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THE SECRETARY OF THE TREASURY
WASHINGTON 20220

November 14, 1975

MEMORANDUM FOR THE PRESIDENT

Subject: New York Plan

Governor Carey; Felix Rohatyn, Chairman of MAC; Stanley Steingut, Speaker of the State Assembly; Warren Anderson, Majority Leader of the State Senate; and other New York officials presented the outlines of a plan designed to meet the financial needs of New York City, New York State, and the New York State agencies.

(1) Summary of the Plan

The plan involves measures to:

- (a) Force a restructuring of New York City's short-term debt.
- (b) Generate \$200 million of new city tax revenues.
- (c) Provide \$2.5 billion in new loans to the City from the city pension funds.
- (d) Reduce City contributions to employee pension funds by requiring contributions from the employees, thus reducing by \$85 million City expenditures; and restructure the employee pension plans.
- (e) Generate sufficient State tax revenues (estimated by Governor Carey at \$600-700 million) to balance the State's budget.
- (f) Provide State funding for the Housing Finance Agency to strengthen its financial condition.
- (g) Force a balancing of New York City's budget by fiscal year 1978.
- (h) Reduce welfare and social service costs.



(2) Proposed Federal Role

The Federal Government has been asked to provide seasonal financing on a short-term, self-liquidating basis. For FY 1976, approximately \$1.3 billion would be required during the period December 1975 - March 1976, to be repaid by June 30, 1976. For FY 1977 and FY 1978 the need in the July-March period would peak at \$2.3 billion in March. In each of these fiscal years, the entire amount would be repaid by June 30.

(3) Discussion of the Plan

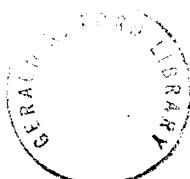
(a) New York City

The key elements of the plan are a restructuring of New York City's short-term debt and substantial commitments of new cash from the union pension funds. The debt restructuring is in two parts. First, the banks and other institutional investors have agreed to exchange their short-term New York City notes for ten-year City bonds carrying an interest rate of six percent. Secondly, they have agreed to refinance their holdings of MAC bonds to reduce the cash flow drain on the City. These understandings are contained in letters to MAC from the major New York banks and certain union leaders.

Individual holders of short-term City notes (who hold \$1.6 billion) will be offered a long-term (10-15 year) MAC bond, carrying an 8-9 percent interest rate. Holders who do not accept the exchange will be subject, pursuant to new legislation the Governor is introducing, to a three-year moratorium on their right to enforce the terms of notes: that is, their ability to collect principal and interest at maturity. This approach is modeled on the anti-mortgage foreclosure legislation used by New York and other States during the depression.

New loans of \$2.5 billion through FY 1978 will be provided from the city employee pension funds. This commitment, as well as a commitment to restructure their existing holdings of MAC securities and City notes, is reflected in a letter to MAC signed by the heads of the Teachers, Municipal Employee, and Sanitation-men's unions.

The plan also includes legislation for new City taxes of \$200 million and changes in certain pension fund arrangements relieving the City of \$85 million in contribution obligations.



(b) New York State

The key aspect of the State plan is new state taxes to eliminate the \$700 million deficit estimated for the fiscal year ending March 31, 1976. At our meeting, Governor Carey was not specific as to what types of tax measures might be taken. Moreover -- and perhaps more importantly -- Senate Majority Leader Anderson refused to accept the \$700 million figure and was extremely vague as to whether he would support new taxes as opposed to expenditure cuts. The problem with the expenditure cut approach over the short term is that it easily lends itself to gimmickry, such as merely deferring certain outlays into the following fiscal year.

The Governor also indicated that he will seek to achieve reductions in the welfare and social services area. He was vague as to whether these reductions would come through legislation, administrative actions or both.

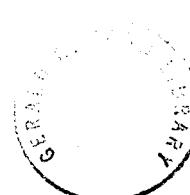
The State has no concrete plans for meeting the \$4 billion seasonal borrowing requirement it faces in April-June 1976. However, if the overall plan were put in place, it would appear likely that the State would have access to the market to meet this need. And as a fallback, the \$11-plus billion in State employee pension plans could be tapped.

(c) State Agencies

Two major steps are being taken with respect to the agencies. First, no new projects will be undertaken. Second, the Governor is proposing legislation of the type requested by the banking community to bolster the finances of the Housing Finance Agency. Even if the legislation is adopted, however, the banks have not agreed to meet the agencies' financing needs, which amount to approximately \$2.5 billion over the next two years. The state has tentatively identified sources (pension funds, etc.) for approximately \$1.8 billion; it hopes to persuade the banks to take the rest.

Evaluation of Plan

With respect to the City portion, the plan is basically the Administration's bankruptcy proposal by another name. Like our proposal, short-term noteholders will not be paid in cash, but will get long-term bonds (or the equivalent) instead. As would have been the case under our plan, the Emergency Financial Control Board will run the City.



Whether the plan succeeds largely depends on two factors. First, if any element of the legislation is whittled back by the Legislature -- e.g., fudging on the amount of the State's deficit or the amount of new taxes -- the existing commitments may not be kept and, more importantly, the market -- essential for the State in April -- may not be persuaded that the State has in fact done what is necessary.

Equally important is the public's perception -- over the next six months -- of how the State and City are being managed. If reforms continue at their current pace, the problem may be solved. If not, the problem may be as great by April or May as fears return that the State will have to commit more of its credit toward helping the City.

Timetable

We were asked for an answer by Monday but they have been advised that we will give them an answer as soon as possible. As a practical matter, time is of the essence: (1) The U.S. Congress, which may need to act on this matter is planning to recess November 21; and, (2) The restructuring of the short-term debt must be accomplished by December 10. Because of the complexity of the restructuring arrangement, at least two weeks will be required for this to take place.

We have made a summary of the plan without any policy comment and distributed it to Congressional leaders for their review over the weekend. We would secure their reaction on Monday while you are in Europe. When you return, you would then have the opportunity to consult with the Congress on Tuesday and could then announce a decision if you wish.

Options

Option One. To turn down the request for federal assistance and recommend that actions be taken at the state or local level.

Option Two. Agree to support legislation (copy attached) authorizing federal assistance to meet seasonal borrowing needs with any or all of the following conditions and any others to be determined:

- (a) That it is limited to \$1.5 billion with broad authority to revoke assistance if state and city action fails to meet specified conditions.



- (b) That the Governor of New York provides us with written assurance that no further requests for assistance for the City, State, or for any of its agencies will be forthcoming.
- (c) That the substance of such a letter be embodied in a resolution of the state legislature.

Option Three. Seek agreement from private financial institutions to provide financing for City's seasonal needs and support legislation (copy attached) enabling us to secure such financing with future Federal payments otherwise due the State and City.

These are three basic options available to you. If you are considering Option Two, you have various alternatives with respect to timing. You could:

- (a) Indicate that you will not consider any form of assistance until the State Legislature has acted.
- (b) Describe the kind of Federal assistance you will consider, but state that you will not reach a decision until after the State Legislature has acted.
- (c) Announce you have decided to provide assistance as described above if the Legislature acts in accordance with the plan.

Attached are the following background material:

- Tab A. Letters from the Governor, MAC, Union Leaders and Financial Institutions.
- Tab B. Draft legislation to provide direct federal assistance.
- Tab C. Draft legislation to secure loans by private institution
- Tab D. Additional cash flow requirements, subject to further refinement.


Stephen S. Gardner



Final copy

November 14, 1975

MEMORANDUM FOR MAX FRIEDERSDORF

FROM: STEPHEN S. GARDNER ~~SSG~~

SUBJECT: New York Plan

Governor Carey, Felix Rohatyn, Chairman of MAC, Stanely Stein-gut, Speaker of the State Assembly, Warren Anderson, Majority Leader of the State Senate, and other New York officials presented the outlines of a plan designed to meet the financial needs of New York City, New York State, and the New York State agencies.

1. Summary of the Plan

The plan involves measures to:

- A. Force a restructuring of New York City's short term debt.
- B. Generate \$200 million of new city tax revenues.
- C. Provide \$2.5 billion in new loans to the City from the city pension funds.
- D. Reduce City contributions to employee pension funds by requiring contributions from the employees thus reducing by \$85 million City expenditures and restructuring the employee pension plans.
- E. Generate sufficient State tax revenues (estimated by Governor Carey at \$600-700 million) to balance the State's budget.
- F. Provide State funding for the Housing Finance Agency to strengthen its financial condition.
- G. Force a balancing of New York City's budget in the fiscal year 1977-78..
- H. Reduce welfare and social service costs.



2. Proposed Federal Role

The Federal Government has been asked to provide seasonal financing on a short term, self-liquidating, basis. For FY 1976, approximately \$1.3 billion would be required during the period December 1975-March 1976, to be repaid by June 30, 1976. For FY 1977 and FY 1978 the July-March need would peak at \$2.3 billion in March, and the entire amount to be repaid by June 30 of each of these fiscal years.

3. Details of the Plan

A. New York City

The key elements of the plan are a restructuring of New York City's short term debt and substantial commitments of new cash from the union pension funds. The debt restructuring is in two parts. First, the banks and other institutional investors have agreed to exchange their short term New York City notes for ten year City bonds carrying an interest rate of six percent. Secondly, they have agreed to refinance their holdings of MAC bonds to reduce the cash flow drain on the City. These understandings are contained in letters to MAC from the major New York banks and certain union leaders.

