

ciation. Price Waterhouse estimates that the value of depreciation benefits will fall by 40% under the Treasury option, the Ways and Means Committee option, and the final version passed by the House, for real estate held for 30 years.

Also, appreciation of property held for investment purposes would not be taxed at the 20% capital gains rate, but at the 35% ordinary rate, under the tax reform proposals.

In conclusion, the rate of return on 80-percent-leveraged real estate would fall by 40%. That is the most typical case for the major commercial office market.

The crisis in government finances

The Treasury will be presented with a large part of the bill for the collapse of the real estate market, and associated banking sectors. The Treasury's direct or indirect commitment to the real estate market at the end of 1984 is shown in Table 4.

Of the Treasury commitments, the most vulnerable portion is the Federal Home Loan Banks' direct advances to S&Ls, which rose to \$82.7 billion as of the end of 1985. The Federal agencies' holdings of home mortgages have already become a problem, particularly for the Federal National Mortgage Association, with \$92 billion in liabilities and only \$1.3 billion in capital, forcing FNMA to announce a tightening of standards for purchases of mortgages last fall.

Far and away the biggest problem is the simple FSLIC guarantee of \$1 trillion of S&Ls deposits, not including the FDIC's guarantee of \$300 billion of savings banks' deposits, at a point when the entire system may collapse. The Treasury's liability can rise up to a significant proportion of total deposits, under conditions of a generalized run against the S&Ls.

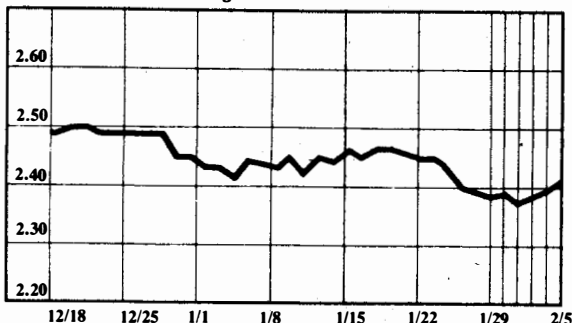
TABLE 4
Treasury commitments in the real estate market
(Billions \$)

	Amount
Sponsored credit agencies	
Housing credit	176.0
FHLB advances to S&Ls	74.6
Residential mortgages	101.4
Federally related mortgage pools	
Total mortgage holdings	289.0
Home mortgages	283.0
Multi-family mortgages	5.5
Farm mortgages	0.5
Total housing credit	464.5

Currency Rates

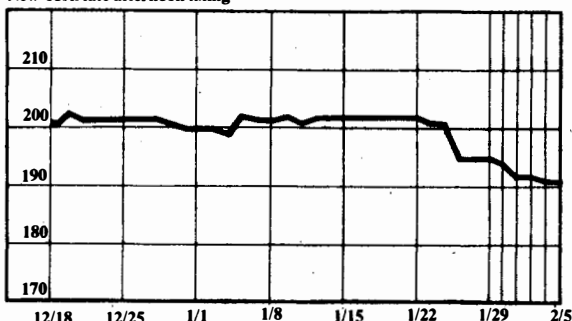
The dollar in deutschemarks

New York late afternoon fixing



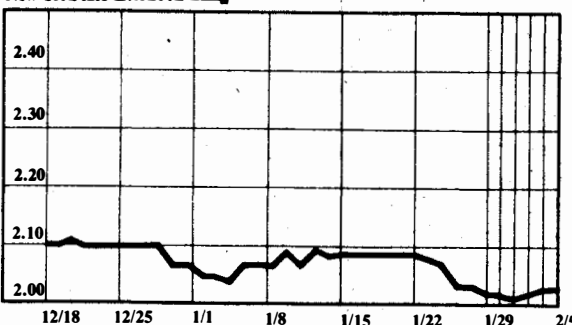
The dollar in yen

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing

