet, statement of operations and statement of cash flows for the Persons, and in the manner, indicated on Schedule 5.02 to the New Credit Facility, in each case for such quarter and for the portion of the year ended at the end of such quarter, setting forth in each case in comparative form the figures for the corresponding quarter and the corresponding portion of the previous year, all in reasonable detail and certified by each Certifying Person of each of such Persons that they are complete and correct and that they fairly present the financial condition as at the end of such quarter, and the results of operations and changes in financial position of such Persons for such quarter and such portion of the year in accordance with generally accepted accounting principles consistently applied (subject to normal, year-end audit adjustments), which principles, in the case of DJT, shall include, without limitation, Statement of Position (SOP) 82-1, Accounting and Financial Reporting for Personal Financial Statements, October 1, 1982, issued by the Accounting Standards Division of the American Institute of Certified Public Accountants. DJT shall deliver with such quarterly financial statements a comparison of each of the above-described financial statements with the Business Plans, discussing material deviations from the Business Plans in reasonable detail, explaining the causes for such deviations, the likely impact of such deviations and what remedial action, if any, the Borrower proposes to take with respect thereto:

(c) Monthly Financial Statements. As soon as available and in any event within 30 days after the end of each calendar month commencing with July 1990, the balance sheet, statement of operations and statement of cash flows for the Persons, and in the manner, indicated on Schedule 5.02 of the New Credit Facility, in each case for such month and for the portion of the year ended at the end of such month, setting forth in each case in comparative form the figures for the corresponding month and the corresponding portion of the previous year all in reasonable detail and certified by each Certifying Person of each of such Persons that they are complete and correct and that such financial statements fairly present the financial condition as at the end of such month, and the results of operations and changes in cash flow of such Person for such month and such portion of the year in accordance with generally accepted accounting principles consistently applied (subject to normal, year-end audit adjustments), which principles, in the case of DJT, shall include, without limitation, Statement of Position (SOP) 82-1, Accounting and
Financial Reporting for Personal Financial Statements, October 1, 1982, issued by the Accounting Standards Division of the American Institute of Certified Public Accountants. DJT shall deliver with such monthly financial statements a comparison of each of the above-described financial statements with the Business Plans, discussing material deviations from the Business Plans in reasonable detail, explaining the causes for such deviations, the likely impact of such deviations and what remedial action, if any, the Borrower proposes to take with respect thereto. DJT shall also deliver with such monthly financial statements the following certified by each Certifying Person of DJT and, with respect to such information for an Affiliate, each Certifying Person of such Affiliate that each is complete and correct in all material respects:

(i) schedules setting forth in reasonable detail for DJT and for each of his Affiliates (except, for the first 12 months after the date of execution and delivery of this Agreement, The Trump-Equitable Fifth Avenue Company), separately, for such month:

(1) List of capital expenditures made or committed to be made;

(2) List of Capital Events which occurred in the previous month;

(3) List and description of all material personal expenses incurred by DJT;

(4) List of cash and Cash Equivalents;

and

(5) List of all payments of principal and interest made on, or in respect of, all Intercompany Notes;

(ii) schedules setting forth in reasonable detail for DJT and for each of his Affiliates whose financial statements are required to be delivered pursuant to this paragraph (c) (except, for the first 12 months after the date of execution and delivery of this Agreement, the Trump-Equitable Fifth Avenue Company), separately, for such month and for those Affiliates of DJT whose financial statements are required to be delivered pursuant to paragraph (b) above, with respect to the schedules listed in clauses (1) and (2) below, for the last month of each calendar quarter, and with respect to
the schedules listed in clauses (3) and (4) below, for each quarter, separately:

(1) Accounts receivable agings;

(2) Accounts payable agings;

(3) List of capital expenditures made; and

(4) List of all Indebtedness for borrowed money incurred in such period to the extent not included in any of the other schedules above, specifying the principal terms and intended uses thereof.

(d) No Default/Compliance Certificate. Together with the financial statements required pursuant to subsections (a), (b) and (c) above, a certificate of each Certifying Person of each of DJT and each Affiliate (i) to the effect that, based upon a review of the activities of DJT and his Affiliates, or of such Affiliate, as applicable, and such financial statements during the period covered thereby, and for each Certifying Person other than DJT, to the best of such Certifying Person's knowledge after inquiry and due investigation, there exists no Uniform Event of Default and no Uniform Default under this Agreement nor any default or event of default under (x) any Existing Agreement Amendment or (y) any other Loan Document, or if there exists a Uniform Event of Default or a Uniform Default hereunder or a default or event of default thereunder, specifying the nature thereof and DJT's, or Affiliate's, as applicable, proposed response thereto, and (ii) demonstrating in reasonable detail compliance as at the end of such year, such quarter or such month with Article III and Sections 6.1(h) and 6.3;

(e) Auditors' No Default Certificate. Together with the financial statements required pursuant to subsection (a) above, a certificate of the accountants who prepared the annual report referred to therein to the effect that, based upon their audit and any additional review, there exists no Uniform Event of Default and no Uniform Default under this Agreement as to any accounting matters, or if there exists such a Uniform Event of Default or Uniform Default hereunder, specifying the nature thereof, together with a certificate of such accountants demonstrating in reasonable detail compliance as at the end of such year with Article III and Sections 6.1(h) and 6.3;
(f) **Notice of Default.** Promptly after the occurrence of a Uniform Event of Default or a Uniform Default, a certificate of each Certifying Person of DJT specifying the nature thereof and DJT's proposed response thereto;

(g) **Governmental Communications, Filings, Etc.** Promptly upon the mailing or filing thereof, copies of all financial statements, reports, applications and other significant statements mailed or delivered to the Casino Control Commission, the Division of Gaming Enforcement or any other Governmental Authority;

(h) **Litigation.** (i) Promptly after (A) the occurrence thereof, notice of the institution of or any material adverse development in any action, suit or proceeding or any governmental investigation or any arbitration, before any court or arbitrator or before or by any Governmental Authority, against DJT or any of his Affiliates or any material property of any such Person, or (B) actual knowledge thereof, notice of the written threat of any such action, suit, proceeding, investigation or arbitration except for any such threats which outside counsel to DJT or his Affiliate, as applicable, determines to be frivolous and (ii) together with the monthly financial statements required pursuant to Section 6(c) above, a litigation status report in reasonable detail discussing all litigation by and against any of DJT and his Affiliates or affecting any material property of any such Person; provided that DJT or his Affiliate shall not be obligated to disclose any information if his or his Affiliate's outside counsel, as applicable, has determined that such disclosure would materially impair DJT's or his Affiliate's ability, as applicable, to maintain any privilege with respect to such information and that such impairment would be materially detrimental to such Person;

(i) **ERISA.** Promptly after (i) actual knowledge thereof, notice that an ERISA Termination Event or a "prohibited transaction", as such term is defined in Section 4975 of the Code, with respect to any Plan has occurred, which such notice shall specify the nature thereof and DJT's proposed response thereto, and (ii) actual knowledge thereof, copies of any notice of the PBGC's intention to terminate or to have a trustee appointed to administer any Plan;

(j) **Accountants' Reports.** As soon as available, copies of all reports or substantive letters from auditors to DJT or management of DJT's Affiliates (including
management letters covering improvements needed in the system of internal accounting controls);

(K) Notice of Amendment. Promptly upon the execution of, or receipt by DJT or any of his Affiliates of, any amendments, waivers, consents, restatements or extensions relating to or any other written modification of, and agreements, documents or instruments governing, evidencing or otherwise relating to Indebtedness of such Person for borrowed money or collateral or other security (including guarantees and other similar agreements) for, any such Indebtedness, copies thereof; and

(1) Other Information. With reasonable promptness, such other information about DJT or his Affiliates or any of their respective properties as the Agent, the Collateral Agent or any other Lender may reasonably request from time to time.

Section 6.2.A. Business Planning. So long as any Covered Debt Obligation shall remain unpaid:

(a) Annual Plan. DJT shall deliver to the Lenders no later than November 30 of each year his annual plan, in draft, for the following year, to be in the form, and with at least such detail, as Exhibits I, II and III to Kenneth Leventhal & Co.‘s Agreed Upon Procedures Report dated June 14, 1990 previously delivered to each of the Lenders (the "June 14, 1990 Report"), together with a detailed operating plan for each month of such year for each of DJT’s Affiliates (except those Affiliates which are New Ventures). Within sixty (60) days thereafter, DJT shall submit to the Lenders the final form of the annual plan (such final form, the "Annual Plan") in form and substance reasonably satisfactory to the Required Lenders. Without limiting the foregoing, (1) each Annual Plan shall in all material respects be based upon assumptions generally consistent with the assumptions incorporated into the immediately prior Annual Plan, including, without limitation, assumptions with respect to level of expenditures, methods of financing and use of available cash balances, (2) each Annual Plan may include provisions (such provisions to be reasonably satisfactory to the Required Lenders) with respect to the payment by DJT or his Affiliates of income taxes that would be payable (after use of any available funds of DJT otherwise available for such purposes) as a result of any anticipated Capital Events, and (3) the Annual Plan for any given year shall not:

(i) provide for an aggregate amount of all charitable contributions to be made by DJT and his
Affiliates (except those Affiliates which are New Ventures) in excess of $100,000 per month;

(ii) provide for the monthly personal and household expenses of DJT, of the type set forth in line 4 of Exhibit I to the June 14, 1990 Report, to exceed for any month in any year set forth below the amount set forth opposite such year:

<table>
<thead>
<tr>
<th>Year</th>
<th>Monthly Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>$450,000</td>
</tr>
<tr>
<td>1991</td>
<td>375,000</td>
</tr>
<tr>
<td>1992 and thereafter</td>
<td>300,000</td>
</tr>
</tbody>
</table>

(iii) include in legal and business expenses, of the type set forth in line 3 of Exhibit I to the June 14, 1990 Report, any fees and expenses to be incurred in connection with the acquisition of assets after the date of execution and delivery of this Agreement which, when aggregated with all other such fees and expenses to be incurred after the date of execution and delivery of this Agreement, shall exceed the amount of proceeds received and permitted to be retained by WJT in respect of all Capital Events hereunder (after giving effect to all distributions required to be made under the New Credit Facility from such proceeds) after the date of execution and delivery of this Agreement;

(iv) provide for the salary payable to DJT for any one year, when aggregated with any director’s fees, bonuses or other similar types of remuneration from all of his Affiliates (except those Affiliates which are New Ventures) in such year, to exceed $200,000;

(v) provide for any amount to be paid by DJT, and his Affiliates (except those Affiliates which are New Ventures), if applicable, to any one individual who is employed or retained by DJT, and his Affiliates, if applicable, as of the Closing Date (other than those individuals set forth on Schedule 5.02A(a)(v) to the New Credit Facility as salary, fees under a personal service contract or consulting agreement, bonus, counsel fees to any general counsel or any other form of remuneration in excess of $300,000 in any one year in the aggregate; provided, however, that amounts in excess of $300,000 in respect of deferred compensation may accrue so long as such accrued amount is subordinated in form and substance satisfactory to the Required Lenders to amounts outstanding hereunder and under the New Credit Facility (other than in respect of the Facility Fees hereunder) and is not to be repaid until after all amounts hereunder and under the New Credit Facility
(other than in respect of the Facility Fees hereunder) have been repaid in full. With respect to those individuals set forth on Schedule 5.02A(a)(v) to the New Credit Facility, or other individuals who may later hold the position currently held by such individuals, the remuneration paid shall not be more than the remuneration generally paid for the same or similar services in the industry in which such individual is employed; or

(vi) provide for any amount to be paid, whether by loan, equity contribution or otherwise, by DJT or any of his Affiliates (except Aliban) in excess of $5 million in the aggregate (when combined with all other amounts previously provided for use, directly or indirectly, by Aliban in other Business Plans) for the direct or indirect benefit of either Aliban or any of its assets, whether now owned or hereafter acquired.

(b) Strategic Business Plan. DJT shall deliver to the Lenders

(i) on the earlier of (x) the day which is the 90th day following the hiring of a Senior Executive Officer and (y) December 31, 1990, a strategic business plan (the "Strategic Business Plan") which shall be in form and substance reasonably satisfactory to the Required Lenders as determined by the Required Lenders within 60 days of the submission thereof, and shall provide for DJT and his Affiliates (other than Affiliates which are New Ventures) on a consolidated basis and for each of DJT's Affiliates (other than Affiliates which are New Ventures) separately the following in detail reasonably satisfactory to the Required Lenders:

(A) a short range plan to achieve cash flow break-even and/or expense savings;

(B) the long-term primary strategy for such Person or Persons, as applicable, together with a timetable for achievement of such strategy; and

(C) alternative courses of action, together with timetables, if such primary strategies are not successfully achieved on a timely basis;

(ii) on the earlier of (x) the day which is the 90th day following the hiring of a Senior Executive Officer and (y) December 31, 1990, a three year business plan (the "Three Year Business Plan") which shall be in the form of, and with at least such detail as, Exhibits I, II and III to the June 14, 1990 Report, and shall be
in substance reasonably satisfactory to the Required Lenders, together with a detailed operating plan for each month of the first year of such three year period and for each quarter of each of the second and third years of such three year period for DJT and each of DJT's Affiliates (other than Affiliates which are New Ventures). On each of the first and second anniversaries of the date DJT delivers the Three Year Business Plan, DJT shall deliver to the Lenders a detailed operating plan for each month of the second or third year, as appropriate, of the three year period covered by the Three Year Business Plan (each, a "Supplemental Operating Plan"); provided that such Supplemental Operating Plan shall not be inconsistent with any other Business Plan, including, without limitation, the Annual Plan then in effect and the Strategic Business Plan. The restrictions in Section 6.2(a)(i)-(v) for the Annual Plan shall also apply to the Three Year Business Plan and each Supplemental Operating Plan; and

(iii) simultaneously with delivery of the Three Year Business Plan and each of the Supplemental Operating Plans, a written description in reasonable detail of all changes in management personnel, consultants and other agents which DJT or any of his Affiliates (except those Affiliates which are New Ventures) intends to make during the following year, all of which shall be reasonably satisfactory to the Required Lenders.

Section 6.3. Financial Test Covenants. So long as any Covered Debt Obligation shall remain unpaid, DJT will not

(a) permit the "Cash Balance - After Entity Level Reserves and Debt Modifications" as at the end of any month, commencing with December 1990, calculated on a basis identical with the basis of calculation thereof in the Initial Business Plan, to be more than $15,000,000 below the amount projected for such month in the then current Annual Plan excluding payments in such months and previous months for extraordinary and unusual items to the extent not contemplated by the Business Plans, or

(b) permit such "Cash Balance - After Entity Level Reserves and Debt Modifications" as at the end of any month subsequent to April 1991, calculated on the same basis as in clause (a) above, to be more than $10,000,000 below the level projected for such amount in the then current Annual Plan.

Section 6.4. Certain Negative Covenants. So long as any Covered Debt Obligation shall remain unpaid, DJT will not, and will cause his Affiliates not to:
(a) **Indebtedness.** Create, incur, assume or suffer to exist any Indebtedness, other than each of the following (without duplication):

(i) Indebtedness expressly contemplated hereunder to be outstanding;

(ii) the Indebtedness under the New Credit Facility and under the Notes (as defined in the New Credit Facility);

(iii) Indebtedness outstanding on the date of execution and delivery of this Agreement which is set out in DJT's financial statements referred to in Section 8.5(a) or in Schedule 5.04(a)(iii) to the New Credit Facility;

(iv) purchase money Indebtedness to the extent permitted by Section 6.4(b)(ii);

(v) unsecured current liabilities (not the result of borrowing and not constituting "Indebtedness" as defined in clause (iii) of the definition of Indebtedness herein, other than guarantees by Affiliates required in the ordinary course of their businesses) incurred in the ordinary course of business and not represented by any note or other evidence of Indebtedness;

(vi) intercompany Indebtedness, complying with the provisions of Article XI of this Agreement, in respect of advances from DJT to any of his Affiliates (except that, in the case of Aliban, intercompany Indebtedness shall not exceed $5 million in the aggregate, plus accrued interest thereon) (A) from proceeds of Capital Events occurring after the Collateralization Condition has been satisfied which DJT is permitted to receive and retain under the New Credit Facility (after giving effect to all distributions required to be made under this Agreement from such proceeds) or (B) from proceeds of Loans (as defined in the New Credit Facility) under the New Credit Facility made in accordance with the Business Plans so long as all such Indebtedness is evidenced by Intercompany Notes which are immediately endorsed over and delivered to the Agent under the New Credit Facility on behalf of the Banks thereunder or to the Collateral Agent hereunder, together with notice to the obligor thereunder of the pledge thereof, as security for the Indebtedness hereunder;
(vii) Indebtedness incurred by any New Venture to the extent that none of DJT or any of his Affiliates, nor such New Venture (other than to the extent of any Lien on any property being so financed) or any other New Venture, shall have, directly or indirectly, any liability of any nature whatsoever in respect of such Indebtedness;

(viii) Indebtedness incurred by Penn Yards Associates to develop the premises owned by Penn Yards Associates, and Indebtedness incurred to fund overrun construction costs of the premises in New York, New York known as the Trump Palace, so long as recourse for such Indebtedness is limited to such premises and neither DJT nor any of his other Affiliates shall be directly or indirectly liable for any of such Indebtedness;

(ix) Indebtedness in respect of letters of credit of the Casino Entities in an aggregate outstanding maximum reimbursement amount at any one time not in excess of $3,000,000 for all the Casino Entities, so long as recourse for each such Indebtedness is limited to the Casino Entity for whose account the letter of credit was issued and neither DJT nor any of his other Affiliates shall be directly or indirectly liable for any of such Indebtedness; provided that not more than $1,000,000 of such amount may at any time be issued for the account of the Casino Entity known as Trump’s Castle;

(x) Indebtedness incurred by Trump Shuttle, Inc. for the financing of aircraft to the extent that none of DJT or any of his other Affiliates shall have, directly or indirectly, any liability of any nature whatsoever in respect of such Indebtedness;

(xi) refinancings of any Indebtedness referred to in clauses (ii), (iii), (iv), (vii), (viii) or (x) above on terms not less favorable to DJT and his Affiliates than the terms of the Indebtedness to be so refinanced; provided that in the case of any refinancing of any Indebtedness referred to in clause (ii), (iii), (iv), (viii) or (x) above in a principal amount in excess of the amount of the Indebtedness being so refinanced, such refinancing shall constitute a Capital Event; and

(xii) Indebtedness incurred by The Trump-Alexander’s Company for the sole purpose of funding
margin calls made in respect of the shares of the stock of Alexander’s held by such company or to refinance outstanding Indebtedness in favor of Bear Stearns & Co. secured by such stock in a maximum aggregate principal amount which, when aggregated with all other such Indebtedness incurred from and after June 26, 1990, is no greater than $6,300,000 under the demand note, a copy of which has been previously delivered to the Lenders as in effect on the date of the execution and delivery of this Agreement, and the related Indebtedness of DJT under the guaranty of such Indebtedness, a copy of which has been previously delivered to the Banks as in effect on the date of the execution and delivery of this Agreement.