Individual short term City noteholders (who hold \$1.6 billion) will be offered a long term (10-15 year) MAC bond, carrying an 8-9 percent interest rate. Holders who do not accept the exchange will be subject, pursuant to new legislation the Governor is introducing, to a three year moratorium on their right to enforce the terms of notes: that is, their ability to collect principal and interest at maturity. This approach is modeled on the anti-mortgage foreclosure legislation used by New York and other States during the depression.

New loans of \$2.5 billion through FY 1978 will be provided from the city employee pension funds. This commitment, as well as a commitment to restructure their existing holdings of MAC securities and City notes is reflected in a letter to MAC signed by the heads of the Teachers, Municipal Employee, and Sanitationmen's unions.

The plan also includes legislation for new City taxes of \$200 million and changes in certain pension fund arrangement relieving the City of \$85 million in contribution obligations.

B. New York State

The key element of the State plan is new state taxes and expenditure reductions to eliminate the \$700 million deficit estimated for the fiscal year ending March 31, 1976.

The Governor indicated that he will seek to achieve reductions in the welfare and social service expenditures.

C. State Agencies

Two major steps are prepared for State agencies. First, no new projects will be undertaken. Second, the Governor is proposing legislation of the type requested by the banking community to bolster the finances of the Housing Finance Agency.





STATE OF NEW YORK
EXECUTIVE CHAMBER
ALBANY 12224

HUGH L. CAREY
GOVERNOR

November 14, 1975

Dear Mr. Secretary:

I am writing in keeping with our recent conversations concerning the financial program presented by the New York State Municipal Assistance Corporation to meet the severe fiscal crisis facing New York City, as well as the proposals put forth by State officials to meet the needs of the agencies and underlying credit of New York State itself.

Today, you will receive from the Chairman of the Municipal Assistance Corporation the documents prepared by the various commercial banks and representatives of organized labor in New York City. These documents should serve to fulfill the stated Federal requirement that these elements of the MAC plan have been brought to the level of a commitment to the extent consistant with the legal and moral responsibilities of the signatories.

For my part, as Governor of the State of New York, I have sought to meet the Federal requirements as understood in our conversations. Yesterday I called the State Legislature into an Extraordinary Session to meet the fiscal problems of both the State and City of New York.

In meeting with the Legislative Leaders I presented them with a legislative package to accomplish for the State the following:



First, every step necessary will be taken to close the gap in the State's budget. The Comptroller of the State has informed me and the Legislative Leaders that in his opinion, and that of his staff, the State's current deficit will fall between \$600 and \$700 million this fiscal year. Accordingly, I am sending to the legislature a tax package that will raise revenues sufficient to close that gap.

Secondly, I have informed the Legislative Leaders that I shall seek the authority necessary to introduce further economies in State expenditures. At the outset, I shall seek a series of measures that the State and its' localities can undertake in order to reduce social service, i.e. welfare, and Medicaid expenditures in the coming year. By a series of reductions in the scope and level of funding of our programs I hope to achieve a Statewide savings of over \$500 million.

Third, for the State "moral obligation" agencies, I will present legislation to both stregthen their reserves as well as to remove those few programs whose adequacy as to underlying security and revenues might be questioned only under the most rigorous review. This legislation will require an appropriation of \$130 million. For the moment, I am pleased that we have succeeded in keeping the Housing Finance Agency from default for another 30 day period, mainly through the investment of certain funds under the custody of the State Comptroller.

Fourth, I shall introduce legislation that will have the effect of freezing salary schedules for the period of one year of all employees of New York State and its agencies.

To meet the fiscal problems facing the City of New York, I shall do the following:

First, to accomplish the exchange of short-term City notes in the hands of individual investors into long-term MAC bonds, I shall introduce legislation that would place a 3-year moratorium on the claims of those who do not participate in the exchange.

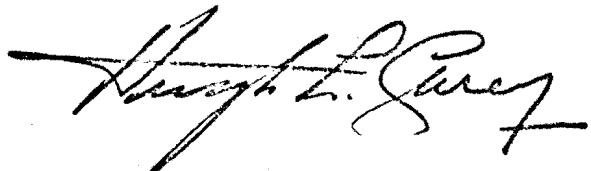
Secondly, I have informed the Legislative Leaders that legislation will be introduced to increase the revenues raised in, and available to, the City by \$200 million.



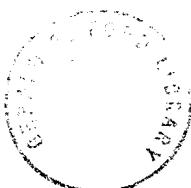
Third, I shall introduce legislation necessary to accomplish the increase in city employee contributions to the pension system in the amount of \$85 million -- an amount agreed to in documents you have received today.

This is a program that has my full commitment as Governor. We in New York State have, I believe, brought to bear every resource at our command to find a solution in the face of an extraordinary and historic financial crisis. There is still a need, however, which can only be met by Federal assistance.

Sincerely,



Honorable William E. Simon
Secretary of the Treasury
Department of the Treasury
15th Street and Pennsylvania Avenue, N.W.
Washington, D. C. 20220



MUNICIPAL ASSISTANCE CORPORATION
FOR THE CITY OF NEW YORK
2 World Trade Center
New York, New York 10047

November 13, 1975

The Honorable William E. Simon
Secretary of the Treasury
Washington, D.C.

Dear Mr. Secretary:

Pursuant to your request to the Governor on November 12th, I am pleased to enclose copies of conditional commitments received to date from the various New York City banks, and from the leadership of the various City unions, who have been asked to participate substantially in the Three-Year Financial Plan For New York City.

We are submitting the enclosed letters pursuant to your request that, to the extent and as rapidly as possible, we reduce to writing the commitments required from the various participants in the Three-Year Financial Plan. As these letters are reduced to final agreements, the legalities may require changes in the form, but we hope not the substance, of the outlined transactions.

In view of the time constraints involved, these letters are in the form of letters of intent rather than formal legal commitments. They relate to the new cash investments in the City, and the interest reductions and maturity adjustments on outstanding City and MAC obligations, referred to in the City financial section of the Three-Year Plan, a copy of which is enclosed for your convenience.

We understand that the Governor will communicate with you separately with respect to the fiscal and State Agency portions of the Plan.



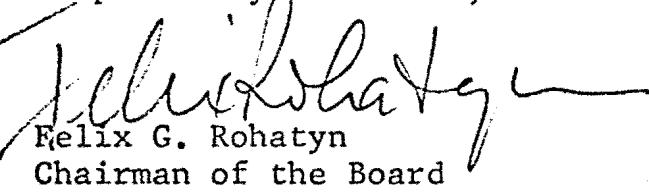
The Governor has called the New York State Legislature back into its continuing extraordinary session today in order to consider and adopt the moratorium legislation which we have discussed with you.

Pursuant to the proposed moratorium legislation, the Municipal Assistance Corporation is currently readying an Official Statement by which it plans to offer to exchange its bonds for maturing notes of The City of New York. The first of these exchange offers is scheduled to commence on or about Tuesday, November 18th. A preliminary Official Statement is enclosed.

As you will understand, the program referred to in the enclosed materials is conditional upon the availability of Federal governmental assistance and upon the completion of the November financings. In this connection, you should know that we have not yet received any commitment with respect to the availability of \$150,000,000 of the State appropriation scheduled to be paid on November 21, 1975.

Thank you for your courtesy and helpfulness.

~~Respectfully submitted,~~


Felix G. Rohatyn
Chairman of the Board

FGR:ek

Enclosure



November 13, 1975

Mr. Felix G. Rohatyn
Chairman
Municipal Assistance Corporation
2 World Trade Center
New York, New York 10047

Dear Mr. Rohatyn:

The undersigned are aware that the Trustees of the Municipal Employees Retirement Systems are presently considering the investment of \$2.5 billion in new securities as part of an overall program to meet the needs of the City of New York between now and the end of fiscal year 1977-78 and are considering agreeing to a conversion of MAC securities presently held by these systems to a new MAC issue of 6%, 10 year bonds and to a conversion of city notes held by the systems for a new city issue of 6%, 10 year bonds. The aggregate amount of securities to be converted is \$1.2 billion.

The undersigned agree to use their best efforts to cause the Trustees to approve, in the exercise of their discretion, the items referred to above.

The undersigned understand that the Federal and State governments require that the ITHP portion of the City's contribution to the systems be reduced by 50%. This will increase the employees' annual contributions by \$107 million.

The above commitments are subject to the completion of a financial package assuring funding of the City government through Fiscal Year 1977-78, including the Federal guarantees of securities, or other Federal funding, required to complete the financial package.

Sincerely,

Victor Gofbaum
Victor Gofbaum

Executive Director, District Council 37

Albert Shanker, per J.B.
Albert Shanker, President

Local 2, United Federation of Teachers

John J. Delury
John J. Delury

President, Uniformed
Sanitationmen's
Association, Local 831
I.B.T.

MORGAN GUARANTY TRUST COMPANY

OF NEW YORK

23 WALL STREET, NEW YORK, N.Y. 10015

New York

November 13, 1975

ELLMORE C. PATTERSON

Chairman of the Board

Mr. Felix Rohatyn, Chairman
Municipal Assistance Corporation
for the City of New York
c/o Lazard Freres & Co.
1 Rockefeller Plaza
New York, N.Y.

Dear Mr. Rohatyn:

You asked for a response from this bank and the other New York City Clearing House banks with respect to certain aspects of the Three-Year Financial Plan for New York City, New York State Agencies and New York State dated November 10, 1975 (the "Plan"), a copy of which was given to an officer of this bank last evening. We have had the benefit of a meeting this morning with you and the other Clearing House banks at which the Plan was discussed and specific requests were made of us.

In response to the specific requests, and subject to the conditions listed below, I can advise you that this bank would be prepared to convert its present holdings of MAC securities to 6 percent MAC bonds maturing in 10 years, to extend our present holdings of New York City notes to 10 years at 6 percent, and to participate in up to \$2.5 billion "seasonal" financing for the City of New York that necessarily must be Federally guaranteed.