(b) Liens. Create, incur, assume or suffer to exist any Lien on any of such Person’s property now owned or hereafter acquired to secure any Indebtedness of such Person, other than:

(i) Liens existing on the date of execution and delivery of this Agreement and set out on Schedule 5.04(b)(i) to the New Credit Facility;

(ii) except in the case of any New Venture, any Lien on any property securing Indebtedness incurred or assumed for the purpose of financing all or any part of the acquisition cost of such property, provided that such Lien does not extend to any other property and that such Indebtedness was permitted to be incurred under the Business Plans;

(iii) Liens for taxes not yet due or which are being contested in good faith by appropriate proceedings and with respect to which adequate reserves are being maintained;

(iv) statutory Liens of landlords and Liens of carriers, warehousemen, mechanics, materialmen and other Liens imposed by law created in the ordinary course of business for amounts not yet due or which are being contested in good faith by appropriate proceedings and with respect to which adequate reserves are being maintained;

(v) Liens (other than any Lien imposed by ERISA) incurred or deposits made in the ordinary course of business in connection with workers’ compensation, unemployment insurance and other types of social security, or to secure the performance of
tenders, statutory obligations, surety and appeal bonds, bids, leases, government contracts, performance and return-of-money bonds and other similar obligations (exclusive of obligations for the payment of borrowed money);

(vi) easements, rights-of-way, restrictions and other similar charges or encumbrances not interfering with the ordinary conduct of the business of DJT or any of his Affiliates;

(vii) Liens existing on any property prior to the acquisition thereof, or prior to the acquisition of the Person which owns such property, by DJT or any of his Affiliates, in each case which Lien was not created in contemplation of such acquisition;

(viii) Liens granted under the New Money Collateral Agreements, the Collateral Agreements and the Special Collateral Agreements and Liens required to be granted pursuant to this Agreement;

(ix) extensions, renewals or replacements of any Lien referred to in paragraphs (i) through (viii) of this Section 6.4(b), provided that any such extension, renewal or replacement is limited to the property originally encumbered thereby and that (A) the refinancing of the Indebtedness secured thereby of the type described in clause (ii), (iii), (iv), (viii) or (x) of Section 6.4(a) shall constitute a Capital Event and (B) no other Indebtedness or obligation secured thereby is increased;

(x) Liens on any assets of any New Venture;

(xi) Liens granted in connection with the Indebtedness contemplated by the provisions of Section 6.4(a)(viii) which relate only to the premises described therein.

(c) Sales, Mergers, Etc. Except with respect to the sale of property of any New Venture or the merger of any New Venture with any other New Venture or Person who is not an Affiliate of DJT, merge or consolidate with any other Person, or sell, lease or otherwise dispose of all or any substantial part of such Person's property or assets to any other Person, other than in transactions that (i) constitute good faith Capital Events the other parties to which are Persons which are not Affiliates of
(ii) are for fair market value and are on commercially reasonable terms; provided that in no event shall DJT or any of his Affiliates sell, transfer, or otherwise dispose of, pledge, assign, hypothecate or otherwise grant a Lien in or on any Equity Interests, rights under management contracts or rights to any proceeds except in compliance with the terms hereof and of the New Money Facility. All non-cash forms of consideration which would have constituted Net Cash Proceeds had they been received in cash at closing shall be pledged to the Collateral Agent for the benefit of the Lenders or to the Lender which would have been entitled to receive such amounts if such consideration had been received in cash at the closing as security for the obligations hereunder pursuant to a pledge or other security agreement (as appropriate) in form and substance satisfactory to the Required Lenders.

(d) Investments, Loans, Etc. Make any loans to or investments in any Person other than:

(i) investments in Affiliates of DJT existing on the date of execution and delivery of this Agreement; provided that neither DJT nor any of his Affiliates will make additional loans to or investments in such Affiliates after the date of execution and delivery of this Agreement except to the extent permitted under Section 6.4(a)(vi);

(ii) direct obligations of the United States or any agency thereof, or obligations guaranteed by the United States or any agency thereof, in each case maturing within two years from the date of creation thereof;

(iii) commercial paper maturing within 270 days from the date of creation thereof rated in the highest grade by two nationally recognized credit rating agencies;

(iv) time deposits (maturing within one year from the date of creation thereof) with, and certificates of deposit issued by, any office located in the United States of any bank or trust company which is organized under the laws of the United States or any state thereof, whose long term debt is rated "A" or better by two nationally recognized credit rating agencies and has assets aggregating at least $10,000,000,000; and

(v) investments in real property and gaming related businesses ("New Ventures") (x) which are
not built or located on, otherwise annexed to, enhancements of, or otherwise made an essential part of, any of the Collateral and (y) which are made with (A) the proceeds received and permitted to be retained by DJT in respect of any Capital Event (after giving effect to all distributions required to be made hereunder and under the New Credit Facility from such proceeds) or (B) the proceeds received and retained by DJT with respect to equity investments made by Persons not constituting Affiliates of DJT or (C) assets of any other New Venture; provided that (1) the New Venture shall be purchased or constructed and operated, and the assets thereof shall be owned, only by a Person which is not DJT or any of his Affiliates (other than an Affiliate which is a New Venture) or any partnership, joint venture or other entity as to which DJT or any of his Affiliates (other than an Affiliate which is a New Venture) is a general partner, joint venturer or otherwise liable directly or indirectly for the liabilities of such entity, (2) to the extent that any cash, Cash Equivalents or any other assets of any New Venture are at any time held or owned by DJT or any of his Affiliates (other than an Affiliate which is a New Venture), they no longer shall be entitled to any of the benefits granted to or in respect of New Ventures in this Agreement or the New Credit Facility, (3) in the event DJT or any of his Affiliates sells or otherwise disposes of any New Venture, all income and other taxes and transaction costs payable in connection therewith shall be paid solely out of the proceeds of such transaction or shall be otherwise paid by such New Venture or any other New Venture and (4) each New Venture shall enter into a tax sharing agreement with DJT and his Affiliates which are members of the same consolidated group for federal income tax purposes, such agreement to be in form, scope and substance satisfactory to the Required Lenders.

(e) Leases. Enter into or otherwise become liable with respect to any leases, including master leases, as lessee, except for (i) leases entered into to replace leases existing on June 15, 1990 as disclosed in Schedule 5.04(e) to the New Credit Facility, (ii) leases entered into in the ordinary course of business to the extent reflected in the Business Plans, (iii) leases contemplated by the New Credit Facility, (iv) the lease between The Trump Equitable Fifth Avenue Company, as landlord, and The Trump Corporation, as tenant, dated as of the date of this Agreement with respect to the 24th
Floor of the building located at 721-725 Fifth Avenue, New York, New York and commonly known as Trump Tower, and (v) leases entered into by any New Venture to the extent that none of DJT or any of his Affiliates (other than such New Venture) shall have, directly or indirectly, any liability of any nature whatsoever in respect of such lease.

(f) Issue of Interests. With respect to DJT's Affiliates, except as part of an employee's remuneration made in accordance with the Business Plans and Section 6.2A(a)(v), issue any additional capital stock, partnership interests or other Equity Interests, issue or otherwise grant any option, warrant or other right to acquire or otherwise receive any capital stock, partnership interests or other Equity Interests other than in connection with transactions that (i) constitute Capital Events the other parties to which are Persons which are not Affiliates of DJT, (ii) are for commercially reasonable prices and are on commercially reasonable terms; and (iii) are on terms which provide that at least 90% of all consideration paid for such issuance or grant will be payable immediately upon closing in cash. All non-cash forms of consideration which would have constituted Net Cash Proceeds had they been received in cash at the closing shall be pledged to the Collateral Agent for the benefit of the Lenders or to the Lender which would have been entitled to receive such amounts if such consideration had been received in cash at the closing as security for the Covered Debt Obligations hereunder pursuant to a pledge or other security agreement (as appropriate) in form and substance satisfactory to the Required Lenders.

(g) Transactions with Affiliates or New Ventures. Enter into or carry out any transaction with (including, without limitation, making loans to, purchasing property or services (including, without limitation, under any employment or management contract) from, selling property or services to or paying salaries, bonuses, consulting fees or any similar amounts to) either (1) any Affiliate (other than a New Venture) of any such Person or (2) any New Venture, except (in the case of clause (1) above only)

(i) subject to Section 6.2A(a)(v), directors, officers and employees of any such Person may render services to any other such Person for compensation at the same rates generally paid by Persons engaged in the same or similar businesses for the same or similar services;
(ii) (x) transactions between DJT, on the one hand, and any of his Affiliates, on the other hand, made in accordance with the Business Plans and entered into in the ordinary course of business, pursuant to the reasonable requirements of such Person's business, upon terms fair and reasonable and no less favorable to DJT or such Affiliate than would obtain in a comparable arm's-length transaction; or (y) transactions between DJT, on the one hand, and any of his Affiliates (other than those persons who constitute Affiliates as defined in clause (ii) or clause (iv) of the definition of "Affiliate" herein), on the other hand, made in accordance with and described in reasonable detail in, the Business Plans; and

(iii) transactions effected pursuant to the agreements disclosed on, or otherwise described on, Schedule 5.04(g) to the New Credit Facility in accordance with the terms as they exist on the date of execution and delivery of this Agreement; and

(iv) investments permitted by Section 6.4(d)(i) and (v).

(h) Modifications to Debt Documents. (i)(x)
Except as provided in Section 6.4(h)(i)(y), amend, restate or otherwise modify the terms or conditions of any agreements, instruments or other documents issued, delivered or executed in connection with any of such Person's Indebtedness for borrowed money (other than the New Credit Facility and all documents executed in connection therewith) except:

(A) with respect to all such agreements, instruments and other documents (including agreements, documents and instruments specified in paragraph (B)-(C) below), with the prior written consent of the Required Lenders;

(B) with respect to the First Amendment to Amended and Restated Credit Agreement, dated as of the date hereof, between Citibank, N.A. as Agent and Trump Shuttle, Inc., such agreement may be amended or modified in accordance with the provisions thereof relating to amendments as such provisions exist on the date of execution and delivery of this Agreement; and
(C) with respect to all other such agreements, documents or instruments, amendments, modifications or restatements thereof such that such agreements, documents or instruments shall be no less favorable to the DJT Entities than the same were prior to such amendment, modification or restatement; provided that no such amendment, restatement or modification shall, without the prior written consent of the Required Lenders, shorten the maturity, increase the frequency of times or amounts for payments or prepayments of principal, interest or any other fees or charges in respect thereof or change the terms relating to acceleration in a manner adverse to DJT and his Affiliates, subordination, negative pledges, or addition of collateral or other security, including claims against third parties or, with respect to Indebtedness of any Affiliate of DJT all or a portion of the Entity Operating Cash Flow of which is includable in Operating Cash Flow, reduce the amount or timing of distributions or other payments of any nature which such Person may make to any of the holders of any of the Equity Interests of such Person.

(y) Notwithstanding anything to the contrary contained herein, no term or provision of this Agreement or any other Loan Documents shall be construed to limit or otherwise affect the rights, remedies or obligations (including, without limitation, the right to amend, restate or otherwise modify the terms or conditions of any agreements, instruments or other documents) of any of the lenders (or the agent therefor) under or otherwise in connection with, or the rights and obligations of Trump-Equitable Fifth Avenue Company, Plaza Hotel or DJT or any of his other Affiliates under or otherwise in connection with, the first mortgage loans in respect of the properties of DJT and his Affiliates known as the "Trump Tower" and the "Plaza Hotel" and all agreements, instruments or other documents executed and delivered in connection therewith, as the same may be amended, restated, modified, extended, renewed or refinanced.

(1) Repayments of Indebtedness. Repay or prepay, directly or indirectly, any Indebtedness, including any purchase of any notes, bonds of other instruments evidencing Indebtedness, except (i) payments of the Indebtedness arising under the New Credit Facility; (ii) mandatory payments or mandatory prepayments required by the express terms of any Indebtedness permitted to exist under Section 6.4(a), including purchases of publicly traded bonds secured directly or
indirectly by the real property of any of the Casino Entities made to satisfy the next mandatory sinking fund or similar payments within the six months preceding the due date for such mandatory payment; (iii) optional payments or optional prepayments of the Indebtedness permitted to be incurred under Section 6.4(a)(iv), (vi), (vii), (viii), (x) or (xi) (but, with respect to clause (xi), only in respect of Section 6.4(a)(iv), (vii), (viii) or (x)), it being understood that refinancings permitted by Section 6.4(a)(xi) do not constitute optional payments or optional prepayments for purposes of this Section 6.4(i); and (iv) subject to Section 3.4, payments of amounts owing under the Existing Debt Credit Facilities, whether from Operating Cash Flow or otherwise.

(j) Capital Expenditures. In any one year, except with respect to any New Venture (but, as to expenditures with respect to New Ventures, subject to the restrictions on the source of funds therefor as described in Section 6.4(d)(v)), incur or expend any amounts for capital expenditures in excess of the amounts of capital expenditures set forth in the Annual Plan for such year or to the extent of any insurance proceeds received by DJT or any Affiliate in respect of any casualty event with respect to any asset being repaired or replaced by means of such capital expenditure; provided that such Person may make capital expenditures in excess of such amounts to the extent, and only to the extent, deemed by a Governmental Authority to be necessary for such Person to remain in compliance with the laws, rules and regulations governing the operation of such Person’s business or ownership of such Person’s assets.