The following conditions are integral to this response:

1. Any securities of either MAC or New York City must, satisfactorily to us, be approved as to legality and documentation.

2. We must reserve our right to reconsider our response if at any time prior to or during the implementation of the Plan there is any default on securities issued by the State, the City or a State agency. We would not consider a moratorium on payment of principal on City notes, so long as MAC bonds are offered in exchange, as a default for this purpose.

MORGAN GUARANTY TRUST COMPANY
OF NEW YORK

Mr. Felix Rohatyn, Chairman
Municipal Assistance Corporation
for the City of New York

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November 13, 1975

3. All other members of the Clearing House respond affirmatively and participate in the Plan on substantially the same basis.

4. All parts of the Plan are committed to by the appropriate parties, including the State executive and legislative leaders, the City executive and legislative leaders, City union officials, and the officials of MAC and the City Control Board. Federal executive and legislative leaders indicate support of Federal guarantee of the financing of the City's "seasonal" borrowing needs. Appropriate concrete actions at the appropriate City, State and Federal levels should accompany any actual steps taken by this bank.

We understand that an essential part of the program is the successful exchange of MAC securities for notes held by holders other than Clearing House banks and City pension funds. We do think it preferable that the banks and pension funds receive MAC bonds for City notes on the same basis as other note holders and urge that serious consideration be given to that possibility.

We would also like to express our concern about the need to finance the estimated \$2.5 billion State agency requirements in full, and this bank's unwillingness to participate in any such financing except with Federal guarantees or assistance. We also have concern about the approximately \$4 billion short-term financing requirements of the State itself in the Spring and the desirability of prearranging the availability of that amount of credit. It is our present belief that Federal assistance may well be necessary for that purpose.

Very truly yours,

Elmore Patterson



MANUFACTURERS HANOVER TRUST COMPANY

350 PARK AVENUE, NEW YORK, N.Y. 10022

GABRIEL HAUGE
CHAIRMAN OF THE BOARD

November 13, 1975

Mr. Felix G. Rohatyn
Chairman of the Board
Municipal Assistance Corporation
c/o Lazard Freres & Co.
One Rockefeller Plaza
New York, New York

Dear Sir:

We have reviewed the document dated November 10, 1975 and entitled "Summary of Three-Year Financial Plan for New York City, New York State Agencies and New York State" prepared by you and delivered to us today. In connection with the Financial Plan, we understand that the member banks of the New York Clearing House Association are being requested to agree in principle to the following:

1. Conversion of present holdings of approximately \$1,050,000,000 MAC securities to 6% Bonds maturing in 10 years.
2. Extension of approximately \$550,000,000 of New York City Notes to 10 years at 6%.
3. Providing New York City with up to \$2,500,000,000 of "seasonal" financing.

This letter is to advise you that we are agreeable in principle to the provisions of paragraphs 1 and 2 above on the following conditions:



(a) New York State, New York State Agencies and New York City shall not be in default on any of their respective obligations at the time these provisions of the Financial Plan are implemented.

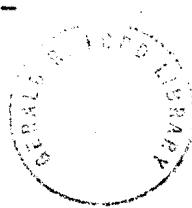
(b) State Agency financial needs referred to in Paragraph B of Section II of the Financial Plan will be provided without the assistance of this institution.

(c) This institution shall be satisfied as to all legal, documentary and similar facets of the Financial Plan prior to its implementation.

(d) The portions of the Financial Plan which contemplate direct or indirect funding by organizations other than the member banks of the New York Clearing House Association are agreed to by such organizations and all other steps relating to the improvement of the financial and fiscal condition of New York State and New York City referred to in the Financial Plan have been adopted by the New York State Legislature.

(e) All member banks of the New York Clearing House Association agree to participate in these portions of the Financial Plan subject to conditions acceptable to such banks.

With respect to paragraph 3 above, this is to advise you that this institution would be willing to participate in a syndicate consisting at a minimum of all



Mr. Felix G. Rohatyn

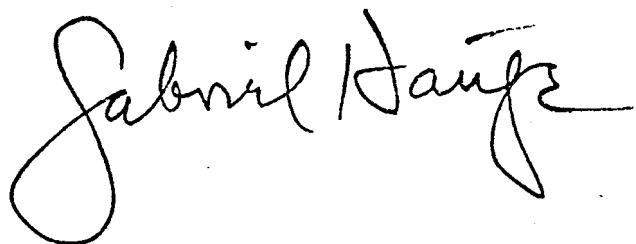
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November 13, 1975

member banks of the New York Clearing House Association organized for the purpose of providing New York City with up to \$2,500,000,000 of "seasonal" financing subject to the condition that such financing be guaranteed by the Federal Government.

Finally, we note that Paragraph B of Section III of the Financial Plan entitled "Short-Term Financing Requirements - State Fiscal Year 1976-77" indicates that "it is only realistic to anticipate the need for some Federal sponsorship for the New York State seasonal borrowings early in 1976." We concur in this conclusion.

Sincerely yours,



UNITED STATES TRUST COMPANY

OF NEW YORK

45 WALL STREET NEW YORK, N. Y. 10005

212-425-4500

CHARLES W. BUEK
*Chairman of the Board
and
President*

November 13, 1975

Dear Mr. Rohatyn:

Re: Financial Plan Dated 11/13/75 Submitted to the
Member Banks of the New York Clearing House

In response to your request this morning for advice as to our position on the above proposal, I am glad to give you our advice as to the four principal requests as summarized on the first page of the Financial Plan.

We point out that we believe it undesirable to consider making plans for The City of New York alone as proposed in the first three requests without making some provision for the New York State Housing Finance Agency and other State agencies referred to in request four of the Financial Plan, and we shall not participate in such request.

The Trust Company, as a member of the New York Clearing House, agrees to participate in the first three requests set forth, subject to the following conditions:

- a. Neither the State of New York, any of its agencies, nor the City is in default on any of its obligations at the time the Financial Plan is implemented.
- b. The proposal for financing New York State Agencies, including item four of the Financial Plan, must be provided by sources other than the New York Clearing House Banks.
- c. We shall participate in the loans to meet the City's needs for "seasonal" financing (currently estimated at two and one-half billion dollars), but only if the Federal Government guarantees all of such loans.



UNITED STATES TRUST COMPANY
of New York

Mr. Felix G. Rohatyn

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November 13, 1975

- d. The legality and documentation of all aspects of the Financial Plan must be satisfactory to us and our counsel.
- e. All the parties involved in the package constituting the first three requests must agree to such package.
- f. Each other member bank of the New York Clearing House shall have accepted the foregoing conditions.

Sincerely,

Lazard Frères & Co.

Chairman
United States Trust Company
of New York

Mr. Felix G. Rohatyn
Chairman
Municipal Assistance Corporation
for the City of New York
Lazard, Freres & Company
One Rockefeller Plaza
New York, New York 10020



National Bank
of North America

November 13, 1975

Mr. Felix G. Rohatyn, Chairman
Municipal Assistance Corporation
World Trade Center
New York, New York

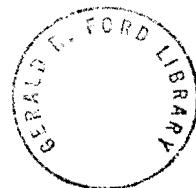
Dear Mr. Rohatyn:

We are pleased to respond to the proposals made by you in furtherance of the plans set forth in the "Summary of Three Year Financial Plan for New York City, New York State Agencies, and New York State" dated November 10, 1975.

National Bank of North America would be willing to convert its present holdings of Municipal Assistance Corporation securities, amounting to approximately \$21,000,000, to 6% bonds of the Municipal Assistance Corporation payable over a period of ten years, and to extend the maturities of its present holdings of New York City notes, amounting to approximately \$8,000,000, to maturities of ten years, bearing interest at 6% per annum. In addition, National Bank of North America would be willing to assist in the underwriting, during the next three years, of up to \$2,500,000,000 of short term New York City obligations, provided such obligations are guaranteed by the federal government.

Our willingness to move forward with the proposals made by you, as outlined above, is subject to the following conditions:

1. All of the other elements of the Summary



Mr. Felix G. Rohatyn, Chairman
Municipal Assistance Corporation

2. November 13, 1975

will be implemented prior to the time we are expected to take the actions described above.

2. All of the other member banks of the New York City Clearing House will join in the actions we are to take.

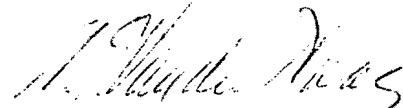
3. Neither the State nor the City nor any agency of the State will be in default in any of its obligations at the time the plan is implemented.

4. The financial needs of State Agencies described in the Summary will be provided for, including the amount described as "Remainder to be Financed."

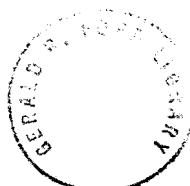
5. The Federal Government will agree to guarantee financing for the seasonal needs of New York City, up to \$2,500,000,000, for the next three years.

6. We and our counsel shall be satisfied with the legality of, and documentation for, all of the actions required for the plans described in the Summary.

Very truly yours,



Walter E. Van der Waag
Vice Chairman of the Board



IRVING TRUST COMPANY

ONE WALL STREET
NEW YORK, N.Y. 10015

JOSEPH A. RICE
PRESIDENT

November 13, 1975

Mr. Felix Rohatyn
Lazard Freres & Co.
One Rockefeller Plaza
New York, New York 10020

Dear Mr. Rohatyn:

This letter responds to a proposal for participation by the New York Clearing House Banks and others in the financial plan set forth in a memorandum entitled "Summary of Three Year Financial Plan for New York City, New York State Agencies, and New York State" dated November 10, 1975.