(k) Transfers to New Ventures. Make any payment of, or otherwise transfer, any cash, Cash Equivalents or any other assets to any New Venture, except to the extent the same constitutes or is made with (i) proceeds received and retained by DJT (after giving effect to distributions required to be made hereunder and under the New Credit Facility) in respect of any Capital Event, (ii) proceeds received and retained by DJT with respect to equity investments made by Persons not constituting Affiliates of DJT or (iii) assets of any other New Venture.
Schedule I

DJT ENTITIES

Donald J. Trump

TRUMP TAJ MAHAL ASSOCIATES LIMITED PARTNERSHIP, a New Jersey limited partnership

Trump Taj Mahal, Inc., a New Jersey corporation

Trump Taj Mahal Funding, Inc., a New Jersey corporation

TRUMP TAJ MAHAL REALTY CORP., a New Jersey corporation

TRUMP PLAZA ASSOCIATES, a New Jersey general partnership

Trump Boardwalk Realty Corporation, a New Jersey corporation

Trump Plaza Funding, Inc., a New Jersey corporation

TRUMP SEASHORE ASSOCIATES, a New Jersey general partnership

Trump Seashore Associates, Inc., a New Jersey corporation

TRUMP'S CASTLE ASSOCIATES LIMITED PARTNERSHIP, a New Jersey limited partnership

Trump's Castle Hotel & Casino, Inc., a New Jersey corporation

Trump's Castle Funding, Inc., f/k/a TCH Financial Corp., a New Jersey corporation

TRUMP CRYSTAL TOWER ASSOCIATES LIMITED PARTNERSHIP d/b/a Trump Regency Hotel and Trump Regency, a New Jersey limited partnership

DJT Acquisition Corp., a New Jersey corporation
TRUMP PALM BEACHES CORPORATION, a Florida corporation
ALIBAN, INC., a Delaware corporation
THE TRUMP-ALEXANDER'S COMPANY, a New York general partnership
DJT Acquisition Corp., a New York corporation
Monday Realty Corp., a New York corporation
Trump West Realty Corp., a Delaware corporation
DT AIR CORP., a Delaware corporation
TRUMP HOTEL MANAGEMENT CORP., a New Jersey corporation
SEASHORE FOUR ASSOCIATES, a New Jersey general partnership
TRUMP JFK HOTEL ASSOCIATES, L.P., a Delaware limited partnership
DJT TRUMP PARKING, a general partnership
St. Moritz Hotel Associates, a New York general partnership
50-56 Central Park South Corp., a New York corporation
AMELS USA, INC., a Delaware corporation
Football Generals Inc., a New Jersey corporation
Moritz Realty Corp., a New York corporation
Parc Consulting, Inc., a New York corporation
The Trump Hotel Corporation, a New Jersey corporation
The Trump Plaza Corporation, a New Jersey corporation
Toys at Trump, Inc., a New York corporation
Trump Airlines Holding Corp., a New York corporation
Trump Aspen Properties, Inc., a New York corporation
Trump Australia, Inc., a Delaware corporation
Trump Baseball, Inc., a New York corporation
Trump Beverly Hills Hotel Corp., a New York corporation
Trump Cash Call Co., Inc., a New Jersey corporation
Trump City Corporation, a New York corporation
Trump Columbia, Inc., a New Jersey corporation
Trump Enterprises, Inc., a New York corporation
Trump Ice, Inc., a New York corporation
Trump International Marketing, Inc., a New Jersey corporation
Trump JFK Hotel Development Corp., a Delaware corporation
Trump Nevada Inc., a Nevada corporation
Trump Organization, Inc., a New York corporation
Trump Payroll Corp., a New York corporation
Trump Princess Corp., a Delaware corporation
Trump Sports & Entertainment Co., Inc., a New Jersey corporation

Trump Travel Agency, Inc., a New Jersey corporation

Trump West Palm Beach Realty Corp., a New York corporation

Donald J. Trump d/b/a The Trump Palace Company
Schedule II

Bankers Trust Company

The Chase Manhattan Bank, N.A.

Citibank, N.A., in its capacity as agent under that certain $135,000,000 Credit Agreement, dated as of June 7, 1989 (Shuttle Recourse).

Citibank, N.A., in its capacity as agent under that certain $125,000,000 Loan Agreement, dated July 21, 1988, by and between D.J. Trump and Citibank (Plaza Recourse).


Citibank, N.A., in its capacity as an obligee under that certain Interest Rate Swap Agreement, dated as of September 5, 1989 (CT Interest Rate Swap Agreement).

Citibank, N.A., in its capacity as an agent under the Notes Modification Agreement, dated as of February 14, 1989, made by Donald J. Trump d/b/a The Trump Palace Company, as amended and any related agreements.

Manufacturers Hanover Trust Company

Midlantic National Bank

First Fidelity Bank, National Association, New Jersey

First Fidelity Bank, National Association, South Jersey

Fidelity Bank, National Association

National Westminster Bank USA

Boston Safe Deposit and Trust Company

Marine Midland Bank, N.A.
Schedule III

For purposes of this Agreement (including, without limitation, these Schedules), the terms set forth below in quotation marks shall be deemed to refer to the agreements, instruments and documents set forth under such respective terms below, and all other agreements, instruments and documents executed and delivered in connection therewith, as amended by the applicable Existing Agreement Amendments, and as further amended, supplemented or modified from time to time to the extent not prohibited by this Agreement. For purposes of this Agreement, the term Covered Debt shall not include any Indebtedness to the extent created and existing solely pursuant to a Guaranty or Special Guaranty. Certain of the Existing Agreement Amendments applicable to the Existing Debt Credit Agreements listed below are also listed below. The absence of any reference to any Existing Agreement Amendment shall not be deemed to indicate the non-existence of any such Existing Agreement Amendment or any differences among such Existing Agreement Amendments.

NatWest:

A. "NatWest Letters of Credit"

1. Irrevocable Standby Letter of Credit Number 309298, dated March 10, 1989 in the face amount of $19,000,000 issued in favor of Boardwalk Properties, Inc. as amended by Amendment Number One dated April 4, 1989.

2. Irrevocable Standby Letter of Credit Number 310234, dated October 20, 1989 in the face amount of $290,000 issued in favor of Atlantic Electric.

3. Irrevocable Standby Letter of Credit Number 310232, dated October 20, 1989 in the face amount of $80,000 issued in favor of South Jersey Gas Company.

4. Irrevocable Standby Letter of Credit Number 8032309, dated February 14, 1990 in the face amount of $170,000 issued in favor of Atlantic Electric.


Covered Debt: All

B. "NatWest Notes"

1. Interest Bearing Grid Note dated February 1, 1990 made by Donald J. Trump in favor of National Westminster Bank USA in the original principal amount of $20,000,000, pursuant to which $100,000, plus accrued interest thereon is presently outstanding, as restated as of the date hereof.

2. Letter Agreement, dated the date hereof, between National Westminster Bank USA and Donald J. Trump relating to the Restated Credit Note and the NatWest Letters of Credit.

Covered Debt: All-but without duplication of NatWest Letters of Credit.

Chase:

A. "Penn Yards Loan"

Description of Notes

1. Note from Lincoln West Associates ("Lincoln West") to Chase dated September 17, 1982 in the principal amount of $16,700,000.

2. Note from Lincoln West to Chase dated December 8, 1982 in the principal amount of $33,300,000.

The Notes described in items 1 and 2 above were modified by a certain Mortgage Consolidation and Spreader Agreement between Chase and Lincoln West dated December 8, 1982.

Notes 1 and 2 were further modified by Note Modification, Assumption and Extension Agreement between Chase and Penn Yards dated January 14, 1985.

3. Note from Lincoln West to Chase dated September 2, 1983 in the principal amount of $1,440,400.

Note 3 was modified by Note Modification, Assumption and Extension Agreement between Chase and Penn Yards dated January 14, 1985.

4. Note from Lincoln West to Chase dated October 13, 1983 in the principal amount of $11,030,105.77.

Note 4 was modified by Note Modification, Assumption and Extension Agreement between Chase and Penn Yards dated January 14, 1985.
5. Note from Lincoln West to Chase dated December 2, 1983 in the principal amount of $7,638,056.66.

   Note 5 was modified by Note Modification, Assumption and Extension Agreement between Chase and Penn Yards dated January 14, 1985.

6. Note from Lincoln West to Chase dated December 2, 1983 in the principal amount of $4,059,437.57.

   Note 6 was modified by Note Modification, Assumption and Extension Agreement between Chase and Penn Yards dated January 14, 1985.

7. Note from Penn Yards to Chase dated January 14, 1985 in the principal amount of $10,832,000.

8. Note from Penn Yards to Chase dated June 29, 1988 in the amount of $115,000,000.

   Notes 1 through 8 above were consolidated by a Note Consolidation, Modification and Extension Agreement dated June 29, 1988 between Chase and Penn Yards.

   Notes 1 through 8 were modified by a Note Modification Agreement dated as of August 8, 1990 between Chase and Penn Yards.

9A. Note from Penn Yards to Chase dated as of August 8, 1990 in respect of capitalized interest.

Description of Mortgages

9. Mortgage from Lincoln West and Masovi Corporation to Chase dated September 17, 1982 in the principal amount of $16,700,000.

10. Mortgage from Lincoln West to Chase dated December 8, 1982 in the principal amount of $33,300,000.

   Mortgages described in items 9 and 10 above were consolidated by Mortgage Consolidation and Spreader Agreement between Chase and Lincoln West dated December 8, 1982.

   Mortgages described in items 9 and 10, as consolidated, were modified by a Mortgage Modification Agreement between Chase and Penn Yards, dated January 14, 1985.

11. Mortgage from Lincoln West to Chase dated September 2, 1983 in the principal amount of $1,440,400.
Mortgage described in item 11 was modified by Mortgage Modification Agreement between Chase and Penn Yards, dated January 14, 1985.


Mortgage described in item 12 was modified by Mortgage Modification Agreement between Chase and Penn Yards, dated January 14, 1985.


Mortgage described in item 13 was modified by Mortgage Modification Agreement between Chase and Penn Yards, dated January 14, 1985.


Mortgage described in item 14 was modified by Mortgage Modification Agreement between Chase and Penn Yards, dated January 14, 1985.

15. Mortgage dated January 14, 1985 from Penn Yards to Chase in the principal amount of $10,832,000.

16. Mortgage, Assignment of Leases and Rents and Security Agreement from Penn Yards to Chase dated June 29, 1988 in the principal amount of $115,000,000.

Mortgages described in items 9 through 16 above were consolidated and modified by a Mortgage Consolidation and Modification Agreement between Chase and Penn Yards dated June 29, 1988.

17. Mortgages described in items 9 through 16 above were modified by Mortgage Modification Agreement between Chase and Penn Yards dated as of August 8, 1990.

18. Collateral Mortgage, Assignment of Leases and Rents and Security Agreement from Trump-Equitable to Chase dated as of August 8, 1990 in the amount of $35 million.

18A. Mortgage, Assignment of Leases and Rents and Security Agreement from Penn Yards to Chase dated as of August 8, 1990 in respect of capitalized interest.

Description of Guarantees

19. Guaranty of Payment made by Trump dated as of June 29, 1988 ("Penn Yards Guaranty").
Description of Indemnities


Covered Debt to extent of $35 million, subject to adjustment as provided in the document described in item 19 above.

B. "$9,000,000 Penn Yards Loan"

Description of Loan

Advances, from time to time, aggregating $9,000,000 from Chase for real estate taxes in connection with Penn Yards.

Description of Loan Documents

1. Letter agreement acknowledging advances are made pursuant to protective provisions of Mortgage and deferring interest on any such advances.

2. Guaranty of Payment from DJT.

3. Mortgage, Assignment of Leases and Rents and Security Agreement from Penn Yards to Chase dated as of August 8, 1990 in the amount of $9,000,000 securing obligations under the letter agreement.

3A. Collateral Mortgage, Assignment of Leases and Rents and Security Agreement from Trump Equitable to Chase dated as of August 8, 1990 in the amount of $9 million.

4. Indemnity Agreement from DJT and Trump Equitable dated as of August 8, 1990.

Covered Debt: Indebtedness outstanding at the time of determination pursuant to Item 2 above.

C. "Chase DJT Loan"

Description of Loan Documents

Various unsecured notes executed at different times in different amounts which as of the Closing Date evidence the aggregate principal amount of $18,700,000. Those notes shall be replaced by the following documents on the date of August 8, 1990:

1. Note in the amount of $18,700,000 from DJT to Chase ("18.7 Note").
2. Guaranty of Payment from Trump Equitable to Chase of the 18.7 Note dated as of August 8, 1990.

3. Mortgage, Assignment of Leases and Rents and Security Agreement from Trump Equitable to Chase dated as of August 8, 1990 in the principal amount of $18,700,000 which secures the Trump-Equitable guaranty.

4. Indemnity Agreement by DJT and Trump Equitable to Chase dated as of August 8, 1990.

Covered Debt: All

Midlantic:

A. "Midlantic Term Loan"
1. Term Loan Agreement dated November 29, 1989 by and between DJT and MIDLANTIC
2. $37MM Mortgage Note dated November 29, 1989 by DJT in favor of MIDLANTIC
3. Fee/Leasehold Mortgage dated November 29, 1989 by and between DJT as Mortgagor and MIDLANTIC as Mortgagee recorded with the Atlantic County Clerk's Office on December 4, 1989 in mortgage book 4288 at page 121
4. Collateral Assignment of Lease or Leases dated November 29, 1989 by and between DJT as Assignor and MIDLANTIC as Mortgagee
5. Tenant Estoppel Letter dated November 29, 1989 from DJT to MIDLANTIC
6. Subordination Agreement dated November 29, 1989 from DJT to MIDLANTIC

Covered Debt: All

B. "Midlantic Castle Working Capital Loan"
1. $15MM Grid Note dated June 10, 1989 executed by TRUMP'S CASTLE ASSOCIATES in favor MIDLANTIC
2. Continuing Guaranty -- Limited dated June 10, 1988 by DJT in favor of MIDLANTIC

Covered Debt: $6.5 million or such other amount as is outstanding at the time of determination pursuant to Item 2 above.

C. "$7 Million Midlantic DJT Loan"
1. $7MM Grid Note dated June 10, 1989 executed by DJT in favor MIDLANTIC

Covered Debt: All
D. "Midlantic Letters of Credit"

1. \$1.5MM LOC #700359 (as amended: previously #500329) dated April 1, 1988 issued by MIDLANTIC for DJT account to National Union Fire Insurance Company to support insurance premiums, losses and escrow accounts for Trump's Plaza Hotel and Casino and Trump's Castle Hotel and Casino, together with Standby LOC Agreement and Application dated August 26, 1987 and prior LOC dated August 26, 1987

2. \$1.5MM LOC #700745 dated September 7, 1988 issued by MIDLANTIC for DJT, TRUMP'S PLAZA ASSOCIATES and TRUMP'S CASTLE ASSOCIATES to National Union Fire Insurance Company to support insurance premiums, losses and escrow accounts, together with Standby LOC Agreement and Application dated August 31, 1988

Covered Debt: All

**Boston Safe:**

A. "Princess Loan"

1. Loan Agreement between BOSTON SAFE DEPOSIT AND TRUST COMPANY ("BOSTON SAFE") and ALIBAN, INC. ("ALIBAN") regarding Trump Princess loan dated December 16, 1987

2. \$29MM Secured Promissory Note evidencing Trump Princess loan dated December 16, 1987

3. Modification, Amendment and Confirmation Agreement between ALIBAN, DJT and BOSTON SAFE dated June 20, 1988, modifying, amending and confirming the Vessel Loan documentation

4. Statutory Mortgage on M/Y Trump Securing the Obligations of ALIBAN under the Trump Princess loan dated December 16, 1987

5. Deed of Covenants by ALIBAN to BOSTON SAFE dated December 16, 1987

6. Pledge Agreement between DJT and BOSTON SAFE dated as of December 16, 1987 regarding the collateral pledge of the stock of DJT in ALIBAN to BOSTON SAFE

7. \$10MM Partial Guarantee given by DJT in favor of BOSTON SAFE dated as of December 13, 1987 with respect to the ALIBAN obligations under the Trump Princess Loan Agreement

8. Assignment of Insurances respecting the Trump Princess between ALIBAN and BOSTON SAFE dated December 16, 1987 with Notice of Assignment, Loss Payable Clauses and Protection and Indemnity
9. General Assignment of Earnings, Etc. between ALIBAN and BOSTON SAFE dated December 16, 1987 regarding collateral assignment by ALIBAN to BOSTON SAFE of earnings arising from the Trump Princess

10. Security Agreement between ALIBAN and BOSTON SAFE dated December 16, 1987

Covered Debt: $10 million, or such other amount as is outstanding at the time of determination pursuant to Item 7 above (DJT Guaranty of Princess Loan)

B. "Princess $10 Million Loan."

1. $100M Demand Loan Note from DJT to BOSTON SAFE dated March 14, 1988

Covered Debt: All

C. "Mar-a-Lago Loan"

1. $12M Five-Year Adjustable Rate Note on Mar-a-Lago executed by DJT in favor of BOSTON SAFE dated September 2, 1988
2. $121M Mortgage on Mar-a-Lago dated September 2, 1988 securing the obligations of Trump under the Mortgage Note

Covered Debt: All

Marine Midland:

A. "Palm Beach Credit Facility"

1. Promissory Note dated October 22, 1986 by TRUMP PALM BEACHES CORPORATION to MARINE MIDLAND BANK, N.A. for $60MM
2. Loan Agreement dated as of October 22, 1986 between MARINE MIDLAND BANK, N.A. and TRUMP PALM BEACHES CORPORATION
3. Mortgage and Security Agreement dated October 22, 1986 from TRUMP PALM BEACHES CORPORATION to MARINE MIDLAND BANK, N.A. for $60MM
4. Collateral Assignment of Lessee's Interest in Lease(s) dated October 22, 1986 from TRUMP PALM BEACHES CORPORATION in favor of MARINE MIDLAND BANK, N.A.
5. Guaranty of Payment dated as of October 22, 1986 from DONALD J. TRUMP to MARINE MIDLAND BANK, N.A.
6. Guaranty of Carry dated October 22, 1986 from DONALD J. TRUMP to MARINE MIDLAND BANK, N.A.
7. Modification and Reaffirmation of Guaranty of Carry and Guaranty of Payment made as of January 29, 1988 by DONALD J. TRUMP to MARINE MIDLAND BANK, N.A.
8. Cash Collateral Agreement, dated as of the date hereof, by and among Donald J. Trump and MARINE MIDLAND BANK, N.A.

Covered Debt: $14 million principal (subject to reduction as set forth in the definition of Covered Debt Obligations) and all due and unpaid interest under the Palm Beach Credit Facility.

Citibank:

A. "Alexander's Loan"

1. Amended and Restated Loan Agreement, dated as of October 26, 1987 (as amended by letter amendments dated October 26, 1988, October 26, 1989 and April 26, 1990), by and between THE TRUMP-ALEXANDER'S COMPANY and CITIBANK

2. Promissory Note, dated July 25, 1990, made by The Trump-Alexander's Company to Citibank, N.A. in principal amount of $954,055.00*

3. Promissory Note, dated as of August 8, 1990, made by The Trump-Alexanders Company to Citibank, in principal amount not more than approximately $5,245,296.00*

* Both of the Promissory Notes referred to in Items 2 and 3 will be cancelled on the Closing Date and added to the principal amount of the loan made pursuant to Item 1.

Covered Debt: All

B. "Mastercard/Visa Agreement"

Agreement, dated as of June 7, 1989, by and between Citicorp Credit Services, Inc., Card Acceptance Division, a Delaware corporation, and Trump Shuttle, Inc., a corporation organized under the laws of New York, and certain affiliates.

Covered Debt: None.

C. "CB Interest Rate Swap"

Interest Rate Swap Agreement, dated as of September 5, 1989, between Citibank, N.A., New York and Donald J. Trump (for the benefit of the
Covered Debt: Yes

D. "Plaza Junior"
1. Citibank Commitment for Interim Loan Facility for $125MM dated July 8, 1988
2. Specimen Promissory Note from D. TRUMP to CITIBANK for $125MM, dated July 21, 1988
3. Loan Agreement between D.J. TRUMP and CITIBANK, dated July 21, 1988 (with exhibits)
4. Assignment, Pledge and Security Agreement by and between D.J. TRUMP and CITIBANK, dated July 21, 1988
5. Assignment, Pledge and Security Agreement by and between DJT PLAZA HOTEL CORP. and CITIBANK, dated July 21, 1988
6. Assignment, Pledge and Security Agreement by and between PLAZA OPERATING PARTNERS LTD and CITIBANK, dated July 21, 1988
7. Guaranty made by DJT PLAZA HOTEL CORP.

Covered Debt: All

E. "Shuttle Junior"
1. $135MM Credit Agreement dated as of June 7, 1989 among D. TRUMP and THE BANKS NAMED THEREIN and CITIBANK, as agent.
3. Intercreditor Agreement, dated June 7, 1989, by and between Citibank, N.A., as Agent under the Trump Credit Agreement and the First Pledge Agreement, and Citibank, as Agent under the Trump Credit Agreement and the Second Pledge Agreement.

Covered Debt: All

F. "Trump Palace Loan"
1. Note Modification Agreement, dated as of February 14, 1989, made by Donald J. Trump d/b/a The Trump Palace Company to Citibank, N.A., individually and as agent for
one or more co-lenders, in the principal amount of $60,000,000.

2. Mortgage Modification, Restatement, Extension and Spreader Agreement, dated as of February 14, 1989, between Donald J. Trump d/b/a The Trump Palace Company and Citibank, N.A., individually and as agent for one or more co-lenders, in the principal amount of $60,000,000, recorded in the Office of the City Register, New York County (the "City Register’s Office") on February 17, 1989, in Reel 1537, Page 767.

3. Building Loan Note Modification Agreement No. 1, dated as of February 14, 1989, between Donald J. Trump d/b/a The Trump Palace Company and Citibank, N.A., individually and as agent for one or more co-lenders, in the principal amount of $4,893,203.

4. Building Loan Mortgage Modification, Restatement, Extension and Spreader Agreement No. 1, dated as of February 14, 1989, between Donald J. Trump d/b/a The Trump Palace Company and Citibank, N.A., individually and as agent for one or more co-lenders, in the principal amount of $4,893,203, recorded in the City Register’s Office on February 17, 1989, in Reel 1537, page 660.

5. Indirect Costs Mortgage Note, dated as of February 14, 1989, from Donald J. Trump d/b/a The Trump Palace Company to Citibank, N.A., individually and as agent for one or more co-lenders, in the principal amount of $51,548,158.

6. Indirect Costs Mortgage, dated as of February 14, 1989, from Donald J. Trump d/b/a The Trump Palace Company to Citibank, N.A., individually and as agent for one or more co-lenders, in the principal amount of $51,548,158, recorded in the City Register’s Office on February 17, 1989, in Reel 1537, Page 565, on which the mortgage recording tax of $1,159,834.50 was duly paid.

7. Building Loan Mortgage Note No. 1, dated as of February 14, 1989, from Donald J. Trump d/b/a The Trump Palace Company to Citibank, N.A., individually and as agent for one or more co-lenders, in the principal amount of $7,451,842.

8. Building Loan Mortgage No. 1, dated as of February 14, 1989, from Donald J. Trump d/b/a The Trump Palace Company to Citibank, N.A., individually and as agent for one or more co-lenders, in the principal amount of $7,451,842 (not delivered to title company for recording).

9. Building Loan Mortgage Note No. 2, dated as of February 14, 1989, from Donald J. Trump d/b/a The Trump Palace Company to Citibank, N.A., individually and as agent for
one or more co-lenders, in the principal amount of $7,000,000.

10. Building Loan Mortgage No. 2, dated as of February 14, 1989, from Donald J. Trump d/b/a The Trump Palace Company to Citibank, N.A., individually and as agent for one or more co-lenders, in the principal amount of $7,000,000 (not delivered to title company for recording).

11. Building Loan Mortgage Note No. 3, dated as of February 14, 1989, from Donald J. Trump d/b/a The Trump Palace Company to Citibank, N.A., individually and as agent for one or more co-lenders, in the principal amount of $7,000,000.

12. Building Loan Mortgage No. 3, dated as of February 14, 1989, from Donald J. Trump d/b/a The Trump Palace Company to Citibank, N.A., individually and as agent for one or more co-lenders, in the principal amount of $7,000,000 (not delivered to title company for recording).

13. Building Loan Mortgage Note No. 4, dated as of February 14, 1989, from Donald J. Trump d/b/a The Trump Palace Company to Citibank, N.A., individually and as agent for one or more co-lenders, in the principal amount of $7,000,000.

14. Building Loan Mortgage No. 4, dated as of February 14, 1989, from Donald J. Trump d/b/a The Trump Palace Company to Citibank, N.A., individually and as agent for one or more co-lenders, in the principal amount of $7,000,000 (not delivered to title company for recording).

15. Building Loan Agreement, dated as of February 14, 1989, between Donald J. Trump d/b/a The Trump Palace Company and Citibank, N.A., individually and as agent for one or more co-lenders, filed in the Office of the County Clerk, New York County (the "County Clerk's Office").

16. Indirect Costs Loan Agreement, dated as of February 14, 1989, between Donald J. Trump d/b/a The Trump Palace Company and Citibank, N.A., individually and as agent for one or more co-lenders.

17. Assignment of Landlord's Interest in Rents and Leases, dated as of February 14, 1989, made by Donald J. Trump d/b/a The Trump Palace Company to Citibank, N.A., individually and as agent for one or more co-lenders, recorded in the City Register's Office on February 17, 1989, in Reel 1537, Page 874.

18. Guaranty of Payment, Performance and Completion and Indemnification Agreement, dated as of February 14, 1989,
from Donald J. Trump to Citibank, N.A., individually and as agent for one or more co-lenders.

19. Subordination of Mortgage and Standstill Agreement, dated as of February 14, 1989, between THTM Associates ("THTM") and Citibank, N.A., individually and as agent for one or more co-lenders, recorded in the City Register’s office on February 17, 1989, in Reel 1537, Page 859.

20. Termination of Assignment of Landlord’s Interest in Rents and Leases made by Citibank, N.A., terminating Assignment of Leases from Donald J. Trump to Citibank, N.A., dated December 30, 1985, recorded on January 8, 1986, in Reel 1010, Page 7, recorded in the City Register’s Office on February 17, 1989, in Reel 1537, Page 885.

21. Mortgage Modification Agreement, dated as of February 14, 1989, between THTM and Trump, recorded in the City Register’s Office on February 17, 1989, in Reel 1537, Page 752.

22. Mortgage and Note Severance and Modification Agreement, dated as of February 14, 1989, between THTM and Trump, recorded in the City Register’s Office on February 17, 1989, in Reel 1537, Page 758.


24. Substitute Mortgage No. 1 ("Substitute Mortgage 1"), dated as of February 14, 1989, between Trump and THTM in the principal amount of $4,893,203, recorded in the City Register’s Office on February 17, 1989, in Reel 1537, page 651.

25. Assignment of Mortgage, dated as of February 14, 1989, from THTM to Citibank, N.A., individually and as agent for one or more co-lender, recorded in the City Register’s Office on February 17, 1989, in Reel 1537, Page 656 (assigns Substitute Mortgage 1).

26. Building Loan Note Modification Agreement No. 2, dated as of March 7, 1989, made by Donald J. Trump d/b/a The Trump Palace Company to Citibank, N.A., individually and as agent for one or more co-lender in the principal amount of $761,339.

27. Building Loan Mortgage Modification, Restatement, Extension and Spreader Agreement No. 2, dated as of March 7, 1989, between Donald J. Trump d/b/a The Trump Palace Company and Citibank, N.A., individually and as agent for one or more co-lender in the principal amount of $761,339,
recorded in the City Register's Office on March 16, 1989, in Reel 1548, Page 137.

28. Mortgage and Note Severance and Modification Agreement No. 2, dated as of March 7, 1989, between THTM and Trump, recorded in the City Register's Office on March 16, 1989, in Reel 1548, Page 228.


30. Substitute Mortgage No. 2 ("Substitute Mortgage 2"), dated as of March 7, 1989, between Trump and THTM in the principal amount of $761,339, recorded in the City Register's Office on March 16, 1989, in Reel 1548, Page 0125.

31. Assignment of Mortgage, dated as of March 7, 1989, from THTM to Citibank, N.A., individually and as agent for one or more co-lender, recorded in the City Register's Office on March 16, 1989, in Reel 1548, Page 0133 (assigns Substitute Mortgage 2).

32. Building Loan Note Modification Agreement No. 3, dated as of April 7, 1989, made by Donald J. Trump d/b/a The Trump Palace Company to Citibank, N.A., individually and as agent for one or more co-lender in the principal amount of $997,201.

33. Building Loan Mortgage Modification, Restatement Extension and Spreader Agreement No. 3, dated as of April 7, 1989, between Donald J. Trump d/b/a The Trump Palace Company and Citibank, N.A., individually and as agent for one or more co-lender in the principal amount of $997,201, recorded in the City Register's Office on April 13, 1989 in Reel 1560 Page 0729.

34. Mortgage and Note Severance and Modification Agreement No. 3, dated as of April 7, 1989, between THTM and Trump, recorded in the City Register's Office on April 13, 1989 in Reel 1560, Page 709.

35. Substitute Mortgage Note No. 3, dated as of April 7, 1989, between Trump and THTM in the principal amount of $997,201.

36. Substitute Mortgage No. 3 ("Substitute Mortgage 3"), dated as of April 7, 1989, between Trump and THTM in the principal amount of $997,201, recorded in the City Register's Office on April 13, 1989, in Reel 1560, Page 0720.
37. Assignment of Mortgage, dated as of April 7, 1989, from THTM to Citibank, N.A., individually and as agent for one or more co-lender, recorded in the City Register's Office on April 13, 1989, in Reel 1560, Page 0725 (assigns Substitute Mortgage 3).

38. Building Loan Note Modification Agreement No. 4, dated as of May 10, 1989, made by Donald J. Trump d/b/a The Trump Palace Company to Citibank, N.A., individually and as agent for one or more co-lender in the principal amount of $1,228,557.

39. Building Loan Mortgage Modification, Restatement, Extension and Spreader Agreement No. 4, dated as of May 10, 1989, between Donald J. Trump d/b/a The Trump Palace Company and Citibank, N.A., individually and as agent for one or more co-lender in the principal amount of $1,228,557, recorded in the City Register's Office on May 30, 1989 in Reel 1582 Page 0448.

40. Mortgage and Note Severance and Modification Agreement No. 4, dated as of May 10, 1989, between THTM and Trump, recorded in the City Register's Office on May 30, 1989, in Reel 1582, Page 428.

41. Substitute Mortgage Note No. 4, dated as of May 10, 1989, between Trump and THTM in the principal amount of $1,228,557.

42. Substitute Mortgage No. 4 ("Substitute Mortgage 4"), dated as of May 10, 1989, between Trump and THTM in the principal amount of $1,228,557, recorded in the City Register's Office on May 30, 1989, in Reel 1582, Page 0439.

43. Assignment of Mortgage, dated as of May 10, 1989, from THTM to Citibank, N.A., individually and as agent for one or more co-lender, recorded in the City Register's Office on May 30, 1989, in Reel 1582, Page 0444 (assigns Substitute Mortgage 4).

44. Building Loan Note Modification Agreement No. 5, dated as of June 9, 1989, made by Donald J. Trump d/b/a The Trump Palace Company to Citibank, N.A., individually and as agent for one or more co-lender in the principal amount of $1,548,428.

45. Building Loan Mortgage Modification, Restatement, Extension and Spreader Agreement No. 5, dated as of June 9, 1989, between Donald J. Trump d/b/a The Trump Palace Company and Citibank, N.A., individually and as agent for one or more co-lender in the principal amount of $1,548,428, recorded in the City Register's Office on June 23, 1989 in Reel 1591, Page 1371.
46. Mortgage and Note Severance and Modification Agreement No. 5, dated as of June 9, 1989, between THTM and Trump, recorded in the City Register’s Office on June 23, 1989, in Reel 1591, Page 1360.

47. Substitute Mortgage Note No. 5, dated as of June 9, 1989, between Trump and THTM in the principal amount of $1,548,428.

48. Substitute Mortgage No. 5 ("Substitute Mortgage 5"), dated as of June 9, 1989, between Trump and THTM in the principal amount of $1,548,428, recorded in the City Register’s Office on June 23, 1989, in Reel 1591, Page 1351.

49. Assignment of Mortgage, dated as of June 9, 1989, from THTM to Citibank, N.A., individually and as agent for one or more co-lender, recorded in the City Register’s Office on June 23, 1989, in Reel 1591, Page 1356 (assigns Substitute Mortgage 5).

50. Building Loan Note Modification Agreement, dated as of June 30, 1989, made by Donald J. Trump d/b/a The Trump Palace Company to Citibank, N.A., individually and as agent for one or more co-lender in the principal amount of $70,571,271.

51. Building Loan Mortgage Modification, Restatement, Extension and Spreader Agreement, dated as of June 30, 1989, between Donald J. Trump d/b/a The Trump Palace Company and Citibank, N.A., individually and as agent for one or more co-lender in the principal amount of $70,571,271, recorded in the City Register’s Office on July 5, 1989, in Reel 1596, Page 1746.

52. Assignment of Mortgage, dated as of June 30, 1989, from THTM to Citibank, N.A., individually and as agent for one or more co-lender, recorded in the City Register’s Office on July 5, 1989, in Reel 1596, Page 1839.

53. Indirect Costs Mortgage Modification Agreement, dated as of July 10, 1989, between Donald J. Trump d/b/a The Trump Palace Company and Citibank, N.A., individually and as agent for one or more co-lender, recorded in the City Register’s Office in Reel 1632, Page 1996 on October 27, 1989.

54. Building Loan Mortgage Modification Agreement, dated as of July 10, 1989, between Donald J. Trump d/b/a The Trump Palace Company and Citibank, N.A., individually and as agent for one or more co-lender, recorded in the City Register’s Office in Reel 1632, Page 2014 on October 27, 1989.
55. Building Loan Mortgage Modification Agreement, dated as of July 10, 1989, between Donald J. Trump d/b/a The Trump Palace Company and Citibank, N.A., individually and as agent for one or more co-lender, recorded in the City Register’s Office in Reel 1632, Page 2002 on October 27, 1989.

56. Building Loan Mortgage Modification Agreement, dated as of July 10, 1989, between Donald J. Trump d/b/a The Trump Palace Company and Citibank, N.A., individually and as agent for one or more co-lender, recorded in the City Register’s Office in Reel 1632, Page 2008.

57. Building Loan Mortgage Modification Agreement, dated as of July 10, 1989, between Donald J. Trump d/b/a The Trump Palace Company and Citibank, N.A., individually and as agent for one or more co-lender, recorded in the City Register’s Office in Reel 1632, Page 2026 on October 27, 1989.

58. Building Loan Mortgage Modification Agreement, dated as of July 10, 1989, between Donald J. Trump d/b/a The Trump Palace Company and Citibank, N.A., individually and as agent for one or more co-lender, recorded in the City Register’s Office in Reel 1632, Page 2020 on October 27, 1989.