We are prepared to:

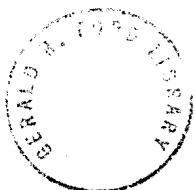
(a) convert our present holdings of securities of the Municipal Assistance Corporation to 6% bonds maturing in ten years;

(b) extend to ten years the maturities of New York City notes which we now hold, such extended notes (or equivalent obligations) to bear interest at the annual rate of 6%; and

(c) consider participating in up to \$2.5 billion of "seasonal" financing to the City to bridge the gap between incoming City revenues and payouts of salaries and other obligations, but only if the City's obligations are guaranteed as to principal and interest by the Federal government.

The foregoing is subject to the following conditions:

(a) neither the State, any State agency or the City is in default at the time of any such conversion, extension or participation in a seasonal financing;



IRVING TRUST COMPANY

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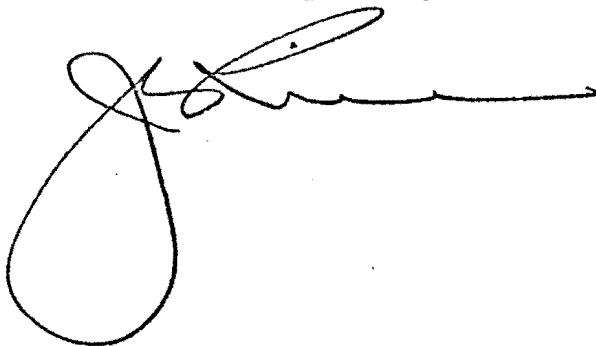
(b) all parts of the financial plan set forth in the memorandum referred to above must be agreed to by the various interested parties;

(c) all of the other New York Clearing House banks shall have agreed to conversions, extensions and participations similar to those referred to above; and

(d) the conversions, extensions and participations referred to above shall be legally satisfactory to us.

I wish to make clear that our agreement is limited as set forth above and we are not undertaking to participate in making loans to or purchasing securities of New York State or any of its agencies.

Yours very truly,



Chemical

20 Pine Street
New York, NY 10005

Donald C. Platten
Chairman

November 13, 1975

Felix Rohatyn, Esq.
Lazard Frères & Co.
1 Rockefeller Plaza
New York, N. Y. 10020

Dear Mr. Rohatyn:

Reference is made to the presentation made by you and your associates today at the New York Clearing House, and specifically to the material presented at that meeting entitled "Summary of Three-Year Financial Plan for New York City, New York State Agencies and New York State".

On behalf of Chemical Bank, I wish to advise you as follows:

- (1) Chemical Bank would be willing to convert its present holdings of Municipal Assistance Corporation securities to 6% bonds maturing in level payments over ten years.
- (2) Chemical Bank would be agreeable to substitute for its existing holdings of New York City Notes new New York City notes with a maturity of 10 years bearing an annual interest of 6%, with amortization commencing after expiration of the so-called moratorium period.
- (3) Chemical Bank would be willing to participate in a syndicate for seasonal financing needs of the City of New York up to an aggregate amount not in excess of \$2-1/2 billion if, and only if, such borrowings by the State of New York are guaranteed by the full faith and credit of the United States.

Chemical Bank's willingness to do the foregoing is conditioned as follows:

- (a) At the time of the implementation of such Financial Plan, there shall exist no default in any obligations of the City of New York, any agency of the City of New York, the State of New York or any agency of the State of New York.
- (b) Recognition by all appropriate fiscal authorities that the refinancing of maturing New York State agency obligations must be effected through sources other than the New York Clearing House banks.



To: Felix Rohatyn, Esq.
Lazard Frères & Co.

#2

November 13, 1974

(c) Our satisfaction as to all legal matters incident to the implementation of such Financial Plan (including, but not by way of limitation, the authority of the City of New York to issue a 10-year note) and our satisfaction as to the documentation to be executed and delivered in connection therewith.

(d) All other participants in such Financial Plan shall have agreed to the matters being requested of them, as more fully set forth in such Financial Plan.

(e) Your receipt of substantially similar letters from each of the other New York Clearing House banks.

Finally, we can not overemphasize our sincere belief and concurrence in the statement contained in such Financial Plan that it is only realistic to anticipate the need for Federal sponsorship for New York State's seasonal borrowings during 1976. We believe that any contrary assumption would be unrealistic at this time and that it is in the best interests of the capital markets and the commercial banking system that provision should be made therefor at this time.

Very truly yours,
CHEMICAL BANK

By- _____

Daniel C. Luce
Chairman of the Board

D.C.P.

Rush delivery.



THE BANK OF NEW YORK

NEW YORK'S FIRST BANK - FOUNDED 1784 BY ALEXANDER HAMILTON

48 WALL STREET, NEW YORK, N.Y. 10015

ELLIOTT AVERETT
CHAIRMAN OF THE BOARD

November 13, 1975

Mr. Felix Rohatyn, Chairman
The Municipal Assistance Corporation
for The City of New York,
Lazard Frères & Co.,
One Rockefeller Plaza
New York, New York 10020

Dear Mr. Rohatyn:

The Bank of New York is pleased to respond to the proposal that you presented today to the member banks of The New York Clearing House Association. This proposal is summarized in a document entitled "Summary of Three-Year Financial Plan for New York City, New York State Agencies, and New York State", dated November 10, 1975.

The Bank of New York would be willing to take the following three actions, if the conditions hereinafter described are met to its satisfaction.

The Bank of New York would:

1. Convert the securities issued by the Municipal Assistance Corporation for The City of New York ("MAC") which we presently hold as principal into new securities issued by MAC, bearing an interest rate of 6% per annum, maturing in equal annual installments over a ten year period and ranking pari passu with all other securities issued by MAC.
2. Extend the maturity of the New York City notes which we presently hold as principal to a term of ten years and reduce the interest rate thereon to 6% per annum, provided the long term notes contain an appropriate cross default clause.
3. Participate proportionately with the other member banks of The New York Clearing House Association and other commercial banks in providing New York City with up to 2 1/2 billion dollars of "seasonal" financing, if, but only if, all obligations in respect of this financing are unconditionally guaranteed by the United States Government.

* The conditions which we have in mind are the following:

- A. At the time of our taking of any of such actions, none of the State of New York, any agency of the State of New York, New York City or any municipality with a population in excess of 100,000 shall be in default in the payment of any of its obligations.

THE BANK OF NEW YORK

Page 2

November 13, 1975

- B. In the description of the "Financing Requirements for State Agencies" (Part II, B of the Summary), there is a reference to \$650,000,000 as the "Remainder to the Financed". These funds must be furnished from sources other than this Bank.
- C. All the actions outlined in the Plan of "Fiscal Correction" for New York City (Part I, A of the Summary) shall have been taken or effectively committed to by all parties concerned, and each of the other member banks of The New York Clearing House Association shall have agreed to participate on terms substantially similar to those contained in this letter.
- D. The legality of each of this Bank's proposed actions shall be established to the satisfaction of our counsel, and all necessary documents shall have been prepared to our satisfaction, prior to our taking any such action.

Very truly yours,

Elliott Borenstein

Chairman



BANKERS TRUST COMPANY

280 PARK AVENUE, NEW YORK

JOHN W. HANNON, JR., PRESIDENT
TELEPHONE 212 692-3765

MAILING ADDRESS
POST OFFICE BOX 318
CHURCH STREET STATION
NEW YORK, NEW YORK 10015

November 13, 1975

Mr. Felix G. Rohatyn, Chairman of the Board
Municipal Assistance Corporation for the City of New York
c/o Lazard Freres & Co.
1 Rockefeller Plaza
New York, N. Y. 10020

Dear Mr. Rohatyn:

This morning you outlined to the Clearing House banks, including ourselves, a financial plan for New York City, New York State agencies and New York State itself, and asked us to comment to you today on certain aspects of that plan which directly involved the Clearing House banks.

Subject to the conditions outlined below, we would be willing to do the following as our part of the overall plan:

1. Convert our own present holdings of Municipal Assistance Corporation for the City of New York ('MAC') securities to 6% serial bonds of MAC, with a final maturity of 10 years and an average life of approximately 6 years;
2. Extend our own present holdings of New York City notes to maturities not in excess of 10 years at 6%; and
3. Use our best efforts to put together the necessary syndicates of banks and other financial institutions to meet the "seasonal" financing needs of New York City over the next 3 years, provided that such needs never exceed \$2-1/2 billion and, most importantly, that such financings be guaranteed by the Federal Government. It is our opinion that without such Federal guarantee the "seasonal" financing needs could not be met.

Our willingness to participate in the proposal outlined to us this morning is subject to the following conditions:

1. That at the time of any conversion or extension there is no default by New York State, any of the New York State agencies, or New York City;

2. That the State agencies' needs outlined this morning in your proposed financial plan are to be taken care of from sources other than the Clearing House banks;

3. That the Federal Government guarantee any New York City "seasonal" financing;

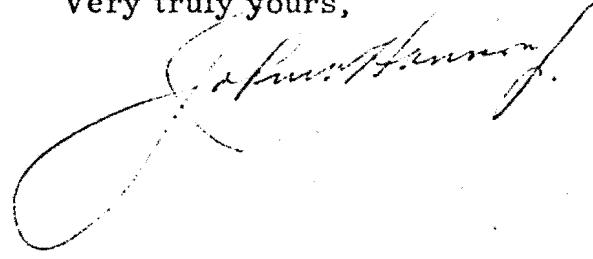
4. That the transactions contemplated by the financial plan outlined to us and by this letter are legal and proper for all of the persons (including governmental units and other entities) involved or contemplated to be involved, including ourselves, and that all governmental, corporate or other authorizations necessary or appropriate be obtained, and that all legal proceedings, including all documentation, in connection with such transactions shall be satisfactory in form and substance to this bank and our counsel;

5. That all of the persons and entities connected with the financial plan outlined to us this morning both execute the necessary or appropriate documents to indicate that they will perform as contemplated in accordance with the plan outlined to us and that such performance is forthcoming at the appropriate time, including financings from other sources and such governmental and other acts as are necessary or appropriate under the plan; and

6. That our willingness to convert all of our own holdings of MAC securities, extend our own holdings of New York City notes and use our best efforts to provide "seasonal" financing for New York City, as outlined above, be matched by a willingness on the part of all of the other Clearing House banks to do the same with their holdings and to use their best efforts in connection with the "seasonal" financing for New York City.