59. Interest Rate Exchange Agreement, dated as of February 15, 1989, between Donald J. Trump d/b/a/ as The Trump Palace Company and Citibank, N.A. (the "Palace Swap").

Covered Debt: Principal Amounts funded pursuant to the Interest Reserve (up to $40 million) (but not any interest or other obligations in respect thereof) (such amount, "Interest Reserve") and the Palace Swap.

Bankers Trust:

A. "BT Loans"

1. Revolving Credit Agreement dated as of June 27, 1989 between DJT and BANKERS TRUST COMPANY
2. Revolving Credit Note dated as of June 27, 1989 between DJT and BANKERS TRUST COMPANY for $100MM
4. Interest Rate and Currency Exchange Agreement, dated as of June 7, 1989 between Donald J. Trump and Bankers Trust Company (the "BT Interest Rate Swap")
Covered Debt: All

**MHT:**

A. **"MHT Regency Loan"**

1. $85MM Loan Agreement dated as of August 1, 1989 between MANUFACTURES HANOVER TRUST COMPANY (MHTC) and TRUMP CRYSTAL TOWER ASSOCIATES LIMITED PARTNERSHIP
2. Promissory Note for $85MM dated August 1, 1989 from TRUMP CRYSTAL TOWER ASSOCIATES LIMITED PARTNERSHIP to MHTC
3. Mortgage and Security Agreement dated August 1, 1989 from TRUMP CRYSTAL TOWER ASSOCIATES LIMITED PARTNERSHIP in favor of MHTC
4. Guaranty from D. TRUMP for the benefit of MHTC, dated August 1, 1989
5. Initial Advance Borrowing Certificate dated August 1, 1989 pursuant to Section 7 of the TCTALP/MHTC Loan Agreement

Covered Debt: $19,274,027 or such other amount as is outstanding at the time of determination pursuant to Item 4 above.

B. **"MHT Hyatt Loan"**

1. Credit Agreement dated as of July 20, 1987 between D. TRUMP and MHTC for $80MM
2. Promissory Note for $80MM dated July 20, 1987 from D. TRUMP to MHTC
3. Security Agreement and Assignment of Contract dated as of July 20, 1987 made by The Trump Corporation in favor of MHTC
4. Assignment, Pledge and Security Agreement dated as of July 20, 1987 made by D. TRUMP to MHTC re Regency-Lexington Partners ("RLP")
5. Assignment, Pledge and Security Agreement dated as of July 20, 1987 made by D. TRUMP to MHTC re Park South Associates ("PSA")
6. First Amendment dated as of November 16, 1988 to the $80MM Credit Agreement
7. Release of Assignment, Pledge and Security Agreement dated as of November 16, 1988 between D. TRUMP and MHTC
8. First Allonge to $80MM Promissory Note, dated November 16, 1988

Covered Debt: All
All Existing Debt Credit Obligations held by MHT other than the MHT Hyatt Loan and the MHT Regency Loan are referred to herein as the "MHT Non-Hyatt Loans."

C. "MHT CPS Loan"

1. Credit Agreement dated as of July 20, 1987 between D. TRUMP and MHTC for $55MM
2. Revolving Credit Note dated as of July 20, 1987 made by D. TRUMP to MHTC for $55MM
3. Assignment, Pledge and Security Agreement dated as of July 20, 1987 made by D. TRUMP to MHTC re St. Moritz Hotel Associates ("St. M")
4. Assignment, Pledge and Security Agreement dated as of July 20, 1987 made by D. TRUMP to MHTC re Park South Associates ("PSA")
5. First Amendment dated as of January 30, 1989 to the $55MM Credit Agreement
6. First Allonge to $55MM Revolving Credit Note, dated January 30, 1989

Covered Debt: All

D. "MHT CPS Mortgage Loan"

1. Mortgage Note dated January 31, 1973 made by LBREC REALTY INC. to Morris Green, Trustee under Will of Dora Green, Deceased and Joyce Cheney in the amount of $1,600,000.


Covered Debt: None

E. "MHT East 61st Loan"

1. Restructuring Agreement dated as of August 8, 1990 between D. Trump and MHTC.
2. Interest Equalization Note dated August 8, 1990 from D. Trump to MHTC.
3. Term Note dated August 8, 1990 from D. Trump to MHTC.

Covered Debt: All

First Fidelity:

A. "First Fidelity Taj Term Loan"

1. Time Loan and Security Agreement dated as of November 22, 1988 between First Fidelity Bank, N.A., New Jersey, Trump Taj Mahal Realty Corp. and D. Trump for $75MM and Promissory Note of Trump Taj Mahal Realty Corp. executed and delivered in connection therewith.

2. Guaranty dated as of November 22, 1988 to First Fidelity Bank, N.A., New Jersey from Trump Hotel Management Corp. and D. Trump.


7. Lease Agreement dated March 28, 1990 between TRUMP TAJ MAHAL REALTY CORP. as Landlord and TRUMP TAJ MAHAL ASSOCIATES LIMITED PARTNERSHIP (Restaurant Lease).


9. Lease Agreement dated March 28, 1990 between TRUMP TAJ MAHAL REALTY CORP. as Landlord and TRUMP TAJ MAHAL ASSOCIATES LIMITED PARTNERSHIP (3.7 Acre Parcel Lease).

10. Lease Agreement dated March 28, 1990 between TRUMP TAJ MAHAL REALTY CORP. as Landlord and TRUMP TAJ MAHAL ASSOCIATES LIMITED PARTNERSHIP (Parcels 4, 5 and 6, Lots 18, 41, 17 and 65 Lease).

11. Lease Agreement dated March 28, 1990 between TRUMP TAJ MAHAL REALTY CORP. as Landlord and TRUMP TAJ MAHAL ASSOCIATES LIMITED PARTNERSHIP (129.06 Lease).

12. Lease Agreement dated March 28, 1990 between TRUMP TAJ MAHAL REALTY CORP. as Landlord and TRUMP TAJ MAHAL ASSOCIATES LIMITED PARTNERSHIP (129.02 Lease).


14. Assignment of Leases and Rents and Other Income dated November 22, 1988 between TRUMP TAJ MAHAL REALTY CORP. as Assignor and FIRST FIDELITY BANK, NATIONAL ASSOCIATION, NEW JERSEY as Assignee.

Covered Debt: $75 million or such other amount outstanding at the time of determination pursuant to Item 2 above.

B. "First Fidelity Letters of Credit"


2. $1,500,000 Letter of Credit No. 1512/89 between Trump Taj Mahal Associates Limited Partnership, as Account Party, First Fidelity Bank, N.A., South Jersey, as
Issuer and naming as Beneficiary Atlantic City Electric Company. [Backed by $1,500,000 Letter of Credit S13243 issued by First Fidelity Bank, N.A., for the benefit of First Fidelity Bank, N.A., South Jersey.]

3. $110,000 Letter of Credit No. 1513/89 between Trump Taj Mahal Associates Limited Partnership, as Account Party, First Fidelity Bank, N.A., South Jersey, as Issuer and naming as Beneficiary South Jersey Gas Company. [Backed by $110,000 Letter of Credit S13244 issued by First Fidelity Bank, N.A., for the benefit of First Fidelity Bank, N.A., South Jersey.]

4. $1,760,000 Letter of Credit No. 1511/89 between Trump Taj Mahal Associates Limited Partnership, as Account Party, First Fidelity Bank, N.A., South Jersey, as Issuer and naming as Beneficiary Atlantic City Electric Company. [Backed by $1,760,000 Letter of Credit S13245 issued by First Fidelity Bank, N.A., for the benefit of First Fidelity Bank, N.A., South Jersey.]

5. $4,150,000 Letter of Credit No. S13717 between Trump Taj Mahal Associates Limited Partnership, as Account Party, Fidelity Bank, N.A., as Issuer and naming as Beneficiary Atlantic City Electric Company.


9. Amendment to Letters of Credit S13243, S13244 and S13245.

Covered Debt: None

C. "First Fidelity Auto Loans"

1. Automobile Loans (a list of which has previously been furnished to the Lenders) to TRUMP TAJ MAHAL ASSOCIATES LIMITED PARTNERSHIP evidenced by various notes executed at different times, prior to the date hereof, together with pledges of title and other agreements executed in connection therewith.
2. Amendment to Automobile Loans to TRUMP TAJ MAHAL ASSOCIATES LIMITED PARTNERSHIP.

Covered Debt: None
Schedule IV
Guarantees Necessary to Support Collateral Agreements; Collateral Agreements

CASINOS AND HOTELS

A. TRUMP TAJ MAHAL HOTEL AND CASINO.

   (a) Pledge Agreements.
       A.1.(a)(1) Pledge of General Partnership Interest to BTCo.
       A.1.(a)(2) Pledge of Proceeds of Partnership Interest to BTCo.

   (a) Pledge Agreements.
       A.2.(a)(1) Pledge of Limited Partnership Interest to BTCo.
       A.2.(a)(2) Pledge of Proceeds of Partnership Interest to BTCo.

   (a) Pledge Agreements.
       A.3.(a)(1) Pledge of General Partnership Interest to BTCo.
       A.3.(a)(2) Pledge of Proceeds of Partnership Interest to BTCo.
   (b) Guarantees.
       A.3.(b)(1) Guarantee by TTMI to BTCo.

4. DJT Stock in Trump Taj Mahal, Inc.
(a) Pledge Agreements.
A.4.(a)(1) Pledge of Stock to BTCo.

5. DJT Stock in Trump Hotel Management Corp. ("THMC").
(a) Pledge Agreements.
A.5.(a)(1) Pledge of Stock to BTCo.

6. DJT Stock in Trump Taj Mahal Realty Corp. ("TTMRC").
(a) Pledge Agreements.
A.6.(a)(1) Pledge of Stock to BTCo.

7. DJT $25,000,000 Note of Trump Taj Mahal Associates Limited Partnership.
(a) Pledge Agreements.
A.7.(a)(1) Pledge of Note by DJT to BTCo.

B. TRUMP PLAZA HOTEL AND CASINO.

1. DJT General Partnership Interest in Trump Plaza Associates.
(a) Pledge Agreements.
B.1.(a)(1) Pledge of General Partnership Interest to BTCo.
B.1.(a)(2) Pledge of Proceeds of Partnership Interest to BTCo.

2. Trump Boardwalk Realty Corporation ("TBRIC")
   General Partnership Interest in Trump Plaza Associates.
   (a) Pledge Agreements.
   B.2.(a)(1) Pledge of General Partnership Interest to BTCo.
   B.2.(a)(2) Pledge of Proceeds of Partnership Interest to BTCo.
   (b) Guarantees.
   B.2.(b)(1) Guarantee by TBRIC to BTCo.
3. **DJT Stock in Trump Boardwalk Realty Corporation.**
   (a) **Pledge Agreements.**
       B.3.(a)(1) Pledge of Stock to BTCo.

4. **DJT General Partnership Interest in Trump Seashore Associates.**
   (a) **Pledge Agreements.**
       B.4.(a)(1) Pledge of General Partnership Interest to BTCo.
       B.4.(a)(2) Pledge of Proceeds of Partnership Interest to BTCo.

5. **Trump Seashore Associates, Inc. ("TSAI") General Partnership Interest in Trump Seashore Associates.**
   (a) **Pledge Agreements.**
       B.5.(a)(1) Pledge of General Partnership Interest to BTCo.
       B.5.(a)(2) Pledge of Proceeds of Partnership Interest to BTCo.
   (b) **Guarantees.**
       B.5.(b)(1) Guarantee by TSAI to BTCo.

6. **DJT Stock in Trump Seashore Associates, Inc.**
   (a) **Pledge Agreements.**
       B.6.(a)(1) Pledge of Stock to BTCo.

7. **Seashore Four Associates ("Seashore Four") Fee Estate in Portion of Land Underlying Trump Plaza Hotel and Casino.**
   (a) **Mortgages.**
       B.7.(a)(1) Mortgage and Security Agreement to BTCo.
   (b) **Guarantees.**
       B.7.(b)(1) Guarantee by Seashore Four to BTCo.
   (c) **Assignment of Leases and Rents.**
B.7.(c)(1) Assignment of Leases and Rents to BTCo.

8. DJT General Partnership Interest in Seashore Four Associates.
(a) Pledge Agreements.
   B.8.(a)(1) Pledge of General Partnership Interest to BTCo.
   B.8.(a)(2) Pledge of Proceeds of Partnership Interest to BTCo.

9. Trump Boardwalk Realty Corporation ("TBRC")
   General Partnership Interest in Seashore Four Associates.
   (a) Pledge Agreements.
      B.9.(a)(1) Pledge of General Partnership Interest to BTCo.
      B.9.(a)(2) Pledge of Proceeds of Partnership Interest to BTCo.
   (b) Guarantees.
      B.9.(b)(1) Guarantee by TBRC to BTCo.

10. DJT Stock in Trump Boardwalk Realty Corporation.
   (a) Pledge Agreements.
      B.10.(a)(1) Pledge of Stock to BTCo.

C. TRUMP'S CASTLE HOTEL AND CASINO.

(a) Pledge Agreements.
   C.1.(a)(1) Pledge of General Partnership Interest to BTCo.
   C.1.(a)(2) Pledge of Proceeds of Partnership Interest to BTCo.


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1. Pledge Agreements.
   C.2.(a)(1) Pledge of Limited Partnership Interest to BTO.
   C.2.(a)(2) Pledge of Proceeds of Partnership Interest to BTO.

3. Trump's Castle Hotel and Casino, Inc. ("TCHCI")
   General Partnership Interest in Trump's Castle Associates.
   (a) Pledge Agreements.
      C.3.(a)(1) Pledge of General Partnership Interest to BTO.
      C.3.(a)(2) Pledge of Proceeds of Partnership Interest to BTO.
   (b) Guarantees.
      C.3.(b)(1) Guarantee by TCHCI to BTO.

4. DJT Stock in Trump's Castle Hotel and Casino, Inc.
   (a) Pledge Agreements.
      C.4.(a)(1) Pledge of Stock to BTO.

5. DJT Fee and Leasehold Estate in Penthouse Property.
   (a) Pledge Agreements.
      C.5.(a)(1) Mortgage to BTO.
   (b) Guarantees.
      [C.5.(b)(1) Guarantee by DJT to BTO.]
   (c) Assignment of Leases.
      C.5.(c)(1) Assignment of Leases.

   (a) Pledge Agreements.
      C.6.(a)(1) Pledge of Rights to BTO.
7. DJT $2,000,000 Note of Trump's Castle Associates Limited Partnership.
   (a) Pledge Agreements.
   C.7.(a)(1) Pledge of Note by DJT to BTo.

D. TRUMP REGENCY HOTEL.

   (a) Pledge Agreements.
   D.1.(a)(1) Pledge of Limited Partnership Interest to BTo.

2. DJT Acquisition Corp. ("DJTAC") General Partnership Interest in Trump Crystal Tower Associates Limited Partnership.
   (a) Pledge Agreements.
   D.2.(a)(1) Pledge of General Partnership Interest to BTo.
   (b) Guarantees.
   D.2.(b)(1) Guarantee by DJTAC to BTo.

3. DJT Stock in DJT Acquisition Corp.
   (a) Pledge Agreements.
   D.3.(a)(1) Pledge of Stock to BTo.

'NEW YORK BUILDINGS'

E. TRUMP TOWER

1. DJT Interest in Trump-Equitable Joint Venture (Commercial).
   (a) Pledge Agreements.
   E.1.(a)(1) Pledge of Proceeds of Joint Venture Interest (Commercial) to BTo.

2. DJT Interest in Trump-Equitable Joint Venture (Residential).
(a) **Pledge Agreements.**

E.2.(a)(1) Pledge of Proceeds of Joint Venture Interest (Residential) to BTCo.

3. Tipperary Realty Corp. ("Tipperary") Interest in Trump-Equitable Joint Venture (Commercial and Residential).

(a) **Pledge Agreements.**

E.3.(a)(1) Pledge of Proceeds of Joint Venture Interest to BTCo.

F. **TRUMP PARK**

See 100 Central Park South.

G. **100 CENTRAL PARK SOUTH**


(a) **Pledge Agreements.**

G.1.(a)(1) Pledge of Partnership Interest to BTCo.

2. B. Plaza Realty Corp. ("BPRC") Limited Partnership Interest in Park South Associates.

(a) **Pledge Agreements.**

G.2.(a)(1) Pledge of Limited Partnership Interest to BTCo.

3. DJT Stock in B. Plaza Realty Corp.

(a) **Pledge Agreements.**

G.3.(a)(1) Pledge of Stock to BTCo.

H. **TRUMP PLAZA (EAST 61ST. STREET).**

1. DJT Stock in The Trump Corporation.

-vii-
(a) Amended and Restated Pledge Agreements.
H.1.(a)(1) Pledge of Stock to BTCo. (with respect to Trump Plaza only)

(a) Pledge Agreements.
H.2.(a)(1) Pledge of Partnership Interests to BTCo.