As part of the proposed financial plan we understand you will consider and use your best efforts to restructure the plan as outlined to us to allow us to convert our New York City notes into MAC securities with the same maturity and interest rate as proposed for the extended New York City notes.

Very truly yours,



MARINE MIDLAND BANK

140 BROADWAY • NEW YORK, N.Y. 10015

(212) 797-4000

November 13, 1975

Mr. Felix Rohatyn, Chairman
Municipal Assistance Corporation
One Rockefeller Plaza
New York, New York 10020

Dear Mr. Rohatyn:

In accordance with your request today to the representatives of the New York Clearing House banks for an indication of willingness by each of such banks to participate in a proposed Financial Plan for New York City, New York State and New York State Agencies (herein called the "Plan", a copy of which is annexed hereto), this is to advise you that, subject to the conditions set forth below, Marine Midland Bank-New York will, upon consummation of the Plan:

1. Convert Municipal Assistance Corporation ("MAC") securities held in this Bank's own portfolio to MAC bonds, amortized over ten years, bearing interest at 6% per annum, and ranking pari passu with all other MAC obligations;
2. Extend the maturity of New York City notes held by this Bank in its own portfolio to ten years and agree to a reduction in the interest rate on such notes to 6% per annum;
3. Assist in the underwriting or syndication of a portion of an issue of New York City securities of up to \$2.5 billion for "seasonal" financing needs, provided that such securities are guaranteed by the full faith and credit of the United States of America.

Our agreement to the foregoing and our continued participation in the Plan are subject to the following:

1. Neither New York City, New York State nor any New York State Agency shall be in default in any respect on any of their respective securities issues;



MARINE MIDLAND BANK
NEW YORK

Mr. Felix Rohatyn, Chairman
Municipal Assistance Corporation
November 13, 1975
Page 2

2. With respect to the \$650 million additional financing (or any other additional financing) set forth in the Plan as required for New York State Agencies, sources other than this bank will provide such funds.
3. The definitive terms and the legality of the various new or extended securities to be issued in accordance with the Plan, as well as the documentation in connection therewith, shall be satisfactory to us and our counsel. All legal matters shall be satisfactory to us and our counsel.
4. All parts of the proposed Plan shall be consummated, each of the institutions and purchasers of securities as set forth therein shall agree to and perform their respective obligations as contemplated by the Plan and each of the member banks of the New York Clearing House Association shall participate in the Plan.

Very truly yours,

MARINE MIDLAND BANK-NEW YORK

By: Russell H. Knisel

Russell H. Knisel
Vice Chairman of
the Board





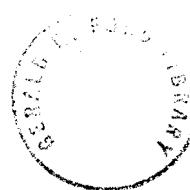
FIRST NATIONAL CITY BANK

WILLIAM I. SPENCER
PRESIDENT

399 PARK AVENUE, NEW YORK, N.Y. 10022

November 13, 1975

Mr. Felix G. Rohatyn, Chairman
Municipal Assistance Corporation
for the City of New York
c/o Lazard Freres
Rockefeller Center
New York, New York



Dear Mr. Rohatyn:

We are writing to respond to your request that we participate in certain transactions forming part of the three-year Financial Plan proposed for New York City, New York State Agencies and New York State (the "Plan"). We have been furnished with a memorandum dated today outlining such transactions together with a summary of the Plan dated November 10, 1975.

Prior to receipt of the Plan we discussed with you our conviction that the financial and other problems confronting New York City are closely related to similar problems affecting New York State and its Agencies and that a piecemeal approach which seeks only to prevent a City default is not an adequate response to the total situation. While we believe the general approach of the Plan is appropriate, we wish to record our view that it does not meet the financing requirements of the State Agencies and political subdivisions other than New York City. For example, we do not believe that the indicated remainder of Agency needs to be financed of \$650 million can be obtained from sources within the banking system. In our view the success of the Plan will depend on the identification of additional financial support for Agencies and other subdivisions.

You have asked us to consider: (1) Converting our holdings of MAC bonds of various series into MAC bonds of a new series under the existing bond resolution bearing interest at 6% per annum and maturing in 10 years. Such new bonds would be amortized on a level debt basis.

(2) Extending the maturity of our holdings of New York City notes to 10 years. Such extended notes would bear interest at 6% per annum.

(3) Participating in the provision of "seasonal" financing for New York City during the three year period of the Plan in an amount not to exceed \$2 1/2 billion at any one time outstanding.

Mr. Felix G. Rohatyn, Chairman

November 13, 1975

We are willing to negotiate our participation in the above described transactions on the following basis:

- a) At the time of our participation there shall be no default in the payment of debt for borrowed money on the part of New York City, New York State or any Agency or political subdivision of the State.
- b) All New York Clearing House member banks and all pension funds for City employees shall be participating in (1) and (2) above on the same basis as we.
- c) Prior to our participation we shall be satisfied that there is a reasonable prospect of obtaining commitments for \$650 million to fund the unfinanced requirements of the State Agencies. If any of the sources of funding for Agencies outlined in the Plan prove to be unavailable in the required amounts, such amounts will be added to the \$650 million commitments.
- d) Commitments shall have been obtained for the aggregate amount of the "seasonal" financing at the time required by the City and borrowings under such commitments shall be unconditionally guaranteed by the United States.
- e) All other aspects of the Plan shall have been implemented, or shall be the subject of satisfactory commitments, substantially as outlined in the Plan.
- f) We shall be satisfied with all legal aspects of the transactions and agreements involved in carrying out the Plan and with the form and substance of the documents involved.

We recognize that under certain circumstances the City securities to be issued under (2) above may not be available. We would be willing to negotiate our participation in (2) on the basis of substituting MAC bonds in place of such City securities.

In accordance with our discussions today, we expect to communicate separately with representatives of the State concerning proposals for financing the requirements of the New York State Housing Finance Agency on November 14.

Very truly yours,

N P Spencer



THE CHASE MANHATTAN BANK

National Association



1 Chase Manhattan Plaza, New York, New York 10015

DAVID ROCKEFELLER *Chairman of the Board*

November 13, 1975

Mr. Felix G. Rohatyn, Chairman
Municipal Assistance Corporation for
the City of New York
New York, New York

Dear Felix:

At the meeting of the New York Clearing House banks with you this morning, you asked that each of the banks indicate whether it would agree to participate in the financial plan for New York City, New York State agencies and New York State which you and Mr. Gould described. The anticipated participation by the New York Clearing House banks is described in Items 3 and 4 of Part I. of the "Summary of Three-Year Financial Plan for New York City, New York State Agencies and New York State", dated November 10, 1975 (the "Summary"), a copy of which was distributed.

Before responding to your inquiry, I should set forth certain assumptions and comments upon which our response is based:

1. New York State, New York State agencies and New York City will not be in default in the payment of their obligations at the time the plan is implemented.
2. Part II. of the Summary relating to State agencies will be implemented using sources of funds other than commercial banks. We believe that it is of vital importance to the reopening of the securities markets to New York State, its agencies and the City that the credit of the State agencies be strengthened and that default in the payment of their obligations be avoided.



3. Seasonal financing for New York City, estimated in the amount of \$2.3 billion per fiscal year (\$1.5 billion for the balance of the fiscal year ending June 30, 1976), will be provided. We will be willing to participate in an underwriting syndicate of New York Clearing House banks to underwrite such seasonal financing but only if the City's obligations are appropriately guaranteed by the Federal Government.

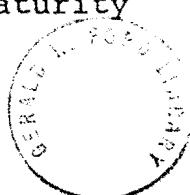
4. Seasonal borrowing requirements of New York State will be satisfied, it being our view that Federal guaranty assistance will be necessary.

5. All legal and documentary requirements relative to the conversion of the New York City short-term notes (including, particularly, TANS and RANS) held by the Clearing House banks into long-term obligations will be satisfied. In this connection, as you know, bank counsel have expressed concern as to the availability of bonding authorization and as to the use of bond proceeds to retire TANS and RANS.

6. The total legislative, budgetary and financial plan (certain elements of which are described in the Summary) will be implemented concurrently with the requested participation by the Clearing House banks.

7. All Clearing House banks will participate in the plan as contemplated by Items 3 and 4 of Part I.A. of the Summary.

Subject to these assumptions, we intend to participate in the plan by accepting the contemplated interest reduction and lengthening of maturities on the New York City notes held by us for our own account as described in the Summary and as discussed by you at the Clearing House this morning. In this connection, since it is contemplated that the New York City short-term notes will be exchanged for New York City obligations with a ten-year maturity, we suggest that it is appropriate that the ten-year obligations contain provision for acceleration in the event of any default by the City in the payment of its obligations. On the same basis, we, also, intend to accept extension of the maturity



THE CHASE MANHATTAN BANK, N.A.