(a) Pledge Agreements.
H.3.(a)(1) Pledge of Limited Partnership Interest to BTCo.
(b) Guarantees.
H.3.(b)(1) Guarantee by PCC to BTCo.

4. DJT Stock in Plaza Consulting Corp.
(a) Pledge Agreements.
H.4.(a)(1) Pledge of Stock to BTCo.

NEW YORK HOTEL

I. PLAZA HOTEL

1. DJT General Partnership Interest in Plaza Operating Partners.
(a) Pledge Agreements.
I.1.(a)(1) Pledge of General Partnership Interest to BTCo.

2. DJT Plaza Hotel Corp. ("PHC") Limited Partnership Interest in Partnership.
(a) Pledge Agreements.
I.2.(a)(1) Pledge of Limited Partnership Interest to STCo.

(b) 
Guarantees.
I.2.(b)(1) Guarantee by PEC to STCo.

3. Plaza Operating Partners ("POP") Excess Proceeds.

(a) 
Pledge Agreements.
I.3.(a)(1) Pledge of Excess Proceeds to STCo.

(b) 
Guarantees.
I.3.(b)(1) Guarantee by POP to STCo.

J. GRAND HYATT

1. DJT General Partnership Interest in Regency-Lexington Partners.

(a) 
Pledge Agreements.
J.1.(a)(1) Pledge of Proceeds of Partnership Interest to STCo.

2. The Trump Corporation ("Trump Corp.") Interest in Grand Hyatt Fee Agreement.

(a) 
Pledge Agreements.
J.2.(a)(1) Pledge of Fee Agreement to STCo.

AIRLINES AND YACHTS

K. THE TRUMP SHUTTLE

1. DJT Stock in The Trump Shuttle Inc.

(a) 
Pledge Agreements.
K.1.(a)(1) Pledge of Stock to STCo.

2. The Trump Shuttle Inc. ("TSI") Excess Proceeds.

-ix-
(a) Pledge Agreements.
K.2.(a)(1) Pledge of Excess Proceeds to BTCo.

(b) Guarantees.
K.2.(b)(1) Guarantee by TSI to BTCo.

L. 727 AIRPLANES

1. 727 Owned by DT Air Corp.
   (a) Mortgages.
       L.1.(a)(1) Aircraft Mortgage to BTCo.
   (b) Guarantees.
       L.1.(b)(1) Guarantee by DT Air Corp. to BTCo.

M. TRUMP PRINCESS

1. Trump Princess, Owned by Aliban, Inc.
   (a) Mortgages.
       M.1.(a)(1) Sixth Mortgage to BTCo.
   (b) Guarantees.
       M.1.(b)(1) Guarantee by Aliban, Inc. to BTCo.
   (c) Assignments.
       M.1.(c)(1) Charter Assignment re: Sixth Mortgage.
       M.1.(c)(2) Insurance Assignment re: Sixth Mortgage.

FAMILY BUSINESSES

W. PARK BRUT, SUNNYSIDE TOWERS, THE PAVILION, CLYDE HALL, INC.,
CORONET HALL, INC., HIGHLANDER HALL, INC. AND SAXONY HALL, INC.

1. DJT Partnership Interests and Stock in Partnerships and
Corporations Listed Below (equity where permitted, proceeds
otherwise)                     

-x-
Partnerships.

Park Briar Associates (General Partnership)
Midland Associates (General Partnership)
220 Prospect Street Co. (Limited Partnership)

Corporations.

Clyde Hall, Inc.
Coronet Hall, Inc.
Highlander Hall, Inc.
Saxony Hall, Inc.

(a) Pledge Agreements.

M.1.(a)(1) Pledge of Proceeds of each Partnership Interest and Stock of each Corporation to BTOCo.

MISCELLANEOUS

O. TENNIS LEASE

1. DJT Stock in Reg-Tru Equities, Ltd. ("Reg-Tru").

(a) Pledge Agreements.

O.1.(a)(1) Pledge of Stock to BTOCo.

P. ALEXANDER'S STOCK


(a) Pledge Agreements.

P.1.(a)(1) Pledge of Stock to BTOCo.

(b) Guarantees.

P.1.(b)(1) Guarantee by The Trump-Alexander's Company to BTOCo.

Q. ANY OTHER ASSETS (INCLUDING PROCEEDS OF PARTNERSHIP INTERESTS AND STOCK OF MISCELLANEOUS COMPANIES).
1. DJT Other Assets (including partnership interests in and stock of) Affiliates listed below.

(a) Pledge Agreements (equity where permitted, otherwise proceeds).

Q.1.(a)(1) Pledge to STCo.

(b) Affiliates.

Penn Yards Associates
Trump JFK Hotel Associates, L.P.
THTM Associates
DIT Trump Parking
St. Moritz Hotel Associates
Tipperary Realty Corp.
50-56 Central Park South Corp.
The Trump Plaza Corporation
Trump Palm Beaches Corporation
Aliban, Inc.
Amels U.S.A., Inc.
Trump West Realty Corp.
Football Generals Inc.
Moritz Realty Corp.
Parc Consulting, Inc.
Toys at Trump, Inc.
Trump Airlines Holding Corp.
Trump Aspen Properties, Inc.
Trump Australia, Inc.
Trump Baseball, Inc.
Trump Beverly Hills Hotel Corp.
Trump Boardwalk Realty Corp.
Trump Cash Call Co., Inc.
Trump City Corporation
Trump Columbus, Inc.
Trump Enterprises, Inc.
Trump Ice, Inc.
Trump International Marketing, Inc.
Trump JFK Hotel Development Corp.
Trump Nevada Inc.
Trump Organization, Inc.
Trump Payroll Corp.
Trump Princess Corp.
Trump Sports & Entertainment Co., Inc.
Trump Travel Agency, Inc.
Trump West Palm Beach Realty Corp.
2. DJT Affiliates' Assets (including partnership interests in and stock of) affiliates listed below.

(Necessary only if any affiliate owns assets or stock not otherwise being pledged.)

(a) Pledge Agreements (equity where permitted, otherwise proceeds.

Q.2.(a)(1) Pledge to BTCo.

R. PLEDGE OF INTERCOMPANY NOTES.

R.0.(0)(1) Intercompany Note and Certificate of Deposit Junior Pledge and Security Agreement Securing Obligations under Override Agreement
Schedule V
Special Guarantees Necessary to Support Special Collateral Agreements

CASINOS AND HOTELS

A. TRUMP TAJ MAHAL HOTEL AND CASINO

1. DJT General Partnership Interest in Trump Taj Mahal Associates Limited Partnership
(a) Pledge Agreements
   A.1.(a)(1) Pledge of General Partnership Interest to First Fidelity
   A.1.(a)(2) Pledge of Proceeds of Partnership Interest to First Fidelity

2. DJT Limited Partnership Interest in Trump Taj Mahal Associates Limited Partnership
(a) Pledge Agreements
   A.2.(a)(1) Pledge of Limited Partnership Interest to First Fidelity
   A.2.(a)(2) Pledge of Proceeds of Partnership Interest to First Fidelity

3. Trump Taj Mahal, Inc. ("TTMI") General Partnership Interest in Trump Taj Mahal Associates Limited Partnership
(a) Pledge Agreements
   A.3.(a)(1) Pledge of General Partnership Interest to First Fidelity
   A.3.(a)(2) Pledge of Proceeds of Partnership Interest to First Fidelity
(b) Guarantees
   A.3.(b)(1) Guarantee by TTMI to First Fidelity
4. **DJT Stock in Trump Taj Mahal, Inc.**
   
   (a) **Pledge Agreements.**
   
   A.4.(a)(1) Pledge of Stock to First Fidelity

5. **DJT Stock in Trump Hotel Management Corp. ("THMC").**
   
   (a) **Pledge Agreements.**
   
   A.5.(a)(1) Pledge of Stock to First Fidelity

6. **DJT Stock in Trump Taj Mahal Realty Corp. ("TTMRC").**
   
   (a) **Pledge Agreements.**
   
   A.6.(a)(1) Pledge of Stock to First Fidelity

7. **DJT $25,000,000 Note of Trump Taj Mahal Associates Limited Partnership.**
   
   (a) **Pledge Agreements.**
   
   A.7.(a)(1) Pledge of Note by DJT to BTCo.

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**B. TRUMP PLAZA HOTEL AND CASINO.**

1. **DJT General Partnership Interest in Trump Plaza Associates.**
   
   (a) **Pledge Agreements.**
   
   B.1.(a)(1) Pledge of General Partnership Interest to Nat West
   
   B.1.(a)(2) Pledge of Proceeds of Partnership Interest to Nat West

2. **Trump Boardwalk Realty Corporation ("TBRC") General Partnership Interest in Trump Plaza Associates.**
   
   (a) **Pledge Agreements.**
   
   B.2.(a)(1) Pledge of General Partnership Interest to Nat West
   
   B.2.(a)(2) Pledge of Proceeds of Partnership Interest to Nat West

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(b) **Guarantees.**

B.2.(b)(1) Guarantee by TBRC to Nat West

3. **DJT Stock in Trump Boardwalk Realty Corporation.**

(a) **Pledge Agreements.**

B.3.(a)(1) Pledge of Stock to Nat West

4. Seashore Four Associates ("Seashore Four") Fee Estate in Portion of Land Underlying Trump Plaza Hotel and Casino.

(a) **Mortgages.**

B.4.(a)(1) Mortgage and Security Agreement to First Fidelity

(b) **Assignments of Leases.**

B.4.(b)(1) Assignment of Leases and Rents to First Fidelity

5. **DJT General Partnership Interest in Seashore Four Associates.**

(a) **Pledge Agreements.**

B.5.(a)(1) Pledge of General Partnership Interest to First Fidelity

B.5.(a)(2) Pledge of Proceeds of Partnership Interest to First Fidelity

6. **Seashore Four Associates, Inc. ("SPAI") General Partnership Interest in Seashore Four Associates.**

(a) **Pledge Agreements.**

B.6.(a)(1) Pledge of General Partnership Interest to First Fidelity

B.6.(a)(2) Pledge of Proceeds of Partnership Interest to First Fidelity

(b) **Guarantees.**

B.6.(b)(1) Guarantee by TBRC to First Fidelity
7. DJT Stock in Trump Boardwalk Realty Corporation.
   (a) **Pledge Agreements.**
       B.7.(a)(1) Pledge of Stock to First Fidelity

C. **TRUMP'S CASTLE HOTEL AND CASINO.**

1. **DJT General Partnership Interest in Trump Castle Associates Limited Partnership.**
   (a) **Pledge Agreements.**
       C.1.(a)(1) Pledge of General Partnership Interest to Midlantic
       C.1.(a)(2) Pledge of Proceeds of Partnership Interest to Midlantic
   (b) **Guarantees.**
       C.1.(b)(1) Guarantee by DJT to Midlantic

2. **DJT Limited Partnership Interest in Trump Castle Associates Limited Partnership.**
   (a) **Pledge Agreements.**
       C.2.(a)(1) Pledge of Limited Partnership Interest to Midlantic
       C.2.(a)(2) Pledge of Proceeds of Partnership Interest to Midlantic
   (b) **Guarantees.**
       C.2.(b)(1) Guarantee by DJT to Midlantic

3. **Trump's Castle Hotel and Casino, Inc. ("TCHCI") General Partnership Interest in Trump's Castle Associates.**
   (a) **Pledge Agreements.**
       C.3.(a)(1) Pledge of General Partnership Interest to Midlantic
       C.3.(a)(2) Pledge of Proceeds of Partnership Interest to Midlantic
   (b) **Guarantees.**
       C.3.(b)(1) Guarantee by TCHCI to Midlantic
4. DJT Stock in Trump's Castle Hotel and Casino, Inc.
   (a) Pledge Agreements.
       C.4.(a)(1) Pledge of Stock to Midlantic
   (b) Guarantees.
       C.4.(b)(1) Guarantee by DJT to Midlantic

5. DJT Fee and Leasehold Estate in Penthouse Property.
   (a) Mortgages.
       C.5.(a)(1) Mortgage to Midlantic
   (b) Guarantees.
       C.5.(b)(1) Guarantee by DJT to Midlantic (recourse/non-recourse)
   (c) Assignments of Leases.
       C.5.(c)(1) Assignment of Leases

6. DJT's Rights Under Contract re Penthouse Property
   (a) Pledge Agreements.
       C.6.(a)(1) Pledge of Rights to Midlantic

D. TRUMP REGENCY HOTEL.

1. DJT Limited Partnership Interest in Trump Crystal Tower Associates Limited Partnership ("TCTALP").
   (a) Pledge Agreements.
       D.1.(a)(1) Pledge of Limited Partnership Interest to MHT

2. DJT Acquisition Corp. ("DJTAC") General Partnership Interest in Trump Crystal Tower Associates Limited Partnership.
   (a) Pledge Agreements.
       D.2.(a)(1) Pledge of General Partnership Interest to MHT
   (b) Guarantees.
       D.2.(b)(1) Guarantee by DJTAC to MHT
3. DJT Stock in DJT Acquisition Corp.
   (a) Pledge Agreements.

   D.3.(a)(1) Pledge of Stock to MRT

*NEW YORK BUILDINGS*

2. TRUMP TOWER

1. The Trump-Equitable Fifth Avenue Company ("Trump-Equitable")
   Commercial Fee and Leasehold Interests in Trump Tower.
   (a) Mortgages.

   E.1.(a)(1) Collateral Mortgage to Chase re $9,000,000
            Penn Yards tax payment loan
   E.1.(a)(2) Mortgage to Chase re $18,700,000 personal
              loan
   E.1.(a)(3) Collateral Mortgage Agreement to Chase for
              $36,000,000
   E.1.(a)(4) Forbearance Agreement and Note Modification
              Agreement

   (b) Guarantees.

   E.1.(b)(1) Guarantee by DJT to Chase re $9,000,000 Penn
              Yards tax payment loan
   E.1.(b)(2) Guarantee to Chase re $18,700,000 personal
              loan

F. TRUMP PARC

1. Park South Associates ("PSA") Commercial and Residential
   Condominium Units In Trump Parc.
   (a) Mortgages.

   F.1.(a)(1) Mortgage to Trump Palace lenders securing
            joint and several obligation of PSA (non-
            recourse) as co-maker of Trump Palace notes
            to the extent of $40,000,000 interest reserve
2. DJT General and Limited Partnership Interest in Park South Associates ("PSA")
   
   (a) **Pledge Agreements.**
       
   See G.2

3. B. Plaza Realty Corp. ("BPRC") Limited Partnership Interest in Park South Associates.

   See G.3

4. DJT Stock in B. Plaza Realty Corp.

   See G.4

G. 100 CENTRAL PARK SOUTH

1. **Park South Associates Fee Estate in 100 Central Park South.**

   (a) **Mortgage.**
       
   G.1.(a)(1) Mortgage by Park South Associates to MET of 100 Central Park South securing joint and several obligation of PSA on debt facilities of Trump Plaza (East 61st Street) to the extent of $20,000,000

   (b) **Assignment of Leases.**
       
   G.1.(b)(1) Assignment of Leases by Park South Associates to MET

2. DJT General and Limited Partnership Interest in Park South Associates ("PSA")

   (a) **Pledge Agreements.**
       
   G.2.(a)(1) Pledge of Partnership Interest to MET

3. B. Plaza Realty Corp. ("BPRC") Limited Partnership Interest in Park South Associates.

   (a) **Pledge Agreements.**
       
   G.3.(a)(1) Pledge of Limited Partnership Interest to MET
4. DJT Stock in B. Plaza Realty Corp.

G.4.(0)(1) Pledge of Stock to KMT

II. TRUMP PLAZA (EAST 61ST. STREET).

1. The Trump Corporation Leasehold Estate
   Under Master Lease From Trump Plaza Owner's Inc.
   (a) Mortgage.
   H.1.(a)(1) Leasehold Mortgage by The Trump Corporation to KMT of leasehold estate under Master Lease
   (b) Assignment.
   H.1.(b)(1) Assignment of Lease by The Trump Corporation to KMT

2. DJT Stock in The Trump Corporation.
   (a) Pledge Agreements.
   H.2.(a)(1) Pledge of Stock to KMT (with respect to Trump Plaza only)

3. The East 61 St. Company ("East 61 St.")
   Unsold Shares for 6 Residential Units.
   (a) Pledge Agreements.
   H.3.(a)(1) Pledge of Shares to KMT
   (b) Assignments of Lessor's Interest Under Master Proprietary Lease for the Unsold Shares.
   H.3.(b)(1) Assignment of Lease to KMT
   (c) Guarantee.
   H.3.(c)(1) Guarantee by East 61 St. to KMT

4. DJT General and Limited Partnership Interests in
   The East 61 St. Company.
   (a) Pledge Agreements.
   H.4.(a)(1) Pledge of Partnership Interests to KMT
5. Plaza Consulting Corp. ("PCC")
(a) Pledge Agreements.
H.5.(a)(1) Pledge of Partnership Interests to MHT
(b) Guarantees.
H.5.(b)(1) Guarantee by PCC to MHT

6. DJT Stock in Plaza Consulting Corp.
(a) Pledge Agreements.
H.6.(a)(1) Pledge of Stock to MHT

7. Cooperative Cooperation Note and Mortgage.
See Documents listed under "MHT East 61st Street Loan" on Schedule III items 1-3.