To Mr. Felix G. Rohatyn, Chairman
Municipal Assistance Corporation for the City of New York

Page No. 3

of the MAC obligations held by us for our own account and the interest reduction as contemplated by Part I.A. of the Summary and our discussion this morning.

Very truly yours,

Daniel Rohatyn

DR:jt



1. Definitions. The words and phrases used in this
Act
section have the following meanings:

(a) The term "Federal Payments" mean those amounts authorized and appropriated for the Fiscal Year beginning July 1, 1975 which the City of New York is entitled to receive, assuming compliance with the relevant statutory criteria, from the United States prior to September 30, 1976 pursuant to the following statutes:

(b) The term "Due Date" means the time when a Federal Payment becomes due and payable by the United States to the City of New York.

(c) The term "Composite Treasury Bill Rate" means

(d) The term "Secretary" means the Secretary of the Treasury.

2. Advances of Federal Payments. Upon written request from the City of New York, the Secretary may make payment to the City prior to the Due Date of amounts of Federal Payments estimated by the Secretary to come due prior to September 30, 1976 in an amount not to exceed in the aggregate \$1,500,000,000. Each such advance shall be accompanied by a written statement



describing the particular Federal Payment or Payments being advanced, the estimated amount thereof, and the Due Date.

3. Interest on Advances. Each advance pursuant to section 2 shall bear interest from the date of the advance to the Due Date at an annual rate equal to the Composite Treasury Bill Rate determined at the time the advance is paid plus an additional one per centum per annum. Interest shall be payable on the Due Date with respect to each Federal Payment advanced.

4. Adjustments.

(a) In the event the aggregate advances exceed the amount of Federal Payments ultimately determined to be due to the City of New York, the Secretary shall withhold such amounts from future payments due the City of New York from the United States and offset such withheld amounts against any such excess advances, including any unpaid interest thereon.

(b) In the event the aggregate advances are less than the amount of Federal Payments ultimately determined to be due to the City of New York from the United States, the Secretary shall remit to the City of New York the amount by which such Federal Payments exceed the aggregate advances and any unpaid interest thereon.



1. Definitions. The words and phrases used in this Act have the following meanings:

(a) The term "Federal Payments" means those amounts authorized and appropriated for the Fiscal Year beginning July 1, 1975 which the City of New York is or will become entitled to receive [but which have not been remitted to the City prior to the issuance of any Notes Secured by Federal Payments], assuming compliance with the relevant statutory criteria, from the United States prior to September 30, 1976 pursuant to the following statutes:

(b) The term "Notes Secured by Federal Payments" means debt obligations of the City of New York: (i) authorized and approved by the Secretary pursuant to section 3 of this Act; (ii) due and payable in full no later than June 30, 1976; (iii) the interest on which qualifies for exemption from taxation under section 103 of the Internal Revenue Code of 1954 as amended; (iv) which are valid and binding general obligations of the City of New York, and (v) which state on their face a day certain when the interest on and the principal amount of such Notes is payable.

(c) The term "Secretary" means the Secretary of the Treasury.



(d) The term "default" with respect to Notes Secured by Federal Payments means the failure of the City of New York to make timely payment of any installment of interest on or of the principal amount of such Notes on the date or dates specified on the face of such Notes.

2. Application. The City of New York, if first specifically authorized by the State of New York to issue Notes Secured by Federal Payments, may apply to the Secretary for authority to issue Notes Secured by Federal Payments in an aggregate amount not to exceed \$1,500,000,000. Such application shall include: (a) a proposed schedule of borrowing showing the proposed dates of issuance and maturity of such Notes; (b) a statement that the funds to be obtained through the issuance of Notes Secured by Federal Payments cannot otherwise be raised by the City of New York; (c) a projected statement of receipts and disbursements by the City of New York demonstrating the City's ability to pay the principal and interest on the Notes Secured by Federal Payments as such payments become due; and (d) an agreement that the City agrees to be bound by the provision of this Act.

3. Secretary to Approve Application. The Secretary shall approve the application of the City of New York and authorize the City to issue Notes Secured by Federal Payments if he determines that (a) the funds to be obtained through the issuance of Notes Secured by Federal Payments



cannot otherwise be raised by the City of New York; (b) there is a reasonable probability that the City of New York will be able to pay the principal and interest on the Notes Secured by Federal Payments as such Notes mature and (c) the estimated amount of Federal payments is sufficient to provide for ~~reduction~~
~~the retention~~ of the Notes (including all accrued interest) at maturity.

4. Endorsement of Approved Notes. Notes Secured by Federal Payments which have been approved and authorized by the Secretary shall bear on their face a conspicuous legend that "The Payment of the Principal Amount of and Interest on this Obligation is Secured by a Lien on Certain Funds to become Due to the City of New York from the United States," and shall be endorsed by the Secretary.

5. Duty of Secretary to Redeem Notes.

(a) In the event that
(i) the City of New York defaults, or
(ii) the Secretary determines that it is likely that the City of New York will default, with respect to any Notes Secured by Federal Payments, the Secretary shall withhold payment to the City of New York of an amount of Federal Payments equal to the principal amount and unpaid interest (determined as of the date of maturity) of all outstanding Notes Secured by Federal Payments and



shall set such sum aside in a special fund (the "Special Fund") for the purpose of redeeming Notes Secured by Federal Payments (including all unpaid interest due thereon) as such Notes mature.

(b) In the event that the City of New York defaults with respect to any Notes Secured by Federal Payments, the holders of such Notes shall have the right to demand payment by the Secretary from the Special Fund of the unpaid principal amounts of such Notes and the interest thereon to the date of maturity. No person other than the United States, a holder of a Note Secured by Federal Payments (but only to the extent of the unpaid principal amount and interest due on such Note), or the City of New York (but only in the absence of a default with respect to Notes Secured by Federal Payments) shall have any right or interest in the Special Fund or shall have the right to attach, garnish, levy upon or otherwise seek any payment from the Special Fund or seek to prohibit or interfere with payments by the Secretary from the Special Fund. No payment from the Special Fund pursuant to this Act shall be deemed a voidable preference under the Bankruptcy Laws or under any state or local law.

(c) If the Secretary has established a Special Fund pursuant to section 5(a)(ii) of this Act and it subsequently appears to the satisfaction of the Secretary that



the City will not default with respect to the Notes Secured by Federal Payments, the Secretary shall forthwith remit the balance in the Special Fund to the City of New York.

(d) In the event of default with respect to the Notes Secured by Federal Payments, if the Secretary of the Treasury determines that the Special Fund will be inadequate for the purpose of making timely redemption upon maturity of all Notes Secured by Federal Payments he shall cause such Special Fund to issue to the Department of the Treasury obligations in an amount necessary to enable the Special Fund to redeem upon maturity all Notes Secured by Federal Payments and the Department of the Treasury shall purchase such obligations. Such obligations shall bear interest at a rate determined by the Secretary of the Treasury taking into consideration the current average yield on outstanding marketable obligations of the United States of comparable maturity. For the purpose of purchasing the obligations of the Special Fund described herein, the Secretary of the Treasury is authorized to use as a public debt transaction the proceeds from the sale of any securities hereafter issued under the Second Liberty Bond Act, and the purposes for which securities may be issued under the Second Liberty Bond Act are extended to include such purchases. In such case, the Secretary shall



withhold and continue to pay into the Special Fund all Federal Payments (or, if necessary, payments which would be Federal Payments but for the time limitations in section (1)(a) of this Act) until the Special Fund shall have sufficient assets to redeem all Notes Secured by Federal Payments and all obligations of the Special Fund held by the Department of the Treasury, including all interest thereon.

(e) Notwithstanding any contrary provision of law, payments made by the Secretary pursuant to subsection (b) shall be deemed in full satisfaction of any claim by the City of New York to the Federal Payments allocated to redeem such Notes or the obligations of the Special Fund issued pursuant to subsection (d) of this section.



NEW YORK CITY CASH FLOW NEEDS
(dollars in millions)

	Cumulative Needs	
	<u>FY 1976-77</u>	<u>FY 1977-78</u>
June	1100	1041
August	1462	1413
September	1197	1237
October	1585	1293
November	1614	1325
December	2063	1670
January	2062	1697
February	2017	1645
March	2120 peak	1994 peak
April	1528	1369
May	1103	996
June	0	0

Per Peter Goldmark

cc upon Mr. Goldmark's request to Bob Gerrard, Treasury.



11/17/75

New York State Emergency Moratorium Act for New York City

Chapter 874 of the Laws of 1975

(as amended by Chapter 875)

Approved November 14, 1975

Section 1. Legislative findings and statement of purposes. It is hereby found and declared that the grave public emergency found and declared to exist by the legislature in adopting the New York State Financial Emergency Act for the City of New York has dramatically worsened in the last two months. Today, not only is the City of New York threatened with default on its outstanding obligations, but financially sound agencies of the state itself are similarly threatened because of public fears about the effects of default by the city.

Significant and drastic steps have been and continue to be taken by the city and the state pursuant to the New York Municipal Assistance Corporation Act and the New York State Financial Emergency Act of the City of New York to eliminate the causes of this crisis and to restore the city to financial health. It is now apparent, however, that there is not enough time for the effects of these steps to be demonstrated before all funds now available to the city will be exhausted.

There is therefore an imminent danger that the city of New York will be unable to pay its outstanding short-term indebtedness and even to provide those basic services essential to the health, safety and welfare of its inhabitants and the continuation of orderly government in the city. The legislature recognizes and insists that the pledge of the "faith and credit" of the city to the payment of its obligations must be respected. The legislature further recognizes that in the current financial crisis, this pledge can be honored only if the viability and resources of the city are preserved and that the continuation of essential services is vital to such preservation. The preservation of the city, the honoring of its obligations and the restoration of public confidence in the agencies of the state and of the state itself are all matters of imperative state concern and require the extraordinary exercise of the state's essential reserve and emergency powers set out in this Act to protect the vital interests of the people by sustaining the public credit and maintaining local government.

This act establishes a conditional three-year moratorium on enforcement of outstanding short-term obligations of the city, so as to avoid destructive actions during the time the city requires to regain its financial health. The moratorium will be effective only as to those holders of city notes who are first offered an opportunity to exchange their short-term obligations for long-term bonds of the Municipal Assistance Corporation for the city of New York, and who, in the event of refusal, receive continuing interest payments on their short-term obligations as specified in this Act.

The purpose of the moratorium is to ameliorate the disastrous consequences, to taxpayers, to holders of short-term obligations and to city residents, of an inability by the city to meet its financial and governmental responsibilities in full. The limited and conditional moratorium established by this act is intended to avoid undue disruption of the process of financial recovery already underway, so as to facilitate restoration of the city's financial integrity and the payment of all its obligations.

§2. The New York state emergency moratorium act for the city of New York is hereby enacted to read as follows:

NEW YORK STATE EMERGENCY MORATORIUM ACT
FOR THE CITY OF NEW YORK

Section 1. Short title.

2. Definitions.
3. Enforcement of judgments and liens on account of short-term obligations suspended.
4. Actions upon short-term obligations suspended.
5. Conditions of suspension.
6. Issuance by city of evidence of indebtedness not prohibited.
7. Statute of limitations not to run during moratorium.

Section 1. Short title. This act shall be known and may be cited as the "New York State Emergency Moratorium Act for the City of New York."

§2. Definitions. As used in this act, the following words and terms shall have the following meanings unless the context shall indicate another or different meaning or intent.

1. "City" means the city of New York.
2. "Short-term obligations" means tax anticipation notes, bond anticipation notes, revenue anticipation notes, budget notes and urban renewal notes of the city which are outstanding on the effective date of this act.
3. "Moratorium period" means the period expiring three years from the effective date of this act unless shortened by act of the legislature.
4. "Replacement obligation" means a bond, note or other evidence of indebtedness of the municipal assistance corporation for the city of New York created by section three thousand thirty-three of the public authorities law.

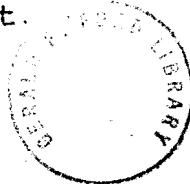
5. "Offer" means an opportunity to exchange a short-term obligation for a replacement obligation which is disseminated by publication at least once in each of two consecutive weeks in a financial newspaper and in a newspaper of general circulation, customarily published at least once a day for at least five days (other than legal holidays) in each calendar week, printed in the English language and circulated in the city.

§3. Enforcement of judgments and liens on account of short-term obligations suspended. During the moratorium period, and notwithstanding any inconsistent provisions of any law, general, special or local, or of any agreement or short-term obligation, no act shall be done, and no action or special proceeding shall be commenced or continued in any court in any jurisdiction, seeking to apply or enforce against the city, or any political subdivision, agency, instrumentality or officer thereof, or their funds, property, receivables or revenues, any order, judgment, lien, set-off or counterclaim on account of any short-term obligation, or the indebtedness or liability evidenced thereby, or seeking the assessment, levy or collection of taxes by or for the city or the application of any funds, property, receivables or revenues of the city on account of any such short-term obligation, or the indebtedness or liability evidenced thereby, although the payment of such short-term obligation may be due by the terms thereof or any general or special or local law or agreement.

§4. Actions upon short-term obligations suspended. During the moratorium period, and notwithstanding any inconsistent provisions of any law, general, special or local, or of any agreement or short-term obligation, no action or special proceeding shall be commenced or continued upon any short-term obligation, or the indebtedness or liability evidenced thereby, although the payment of such short-term obligation may be due by the terms thereof or any general or special or local law or agreement.

§5. Conditions of suspension. Notwithstanding the foregoing provisions, any person who would otherwise have the right to do the acts or commence or continue the actions or special proceedings suspended by such provisions, shall have the right, unless waived in writing by such person, to make an application to any court in which such an action or special proceeding might be brought, upon thirty days' notice to the city pursuant to subdivision two of section three hundred eleven, of the civil practice law and rules, and if upon such application it shall appear to the satisfaction of the court that either of the following conditions shall not have been met, then, the court shall order the termination of the suspension provided by sections three and four of this act as applied to such person:

(A) That, either before the date of maturity of the short-term obligation held by such person or not later than sixty days after such date of maturity, an offer shall have been made to exchange such short-term obligation for a replacement.



as
amended
by
Ch. 875

4

obligation having a date of maturity no more than twenty years after the date of maturity of such short-term obligation and bearing interest, payable at least annually, at a rate of not less than six per centum per annum; and

(B) That interest on the short-term obligation held by such person, who does not accept the offer, shall have been paid to such person at the rate stated in such short-term obligation to the date of its maturity and, thereafter, at least annually, at a rate of not less than six per centum per annum and not less than the interest rate payable to any holder of such short-term obligations who has entered into an agreement with the city pursuant to section six or which provides for the extension of the maturity of the short-term obligations held by such holder until the principal of such short-term obligation is paid or otherwise discharged, and at such time shall have paid such additional interest, if any, as may be held to be mandated by the constitution of the state of New York or the United States.

§6. Issuance by city of evidence of indebtedness not prohibited. Nothing contained in this act shall be construed to prohibit or prevent the city from issuing to consenting holders of short-term obligations certificates or other evidence of indebtedness in payment, renewal or refunding of such short-term obligations.

§7. Statute of limitations not to run during moratorium. Any act or special proceeding within the scope of this act, which would have been maintainable at any time during the moratorium period, shall not be barred by any provision of article two of the civil practice law and rules, nor by any defense of laches, during a period of one year after the expiration of the moratorium period. This section shall not be construed to shorten the period within which any such action or special proceeding may be commenced.

§3. If any section, part or provision of this act shall be declared unconstitutional or invalid or ineffective by any court of competent jurisdiction, such declaration shall be limited to the section, part or provision directly involved in the controversy in which such declaration was made and shall not affect any other section, provision or part thereof.

§4. This act shall take effect immediately.



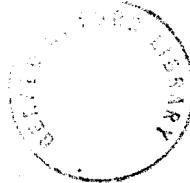
NEW YORK CITY: Draft of Possible Announcement

For the past eight months, this Administration has been working with officials of New York to find ways that they could overcome the financial difficulties of New York City.

Our position from the beginning has been that American taxpayers should not be saddled with responsibility for paying any of New York City's bills so long as they were unwilling to take tough, decisive actions on their own -- the kind of actions that have been sadly lacking in previous years.

I have said repeatedly that the Federal Government will not bail out the City of New York. Neither New York City nor any other city should ever become a permanent ward of the Federal Government. I have been steadfastly opposed to a bailout, and I remain opposed to it today.

In the early stages of our discussions, the New York representatives who met with me and with my advisers insisted



that the Federal Government should intervene quickly and in a massive way because they had exhausted most of their own resources. To be specific:

- They thought there was no possibility for them to raise taxes to cover their own expenses;
- They thought there was no possibility of renegotiating city contracts which were plainly excessive;
- They thought that State and local pension funds could not be used as a source of credit;
- They thought that their payment obligations to holders of New York City notes and bonds could not be renegotiated;
- And they thought that every possible cut had been made in the New York City budget.

The only option, they said, was for Washington to step in with a huge assistance program -- a program that inevitably



would have continued for years to come.

I could not agree to those terms. I could see no reason why the working people in communities across the country should be forced to pay for a level of extravagance that they could not afford in their home towns. I also did not want to be party to any plan that would erode the basic idea that cities should govern themselves -- that Washington should not make all the decisions and pay all the bills.

Many said it was right for me to stand tough. Others said it was wrong because I supposedly betrayed a lack of compassion and sympathy. I will leave it to the American people to decide whether it was right or wrong. What mattered then and what matters now are the results: whether New York is willing to take the lead in solving its own problems.

And today, I believe, we are seeing results.

In the last few weeks, we have seen a new spirit develop



in New York -- a "can do" spirit that was once the pride of the city and is now resurfacing. They are finally facing up to realities. They have rediscovered the backbone upon which so much of this country's greatness was built.

In September, the New York State Legislature passed a plan that would tide the city over through December. Pension funds were tapped. Municipal services were cut somewhat. The financial books that had been juggled for so many years were brought into line. The unions, the banks, the political leaders --all began to work together in a more cooperative and earnest way.

Yet even that was not enough. It was only a temporary bandaid, and everyone knew it. Thus I continued to receive urgent pleas for a Federal bailout, and we saw the beginnings of a campaign to stampede the Government and the people of this country into submission.



Such scare tactics were intolerable, and I said so. We were not about to be frightened into a bailout.

Now, in the eleventh hour when the temporary program is about to expire, the officials of New York have come together in a concerted, all-out effort to put the city's finances on a sound basis -- exactly what we have been asking them to do all along.

The outlines of their plan were first presented to my Administration last week. Since then, many additional details have been hammered out so that all of us have a better understanding of exactly what New York is willing to do for itself.

Let me outline the essence of their self-help program:

One, they will raise nearly \$1 billion in new city and State taxes.

Two, they will postpone payments on many of their debts



and they will reduce their interest payments. In more technical language, this amounts to a rescheduling of their debt.

Three, they will for the first time require municipal employees to bear part of the costs of their pensions and they will make other fundamental changes in their extraordinarily expensive pension plans.

Four, they will make further and significant cuts in the costs of running the city through personnel reductions and other economies.