NEW YORK HOTELS

I. PLAZA HOTEL

1. DJT General Partnership Interest in Plaza Operating Partners.
(a) Pledge Agreements.
I.1.(a)(1) Pledge of General Partnership Interest to Shuttle junior lenders

2. DJT Plaza Hotel Corp. ("PHC") Limited Partnership Interest in Partnership.
(a) Pledge Agreements.
I.2.(a)(1) Pledge of Limited Partnership Interest to Shuttle junior lenders
(b) Guarantees.
I.2.(b)(1) Guarantee by PHC to Shuttle junior lenders
3. Plaza Operating Partners ("POP") Excess Proceeds.
   (a) Pledge Agreements.
       J.3.(a)(1) Pledge of Excess Proceeds to Shuttle junior lenders
   (b) Guarantees.
       J.3.(b)(1) Guarantee by POP to Shuttle junior lenders

J. GRAND HYATT

1. DJT General Partnership Interest in Regency-Lexington Partners.
   (a) Pledge Agreements.
       J.1.(a)(1) Pledge of Proceeds of Partnership interest to BTCo.

2. The Trump Corporation ("Trump Corp.") Interest in Grand Hyatt Fee Agreement.
   (a) Pledge Agreements.
       J.2.(a)(1) Pledge of Fee Agreement to BTCo.

K. TRUMP SHUTTLE

X. THE TRUMP SHUTTLE

1. The Trump Shuttle Inc. ("TSI") Assets of The Trump Shuttle.
   (a) Lien Agreements.
       K.1.(a)(1) Second Chattel Mortgage and Security Agreement to Citibank-- swap and mastercard
       K.1.(a)(2) Pledge of Assets to Citibank-- swap and mastercard

2. DJT Stock in The Trump Shuttle Inc.
   (a) Pledge Agreements.
       K.2.(a)(1) Pledge of Stock to Plaza recourse lenders
3. **The Trump Shuttle Inc. ("TSI") Excess Proceeds**

(a) **Pledge Agreements.**
   
   K.3.(a)(1) Pledge of Excess Proceeds to Plaza recourse lenders  
   
   K.3.(a)(2) Pledge of Excess Proceeds to Shuttle recourse lenders  

(b) **Guarantees.**
   
   K.3.(b)(1) Guarantee by TSI to Plaza recourse lenders  
   
   K.3.(b)(2) Guarantee by TSI to Shuttle recourse lenders  

**MISCELLANEOUS ASSETS**

L. **TENNIS LEASE**

1. **DTT Stock in Reg-Tru Equities, Ltd. ("Reg-Tru").**

   (a) **Pledge Agreements.**
   
   L.1.(a)(1) Pledge of Stock to NRT  

M. **ALEXANDER'S STOCK**

1. **The Trump-Alexander's Company Shares of Alexander's Stock.**

   (a) **Pledge Agreements.**
   
   M.1.(a)(1) Pledge of Stock to Citibank  

N. **TRUMP PRINCESS**

1. **Trump Princess, Owned by Aliban, Inc.**

   (a) **Mortgages.**
   
   N.1.(a)(1) Second Mortgage to Boston Safe  
   
   N.1.(a)(2) Fourth Mortgage to Boston Safe (re Mar-A-Lago)
(b) Other.

N.1.(b)(1) Charter Assignment re: Second Mortgage
N.1.(b)(2) Charter Assignment re: Fourth Mortgage
N.1.(b)(3) Insurance Assignment re: Second Mortgage
N.1.(b)(4) Insurance Assignment re: Fourth Mortgage
Schedule VI

Concurrent Debt Obligations

Midlantic
- Midlantic Letters of Credit (to extent that DJT signed as account party)
- Midlantic Castle Working Capital Loan (to extent of $6.5 million guaranty) (Item 2)

First Fidelity
- DJT and TRUMP HOTEL MANAGEMENT CORP. Guaranty of First Fidelity Taj Term Loan (Item 2)

Boston Safe
- DJT Guaranty of Princess Loan
- Guaranty of ALIBAN dated as of August 8, 1990 of Princess $10 million Loan and Mar-a-Lago Loan

Chase
- Penn Yards Loan
- Guaranty of Payment made by DJT, dated as of June 29, 1988 (Item 19)
- Indemnity Agreement (Hazardous Waste) made by Penn Yards and DJT, dated June 29, 1988 (Item 20)
- $9,000,000 Penn Yards Loan
- Guaranty of Payment from DJT dated as of August 8, 1990 (Item 2)
- Indemnity Agreement from DJT and Trump Equitable dated as of August 8, 1990 (Item 4)
- Chase DJT Loan
- Indemnity Agreement by DJT and Trump Equitable to Chase, dated as of August 8, 1990 (Item 4)

Bankers Trust
- None

Marine Midland
- Palm Beach Credit Facility
- Items 5, 6, 7 and 8 set forth under the caption "Palm Beach Credit Facility" on Schedule III hereto
MHT
- MHT Regency Loan
  - Guaranty (Item 4)
- MHT Hyatt Loan
  - None
- MHT CPS Loan
  - None
- MHT CPS Mortgage Loan
  - None
- MHT East 61 St. Loan
  - None

NatWest
- None

Citibank
- Plaza Junior
  - Hotel Corp. Guaranty (Item 7)
- Alexander's Loan
  - Guaranty by DJT thereof
- Trump Palace Loan
  - Guaranty by DJT to extent of Interest Reserve

- 2 -
### Schedule VII

**Deferred Principal Obligations with Regular Maturity Dates of June 30, 1993**

<table>
<thead>
<tr>
<th>Bankers Trust</th>
<th>None</th>
</tr>
</thead>
<tbody>
<tr>
<td>NatWest</td>
<td>None</td>
</tr>
<tr>
<td>Chase</td>
<td>None</td>
</tr>
<tr>
<td>Midlantic</td>
<td>Midlantic Term Loan</td>
</tr>
<tr>
<td>First Fidelity</td>
<td>None</td>
</tr>
<tr>
<td>Boston Safe</td>
<td>None</td>
</tr>
<tr>
<td>Marine Midland</td>
<td>None</td>
</tr>
<tr>
<td>MHT</td>
<td>None</td>
</tr>
<tr>
<td>Citibank</td>
<td>Trump Palace Loan</td>
</tr>
</tbody>
</table>
Schedule VIII

Subject to the terms and conditions of this Agreement, including, without limitation, the specific Sections referred to below, this Schedule VIII sets forth the order of priority of distribution of Special Net Cash Proceeds in respect of Capital Events relating to the respective assets set forth below, regardless of whether such Capital Event arises in respect of Equity Interests (or proceeds thereof or rights therein, including, without limitation, distributions therefrom) in, or assets of, any such respective assets. Any reference to any Intercompany Note set forth below shall be deemed to refer to the Intercompany Note of such entity. Unless otherwise specified below, all references to Indebtedness below shall be deemed to refer to all then outstanding obligations in respect thereof and any Special Net Cash Proceeds shall be applied first to the prepayment of principal, next to the prepayment of interest and then to the prepayment of any remaining obligations. Subject to Section 3.8, any amounts required to be distributed pursuant to this Schedule VIII shall be so distributed regardless of whether the applicable Indebtedness is then otherwise due and payable.

Tai Mahal

First Fidelity Taj Term Loan (subject to Section 3.2(a)(ii))

First $10 million principal amount of DJT Tai Note (plus accrued interest thereon)

BT Loans

Castle

Midlantic Castle Working Capital Loan (subject to Section 3.2(a)(ii))

Plaza Casino

NatWest Letters of Credit and NatWest Notes (without duplication) (subject to Section 3.2(a)(ii))

Regency - Lexington Partners and Agreement made September 23, 1981 between Hyatt Corporation, Regency-Lexington Partners and The Trump Corporation, as amended from time to time, together with all related agreements, documents and other instruments.
MHT Hyatt Loan - Principal Obligations
BT Loans - Principal Obligations
MHT Hyatt Loan - Interest Obligations
BT Loans - Interest Obligations
MHT Hyatt Loan - Remaining Obligations
BT Loans - Remaining Obligations
MHT Non-Hyatt Loans

Trump Tower
$9,000,000 Penn Yards Loan
Chase DJT Loan
Penn Yards Guaranty
Intercompany Notes

Plaza Hotel
Plaza Junior Principal Obligations
Shuttle Junior Principal Obligations
Plaza Junior Interest Obligations
Plaza Junior Remaining Obligations
Intercompany Notes
Shuttle Junior Interest Obligations
Shuttle Junior Remaining Obligations

Trump Parc 5"A" Line units, garage, laundry room and commercial space (all as specified in the applicable Special Collateral Agreement)

Trump Palace Loan - Interest Reserve (not including any interest thereon or other obligations in respect thereof)
Alexander's Loan

Trump Palace

Trump Palace Loan (proceeds applied in accordance with applicable Existing Agreement Amendment as in effect on the date hereof)

Princess - subject to Section 3.2(a)(ii)

Princess Loan

Princess $10 million Loan

New Credit Facility (up to $9 million)

Intercompany Note (up to $5 million plus accrued interest)

Mar-a-Lago Loan - to extent set forth in Section 3.2(a)(ii)

New Credit Facility (pursuant to Section 3.2(a)(iii))

Shuttle

Master-Visa Card Agreement pari passu with CB Interest Rate Swap

CB Interest Rate Swap pari passu with Visa/Mastercard

Intercompany Notes

Shuttle Junior - Principal Obligations

Plaza Junior - Principal Obligations

Shuttle Junior - Interest Obligations

Shuttle Junior Remaining Obligations

Plaza Junior - Interest Obligations

Plaza Junior Remaining Obligations
East 61st Apartments and Commercial Space
MHT CPS Loan
MHT East 61st Loan
MHT Hyatt Loan

Regency Lease
MHT Regency Loan Guaranty - to extent Covered Debt

Seashore Four Associates
Reimbursement Obligation of Seashore Four Associates to First Fidelity Bank, N.A., New Jersey, as defined and set forth in Letter of Credit No. N-300872, as amended by Amendment to Application to Standby Letter of Credit and Standby Letter of Credit Agreement for LC No. N-300872.

First Fidelity Letter of Credit listed as #1 on Schedule III under First Fidelity Letters of Credit.

Agreement of Sale, dated March 18, 1989 between Boardwalk Properties, Inc. and Donald J. Trump, as amended, together with all related documents, instruments and agreements (the "Penthouse Contract")

Midlantic Term Loan

"Property" (as set forth in the Penthouse Contract)

$7 million Midlantic DJT Loan
Midlantic Castle Working Capital Loan

100 Central Park South
MHT CPS Mortgage Loan
MHT CPS Loan
MHT East 61st Loan
MHT Hyatt Loan

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### Schedule IX

**Deferred Principal Obligations with Currently Payable Interest**

<table>
<thead>
<tr>
<th>Bank</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>NatWest</td>
<td>None</td>
</tr>
<tr>
<td>Chase</td>
<td>None</td>
</tr>
<tr>
<td>Midlantic</td>
<td>Midlantic Castle Working Capital Loan</td>
</tr>
<tr>
<td>First Fidelity</td>
<td>None</td>
</tr>
<tr>
<td>Bankers Trust</td>
<td>None</td>
</tr>
<tr>
<td>Boston Safe</td>
<td>Mar-a-Lago Loan</td>
</tr>
<tr>
<td>Marine Midland</td>
<td>Palm Beach Credit Facility</td>
</tr>
<tr>
<td>MHT</td>
<td>MHT CPS Mortgage Loan</td>
</tr>
<tr>
<td></td>
<td>MHT Regency Loan (to the extent set forth in Section 4.1(b))</td>
</tr>
</tbody>
</table>
### Schedule X

**Deferred Project Interest Obligations**

<table>
<thead>
<tr>
<th>Bank</th>
<th>Loan Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chase</td>
<td>Penn Yards Loan (to extent not Covered Debt)</td>
</tr>
<tr>
<td>Midlantic</td>
<td>Midlantic Castle Working Capital Loan (to extent not Covered Debt)</td>
</tr>
<tr>
<td>Citibank</td>
<td>Trump Palace Loan (but not any guaranty of underlying obligations)</td>
</tr>
<tr>
<td>MHT</td>
<td>MHT Regency Loan (interest accrued in excess of Guaranty coverage)</td>
</tr>
<tr>
<td>Boston Safe</td>
<td>Princess Loan (to extent not covered by DJT Guaranty of Princess Loan)</td>
</tr>
</tbody>
</table>
### Schedule XI

**Deferred Interest Obligations with Regular Payment Date of June 30, 1993**

<table>
<thead>
<tr>
<th>Bank</th>
<th>Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Midlantic</td>
<td>Midlantic Term Loan</td>
</tr>
<tr>
<td>Citibank</td>
<td>Trump Palace Loan</td>
</tr>
</tbody>
</table>
Schedule XII
Claimholders

Lenders Party to:

Plaza Junior
Shuttle Junior
MHT Regency Loan
MHT Hyatt Loan
MHT CPS Loan
MHT CPS Mortgage Loan
First Fidelity Taj Term Loan (but only to extent set forth in Section 3.1(d)(iv)).
The Honorable Henry B. Gonzalez  
Chairman  
Committee on Banking, Finance and  
Urban Affairs  
House of Representatives  
Washington, D.C. 20515

Dear Mr. Chairman:

I am responding to your letter of August 23 in which you asked a number of follow-up questions to my testimony before the House Committee on Banking, Finance and Urban Affairs on August 9, 1990.

The answers to your questions are presented in the enclosure. Please let me know if I can be of further assistance.

Sincerely,

John P. LaWare

Enclosure
1. **Please explain the entire regulatory structure for such entities, including chartering, regulation and examination.**

**Answer**

Prior to the passage of the International Banking Act of 1978 (IBA), the U.S. operations of foreign banks conducted through branches and agencies had been governed by state banking laws and supervised by state banking authorities. The IBA established a framework for federal participation in the supervision of the U.S. operations of foreign banks.

The IBA gave foreign banks the option of a federal license for their branches and agencies. Currently, in addition to the OCC, eleven states have licensed branches or agencies to operate within their state. Criteria for licensing of a foreign bank branch or agency varies among the states and between the states and the OCC.

Under the IBA, foreign bank branches that accept deposits of less than $100,000 are required to obtain deposit insurance from the FDIC. The IBA gave the Federal Reserve broad authority to supervise and regulate foreign banks that engage in banking in the United States. Therefore, all three federal banking agencies are involved in some way with the supervision and regulation of the U.S. branches and agencies of foreign banks. On June 20, 1979, the federal bank regulatory agencies adopted a supervisory policy statement through the Federal Financial Institutions Examination Council (FFIEC). The regulatory agencies stated that their supervisory interests were directed towards ensuring that the operations of branches and agencies are conducted in a safe and sound manner and serve the needs of the borrowers, depositors and other creditors in the United States and that the branches and agencies of foreign banks adhere to U.S. laws and regulations.

The regulatory authority primarily responsible for the supervision and examination of individual branches and agencies is the licensing agency, whether state or federal (OCC), or the FDIC if retail deposits are accepted. The Federal Reserve is involved, to varying degrees, in the examinations conducted by the various states.

Shortly after passage of the IBA, the federal bank regulatory agencies, together with many of the state supervisory agencies, developed a uniform Report of Examination for Branches and Agencies of Foreign Banks (FFIEC 005). This report was approved by the FFIEC in 1979 and recommended for use by the state banking authorities. This report was substantially revised in 1984 and is currently undergoing less extensive revisions.
The federal banking regulatory agencies also developed a uniform Report of Condition (FFIEC 002) that is required to be completed on a quarterly basis by each branch and agency. This report is similar to the one prepared by all insured banks and provides information needed to monitor the condition of the U.S. branches and agencies of foreign banks. This report became effective as of June 30, 1980 and has undergone minor revisions in subsequent years.

In addition to the quarterly Report of Condition, branches and agencies must also file the Country Exposure Report for U.S. Branches and Agencies of Foreign Banks (FFIEC 019). This report is filed on a quarterly basis by branches and agencies that have total claims on foreign residents in excess of $30 million. The report provides information on exposure to the home country and the next five countries for which exposure is the largest (and in excess of $5 million). This report was implemented in 1987.
2. What is Federal Reserve's role regarding the U.S. branches and agencies of foreign banks?

Answer

The Federal Reserve has no licensing authority with regard to branches and agencies of foreign banks. The IBA gave the Federal Reserve authorization to act as the residual examining agency in order to ensure a national overview of multi-state activities of foreign banks. The Board, as the residual examining authority, is responsible for reviewing the operations of all branches and agencies. In keeping with the requirement of the IBA, the Board is relying, to the maximum extent possible, upon examinations that are conducted by the primary federal or state banking authority, although it is sharing examination responsibilities in several states. The Federal Reserve has, however, begun to assert its residual examination authority in certain cases, especially when individual states are having problems meeting their examination schedules, when the Federal Reserve has concerns about the adequacy of the state examinations or when extraordinary problems exist. The Board has requested that all federal and state chartered branches and agencies be examined once during every eighteen months and this schedule is, for the most part, being followed.