And five, the city pension system will provide additional loans of up to \$2.5 billion to the city.

All of these steps are part of a broader effort to bring New York City's budget into actual balance within three years, as now required by the law of that State.

All of these steps, I might add, are precisely what was



thought be out of the question only a few months ago.

This is a tough, constructive program, and the leaders of New York, including the Governor, the Mayor, and the public-spiriting citizens who have served so ably on the Municipal Emergency Financial Control Board and in other capacities, deserve the heartfelt thanks of all Americans who wanted to see New York survive this ordeal with its pride intact.

Having traveled this far -- perhaps 90% down the road -- the officials of New York have come to me and said, in effect: will you help us complete this journey?

New York, they are saying, has done everything you asked us to do originally. New York will take care of all of its old debts without a Federal bailout. What we are asking you, the Federal Government, to do now is to assist us only in a single, narrow area -- to help us on a short-term



basis in providing essential services to the eight million Americans who live in the nation's largest city.

My fellow Americans, I believe the time has come for all of us now to join with the people of New York in resolving this issue. They have built almost all of the bridge back to safe ground. They have done what is fair and what is right. Now we can -- and should -- put the last span in place on their bridge.

To that end, I will submit legislation to the Congress asking for authority to provide up to \$1.5 billion in temporary Federal assistance to New York City. This assistance will in the form of _____ and will be used for only one purpose: to help them pay the cost of future services for the people of that city. The loans will also be made on a seasonal basis: money will be lent out during the first three months of the year and will be repaid to the Federal



Government during the next three months. The total pricetag on Federal involvement is less than half of what New York officials first requested; indeed, because the city and State are acting so affirmatively, I believe we can say with reasonable confidence that this plan will not cost the American taxpayer a single dime.

The officials of New York -- including the governor, the mayor, the banks, and others -- have already provided me with written assurances that they will carry out their part of this program.

To guarantee that performance, the legislation I am proposing will require that the assistance provided by the Federal Government be continually reviewed and then swiftly terminated upon a failure by any party to live up to its obligations.

The actions that New York is taking are those which



ordinarily occur during a bankruptcy proceeding. Thus, as the New York Times said last week, this action on the part of New York City amounts to a technical default. Yet some will argue that this is not really a default since no formal bankruptcy has taken place.

I don't really think it makes any difference what we call it. What is important is that New York is acting decisively to overcome its own problems and will not surrender its sovereignty to Washington. It is upon that basis that I believe the Federal Government should now join in.

Two weeks ago, in an address here in Washington, I said that to be acceptable, the solution to New York City's problems had to meet three basic tests. This plan meets those tests.

* * * First, it maintains essential public services for the people of New York City. Everyone has agreed that they



should not become innocent victims in this ordeal.

Second, the solution assures that New York City will achieve and maintain a balanced budget in the years ahead. New York is demonstrating that it can take care of its problems through its own initiative.

And third, this solution guarantees that New York City will not become a ward of the Federal Government. Our aid will be stringently limited. Bureaucrats here in Washington will not take over New York City, and the American taxpayers will not be compelled to pay New York City's bills for years to come.

I believe that this is a sound and wise solution -- one that all Americans can support.

(Conclusion to be added)



THE WHITE HOUSE

WASHINGTON

November 14, 1975

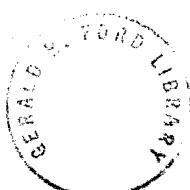
Dear Congressman Patman:

I want to thank you for your letter of October 29, commenting on my remarks before the National Press Club regarding the New York City financial crisis. I surely did not wish to give the impression that I favor unequal or inequitable treatment of the various participants in the crisis, and so I welcome this opportunity to clarify the record. In my view all investors in New York City securities should be subject on an equal basis to any delays or reductions that may occur in the payment of interest or principal of their securities.

I am sure you will agree that our national financial system should not be permitted to become disrupted because of the New York City problem. This may well mean that some banks will require access to a temporary source of liquidity, which I am informed the Federal Reserve is prepared to provide, in order to meet their obligations to depositors and other customers. It may even mean, in a few cases, that additional capital will be needed from market sources or perhaps from the FDIC. But I can assure you that, if need be, the bankers would have to take their losses, in both income and principal, just as would any other investor in the City's securities.

Sincerely,

The Honorable Wright Patman
House of Representatives
Washington, D.C. 20515



November 3, 1975

Dear Mr. Chairman:

Thank you for your October 17 letter to the President concerning on his speech before the National Press Club, and requesting that you be informed what steps are being taken to ensure that his announced policy with respect to no Federal bail-out for New York City will be implemented.

I have passed along your letter for the early attention of the President and his advisors who have the substantive responsibility in this area.

With kind regards,

Sincerely,

Vernon C. Lowe
Deputy Assistant
to the President

The Honorable Wright Patman
House of Representatives
Washington, D.C. 20515

✓ bcc w/inc to Wm Seidman - for further ACTION (note: an advance copy of the incoming has been sent to you).
bcc w/inc to Jim Cannon - FYI
bcc w/inc to Hal Eberle (Treasury) - FYI

VCL:EF:rg



WRIGHT PATMAN
FIRST DISTRICT
STATE OF TEXAS

WASHINGTON ADDRESS:
2328 RAYBURN HOUSE OFFICE BUILDING
20515

HOME ADDRESS:
P.O. BOX 1868, TEXARKANA, TEXAS
75501

COMMITTEES:
BANKING, CURRENCY AND HOUSING
JOINT ECONOMIC COMMITTEE
JOINT COMMITTEE ON DEFENSE PRODUCTION

Congress of the United States
House of Representatives
Washington, D.C. 20515

October 29, 1975

The President
The White House
Washington, D. C.

My Dear Mr. President:

As I understand your speech before the National Press Club concerning the financial problems of New York City, you are suggesting that there be no assistance until the city enters default and goes through bankruptcy proceedings in the Federal courts. You indicated that there would be two major beneficiaries of any pre-default assistance -- the present officials of New York City and the commercial banks or other large investors who purchased the city's securities. You made it clear that you opposed a "bail out" of either group.

It is well-known that the Federal banking agencies, particularly the Federal Reserve, have often provided direct and indirect bail-out mechanisms for commercial banks when they have been caught with bad investments. As you know, there has been Congressional testimony and news reports about such assistance in relationship to the troubled Real Estate Investment Trusts, to feed lot operators, and of course, it is a matter of public record that the now-defunct Franklin National Bank was provided about \$1.7 billion in bail-out assistance from the Federal Reserve.

Judging from the tone of your speech, which is clearly ("anti bail-out"), I assume that such mechanisms would not be employed in this instance and that the commercial banks and other investors would, like the city, be required to seek relief in the courts. I assume that you have discussed this with Federal Reserve Board Chairman Arthur Burns and other bank regulatory officials and that you have instructed them that there will be no behind-the-scenes bail-outs employed by these agencies.



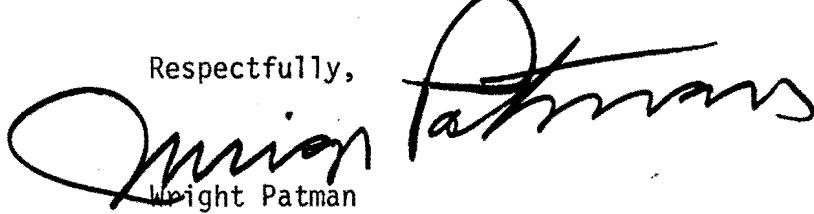
The President

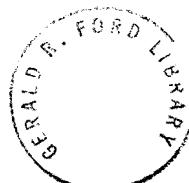
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October 29, 1975

In conclusion, Mr. President, your speech very clearly indicated to the American public and the Congress that it is your policy that the municipality and those who have invested in its securities are to be treated alike and that their basic remedies lie in bankruptcy proceedings. This would represent a significant change in policy toward the commercial banking industry and other investors who make bad judgments. I am most interested in learning how you plan to implement this policy at the Federal Reserve and the other regulatory agencies and what steps will be taken to monitor their continuing relationships with the institutions which hold the New York City paper in question.

Respectfully,


Wright Patman



(WJ)

November 12, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: MAX FRIEDERSDORF

SUBJECT: New York City

Paul Nelson of the House Banking and Currency Committee advises that Chairman Reuss will take the Reuss-Ashley New York Guarantee Loan Bill to House Rules on Friday and they expect to schedule it on the House floor for Monday, November 17.

bcc: Jack Marsh
Dick Cheney
~~Bill Seidman~~
Alan Greenspan



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

November 14, 1975

TO: Mr. Seidman

FROM: Arthur F. Burns

Attached is a draft letter for the
President's signature that you requested.

Attachment.

To Pres
cc: Pres



The Honorable Wright Patman
House of Representatives
Washington, D. C. 20515

Dear Mr. Patman:

I want to thank you for your letter of October 29, commenting on my remarks before the National Press Club regarding the New York City financial crisis. I surely did not wish to give the impression that I favor unequal or inequitable treatment of the various participants in the crisis, and so I welcome this opportunity to clarify the record. In my view all investors in New York City securities should be subject on an equal basis to any delays or reductions that may occur in the payment of interest or principal on their securities.

I am sure you will agree that our national financial system should not be permitted to become disrupted because of the New York City problem. This may well mean that some banks will require *debt-informed* access to a temporary source of liquidity, which the Federal Reserve is prepared to provide, in order to meet their obligations to depositors and other customers. It may even mean, in a few cases, that additional capital will be needed from market sources or perhaps from the FDIC. But I can assure you that, if need be, the bankers would have to take their losses, in both income and principal, just as would any other investor in the City's securities.

Sincerely,