Each of the nine Federal Reserve Banks with foreign bank branches and agencies in their districts have developed ongoing relationships with the states licensing these institutions. With regard to examinations, various coordinated efforts exist. For example, the Federal Reserve Bank of San Francisco examines the branches and agencies of foreign banks located in California on an alternate year basis with the State of California. They examine branches and agencies in Oregon and Hawaii on a joint basis with these two States and take a very active role in these examinations. Lastly, the San Francisco Fed has a very limited presence during the examinations of foreign bank branches and agencies in the State of Washington.

Over the past ten years, the relationships between the states and the various Federal Reserve Banks have evolved as the states have gained more expertise and have increased their staffs devoted to the examinations of foreign bank branches and agencies. During 1989, 295 branches and agencies were examined of which the Federal Reserve participated, to some extent, in 169 (or 57%). The Federal Reserve is least involved with the examinations of branches and agencies in the State of New York. The New York State Banking Department had a long history of examining branches and agencies of foreign banks prior to the passage of the International Banking Act and the large expansion of foreign banks into other states during the early 1980's. The State
of New York, therefore, has not requested Federal Reserve involvement in the examination process as highlighted by the fact that the Federal Reserve Bank of New York only participated in ten of the 113 examinations of branches and agencies conducted by the State of New York during 1989.

While the U.S. banking regulatory agencies have developed a supervisory program to review the U.S. operations of foreign banks, the ultimate responsibility for those operations resides in the head office, located outside the United States. The Board felt it necessary to be able to assure itself about the consolidated condition of the foreign parent bank; therefore, the Board imposed annual reporting requirements for all foreign banks that engage in banking in the United States. These reports (FR Y-7 and FR 2068) were first implemented in 1981 and cover the financial condition of the foreign bank as well as provide information on their direct and indirect U.S. activities. It is felt that these reports assist the Board in analyzing the parent organization's ability to act as a source of strength to its U.S. branches and agencies.

In addition to the various reporting requirements and participation in examinations, the Federal Reserve has taken an active role in meeting with both branch and agency management in the United States and parent bank management in the home country.

The various Reserve Banks have developed schedules for meeting with branch and agency management on a regular (usually annual) basis in order to discuss topics of interest and concern. Board staff has called on the parent bank management of many of the largest foreign banks with significant U.S. operations in order to gain insight into the operations and financial condition of the parent organization and to learn of their business plans for their U.S. branches and agencies.
3. Regarding the regulation and examination of these entities, please explain the coordination that occurs between the Federal Reserve, the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), and the state bank regulatory agencies.

Answer

The federal and state banking agencies coordinate the regulation and examination of branches and agencies of foreign banks through various formal and informal channels. The Federal Financial Institutions Examination Council (FFIEC) provides an avenue for formal coordination between the Federal Reserve, the OCC and the FDIC as regards development and initiation of required quarterly data reports and reports of examination. The three federal agencies also work with the Conference of State Bank Supervisors. The various Federal Reserve Banks have close working relationships with the state supervisory agencies within their respective districts and it is at the Reserve Bank level that such matters as examination coordination are handled.

On several occasions, the federal and state banking authorities have had to work closely on supervisory matters related to problem offices and the implementation of formal enforcement actions. These exceptional cases have demonstrated the ability of the various regulatory agencies to provide coordinated comprehensive and forceful supervision of problem branches and agencies.
4. Please provide financial information on the U.S. branches and agencies of foreign banks including aggregate balance sheet and income statement data, number of branches and agencies and their total employees. Please distinguish between state-chartered and federally-chartered.

U.S. BRANCHES AND AGENCIES OF FOREIGN BANKS

Aggregate Balance Sheet data as of June 30, 1990, dollar amounts in millions.

<table>
<thead>
<tr>
<th></th>
<th>FEDERALLY LICENSED</th>
<th>STATE LICENSED</th>
<th>TOTAL COMBINED</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total assets</strong></td>
<td>$33,296</td>
<td>$541,642</td>
<td>$574,938</td>
</tr>
<tr>
<td><strong>Total loans</strong> (net of unearned income)</td>
<td>$13,119</td>
<td>$254,313</td>
<td>$267,432</td>
</tr>
<tr>
<td><strong>Total deposits and credit balances</strong></td>
<td>$14,926</td>
<td>$229,859</td>
<td>$244,785</td>
</tr>
<tr>
<td><strong>Total liabilities to non-related parties</strong></td>
<td>$29,340</td>
<td>$480,223</td>
<td>$509,563</td>
</tr>
</tbody>
</table>

_1 _ Data collected from one federally licensed agency and seventy-one federally licensed branches.

_2 _ Data collected from 189 state licensed agencies and 270 state licensed branches.

_3 _ Includes fifty-five FDIC insured, federal or state licensed branches.

FDIC insured branches comprise 1.5% of aggregate total liabilities to non-related parties.

Note: Financial information collected from the Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (FFIEC002). Balances of International Banking Facilities (IBFs) are included. Information regarding total employees, and income derived from foreign bank's U.S. branch and agency operations is not readily available.
5. How many of these entities are insured by FDIC? What percentage of the aggregate liabilities of these entities are insured by the FDIC?

Answer

There are 55 FDIC insured Federal or State licensed branches which comprise 1.5% of the aggregate total liabilities of all branches and agencies to non-related parties.
6. How often are these entities examined by the Federal Reserve? How many examiners does the Federal Reserve have specifically dedicated to examining these entities? Please differentiate between state-chartered versus federally-chartered branches and agencies.

Answer

As previously discussed, the Federal Reserve is not the primary examining authority for any of the branches or agencies of foreign banks. Therefore, it is difficult to provide any uniform data on the involvement of the Federal Reserve in examinations as it varies significantly from state to state. It can be said that the Federal Reserve has virtually no participation in the examinations of federally-licensed or FDIC insured branches and agencies. Most branches and agencies are examined on an eighteen month cycle and the Federal Reserve reviews all of the reports derived from these examinations whether or not the Federal Reserve participated.

It is also difficult to provide information on the number of Federal Reserve examiners involved in examining branches and agencies of foreign banks. In most cases, Reserve Bank examiners not only examine branches and agencies but are also actively involved in the examination of international activities of U.S. banks and bank holding companies and Edge Corporations.
7. Please explain the enforcement authority of the Federal Reserve as it pertains to the U.S. branches and agencies of foreign banks.

The Federal Deposit Insurance Act ("FDI Act"), as amended by the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA"), designates the "appropriate Federal banking agency" to which enforcement authority is given for the various offices of foreign banks in the United States. The Federal Reserve is the agency designated with enforcement authority over foreign banks without an insured branch, and state-chartered agencies and commercial lending companies (12 USC 1818(q)(2)). The Office of the Comptroller of the Currency is the Federal banking agency for federal branches and agencies of foreign banks (12 USC 1818(q)(1)). The Federal Deposit Insurance Corporation is the designated agency for foreign banks with an insured branch (12 USC 1818(q)(3)). The Federal Reserve also has special enforcement authority over any branch or agency with respect to any provision of the Federal Reserve Act which is made applicable under the International Banking Act of 1978 (12 USC 1818(q)(2)(B)).

The federal bank regulatory agencies now have statutory authority with respect to U.S. branches and agencies of foreign banks to pursue the full range of enforcement remedies provided in the FDI Act. These remedies include: cease-and-desist orders; temporary cease-and-desist orders; suspension and removal authority over directors, officers, employees, agents and other persons participating in the affairs of the branch or agency; civil money penalties; and criminal penalties. (12 USC 1813(a)(1), (c)(3); 1818(b)-(j)).

The Federal Reserve Board is also given the authority to pursue these remedies against a foreign bank as if it were a bank holding company and against any of the foreign bank's nonbank subsidiaries (18 USC 1818(b)(4)). The exceptions to this authority over foreign banks are that the Federal Reserve does not have suspension and removal authority over, nor can criminal penalties be imposed on, persons affiliated only with the foreign bank and not its U.S. branches and agencies.
8. These questions concern Banca Nazionale del Lavoro (BNL).

A. How often did the Federal Reserve Examine the U.S. operations of BNL over the past five years?

Answer

Banca Nazionale del Lavoro (BNL) has branches in New York and Chicago and agencies in Miami, Atlanta, and Los Angeles. As required under the International Banking Act, the Federal Reserve accepts the on-site examinations conducted by the licensing authorities which, in the case of BNL, are the States of New York, Florida, Illinois, Georgia and California. Federal Reserve believes that branches and agencies of the foreign banks should be examined at least every 18 months. In some states, such as California, the Federal Reserve conducts alternate year examinations on a twelve month cycle. In Florida, the Federal Reserve Bank of Atlanta conducts yearly examinations of the Florida agencies. In New York, Illinois and Georgia, the State Bank Supervisory Authorities conduct the examinations. In summary, the states conducted 17 examinations of BNL from 1985 through 1990 while the Federal Reserve conducted 6 examinations directly. Each office of BNL was examined within the eighteen month guideline and most were examined yearly.

B. On what date was the Federal Reserve notified of the BNL scandal?

Answer

The Federal Reserve was notified of possible irregularities at the Atlanta Branch on July 28, 1989.

C. What was the Federal Reserve's role in the BNL investigation?

Answer

On August 4, 1989, the Federal Reserve began an examination of BNL Atlanta. The Federal Bureau of Investigation entered the bank simultaneously with Federal bank examiners to obtain and secure any and all files relating to the suspected unreported activities. The Reserve Bank provided the FBI with assistance in identifying the records associated with the unreported activities.

The Reserve Banks of Atlanta, Chicago, New York and San Francisco conducted simultaneous examinations on all other U.S. offices of BNL. These examinations were intended to focus on whether any other unreported transactions were evident in these offices and to conduct a regular examination of all activities to review asset quality and to
determine whether adequate internal controls were in place. All suspicious activities that were identified, which were confined to the Atlanta agency, were referred to appropriate agencies such as Customs, Internal Revenue Service, Department of Defense, Export-Import Bank and Commodity Credit Corporation, to determine whether these activities complied fully with all pertinent laws, rules and regulations.

The Federal Reserve Bank of Atlanta has detailed an examiner to the U.S. Attorney's Office on a full time basis to assist in analyzing documents, conducting witness interviews and preparing possible indictments. Staff of both the Federal Reserve Bank of Atlanta and the Federal Reserve Board continue to remain in close communication with the U.S. Attorney's Office in order to provide any requested support.
9. Do the U.S. branches and agencies of foreign banks have access to the discount window? Please explain.

U.S. branches and agencies of foreign banks were provided access to the Federal Reserve's credit facilities when Congress enacted the International Banking Act of 1978 (the "IBA"). One of the purposes of the IBA was to provide for competitive equality between domestic and foreign banking organizations within the United States. The legislation adopted a principle of national treatment -- or parity of treatment for domestic and foreign banking institutions in similar circumstances. In accordance with this principle, the IBA amended the Federal Reserve Act to provide access to the discount window to U.S. branches and agencies of foreign banks that maintain reserves in the United States (12 USC 347d).

All U.S. branches of foreign banks are subject to reserve requirements to the same extent as U.S. banks (12 USC 461). In addition, any U.S. agency of a foreign bank with more than one billion dollars in worldwide assets (or any foreign bank whose parent has more than one billion dollars in worldwide assets) is subject to federal reserve requirements (12 USC 3105(a)). Thus, all U.S. branches of foreign banks and all U.S. agencies of foreign banking organizations with more than one billion in worldwide assets are subject to federal reserve requirements and therefore have access to the discount window.

Under the Federal Reserve Act, as amended by the IBA, Reserve Banks are authorized to discount paper endorsed by, and make advances to, U.S. branches and eligible agencies of foreign banks in the same manner and to the same extent that they may exercise such powers with respect to member banks. The Reserve Banks are, however, mandated to consider the account balances that the branch or agency maintains with the Reserve Bank. Such account balances include, but are not necessarily limited to, reserves maintained to satisfy reserve requirements. The Reserve Banks are also required to consider the portion of the branch's or agency's assets held in satisfaction of reserve requirements.

The Federal Reserve Act, as amended by the IBA, also subjects discount window lending to U.S. branches and agencies of foreign banks to any restrictions and limitations imposed by the Board. The Board has not imposed any specific limitations upon lending to branches and agencies. The Board has, however, imposed certain general conditions upon lending availability and terms for all borrowers. For example, the Board limits the availability of short-term adjustment credit to circumstances in which reasonable alternative sources of funds have been fully used (12 CFR 201.3(a)). Similarly, the Board limits the availability of other extensions of credit, such as lending to ease financial strains on a particular depository institution, to cases in which similar assistance is not reasonably available from other sources (12 CFR 201.3(b)(2)).
10. Are all U.S. branches and agencies of foreign banks not subject to criminal penalties such as bank fraud, embezzlement, false bank entries, misapplication of funds, and bribery as enumerated under Title 18 of the U.S. Code? Please explain.

The criminal code, Title 18 of the U.S. Code, defines "financial institution" to include insured U.S. branches of foreign banks (18 USC 20). U.S. branches of foreign banks that are not insured, as well U.S. agencies of foreign banks, are not included within the definition of "financial institution." Thus, to the extent that any provision of the code applies to financial institutions, insured U.S. branches of foreign banks are subject to criminal penalties but agencies and uninsured branches are not. The provisions of the criminal code that apply to financial institutions, and their officers, employees, directors and agents, include the provisions on bribery (18 USC 212, 213 and 215).

Other provisions of the criminal code, including the provisions on bank fraud (18 USC 1344), false entries (18 USC 1005), and embezzlement and misapplication of funds (18 USC 656), do not specify financial institutions as one of the types of institutions to which they apply but otherwise enumerate the list of institutions to which they apply. Although it is not entirely clear, it appears that the provisions on bank fraud apply to insured branches of foreign banks and federally-chartered branches and agencies of foreign banks. The bank fraud provisions do not apply to state-chartered agencies or uninsured, state-chartered branches. The provisions on false bank entries and embezzlement, which are also not entirely clear, appear to apply to insured branches of foreign banks. The provisions do not apply to agencies or uninsured branches of foreign banks.
11. Please explain the amendments your General Counsel drafted to ensure the U.S. branches and agencies are subject to the criminal penalties such as bank fraud, embezzlement, false bank entries, misapplication of funds, and bribery as enumerated under Title 18 of the U.S. Code?

The revisions to the criminal code were drafted in response to a request by the U.S. Attorney that the Federal Reserve prepare amendments to ensure that branches and agencies of foreign banks are subject to the same criminal sanctions as are U.S. financial institutions. The provisions of the code relating to crimes by banks, savings and loan associations and other financial institutions or by employees or examiners of these entities have developed on an ad hoc basis over time and there is little consistency in the usage of terms between provisions. Consequently, there are some inconsistencies in the coverage of financial institutions by the criminal code.

The draft amendments attempt to subject U.S. branches and agencies of foreign banks to the same provisions of the code that are applicable to banks. Section 20 of Title 18, United States Code, defines the term "financial institution" for purposes of the criminal code. As noted above in response to question 10, the definition of "financial institution" currently includes insured branches of foreign banks. The draft amendments add all branches and agencies to the definition of "financial institution." Thus, under this proposed amendment, any action by a financial institution that the code makes a crime would also be a crime when conducted by any U.S. branches or agencies of a foreign bank. Similarly, by virtue of this proposed amendment, actions by employees or examiners of branches or agencies or by other persons in connection with a branch or agency would be made a crime where the same action is a crime when taken in connection with a bank.

However, as noted in response to question 10, there are provisions of the criminal code that set out a specified list of types of institutions that are covered. The proposed amendments would add U.S. branches and agencies of foreign banks to the list of specified institutions in these provisions to ensure uniform coverage by the criminal code of all financial institutions. These other provisions include the provisions on bribery (which currently apply only to insured financial institutions) (18 USC 212 and 213), misuses of public funds by custodians (18 USC 648), theft by bank examiners (18 USC 655), theft or embezzlement by bank employees (18 USC 656), false certification of checks (18 USC 1004), falsification of bank reports or loan applications (18 USC 1005 and 1014), computer fraud (18 USC 1030), disclosure of confidential examination information (18 USC 1906), and bank robbery (18 USC 2113).

The amendments would also cover Edge and agreement corporations in the same manner as banks, branches and agencies. Because these Edge and agreement corporations are authorized to
conduct an international banking business in the United States, we believe it is appropriate to subject them to uniform coverage.

The proposed amendments seek to address specific examples of failure to cover institutions where we believe it is appropriate that they be covered. The proposed amendments do not attempt to present a comprehensive reconsideration of the provisions of the criminal code as they apply to financial institutions.