

Kenneth L. Lay  
CAR Comments  
December 1, 1993

*Terms of PAH*  
- stock secured  
policy advanced  
or less if Reg U  
governed  
- one year notes  
LKL

Executive Summary

This CAR requests two credit facilities totalling \$12.5MM and an \$18.5MM PAL for Ken Lay, Chairman and CEO of Enron Corp. The facilities are structured as follows:

Facility A (Purpose Credit): \$10.5MM  
Facility B (Non-Purpose Credit): \$2.0MM

The purpose of Facility A is to fund purchases of margin stock, most likely Enron Corp. stock. Lay intends to use a portion of these proceeds to refinance a \$5MM loan originally advanced to him by Enron for the purpose of acquiring Enron stock. In addition, Facility A will refinance existing term debt (\$1.4MM) advanced to Lay by NationsBank over the past few months and secured by listed stock. The purpose of Facility B will be to finance personal expenses and will be non-purpose credit under Regulation U. Collateral for both facilities will consist of listed stock which will be pledged at the time of each advance; however, Facility A will require a 50% LTV (this loan will be purpose credit as defined by Regulation U), and Facility B will have a 70% LTV. Collateral to be pledged at each advance will be subject to bank approval (City Manager and Credit Policy Executive) based on trading volume, price stability, etc. Pursuant to a collateral maintenance agreement, margin calls will occur at a 75% LTV, upon which Lay will be required to pledge additional shares or reduce the outstanding loan balance to reduce the LTV to 70% (see comments below for related Regulation U issues). This underwriting decision is based on the marketability and collateral coverage of the Enron stock or other listed stock securing this facility. Interest will be payable quarterly and the outstanding principal will be due at maturity, one year from closing. The facility is priced at LIBOR (30,60, or 90 days) plus 175bp with no fees (67% relationship ROE). The recommended risk rating is '4' based on the collateral (consistent with Credit Policy guideline for risk ratings on loans secured by readily marketable stock) and the exposure strategy is 'maintain'.

Lay became a NationsBank customer in August 1993 and was introduced to the Private Bank by Joe Musolino. The bank has funded approximately \$2.4MM to enable Lay to exercise stock options and invest in certain mutual funds. The purpose of this request is to roll this debt into a master facility and expand Lay's credit availability by approximately \$6MM based on his significant holdings of Enron stock and options. Of note, the existing one-year, \$1MM term loan secured by listed stock, mutual funds and a partnership interest will not be refinanced by this facility. Lay currently has relationships with Texas Commerce Bank (\$1.5MM line) and Charter Bank (\$5MM line), and he has expressed a desire to expand his relationship with NationsBank. The Energy Banking Group has approximately \$125MM in credit exposure to Enron on an unsecured basis (risk rating of 5).

Transaction Analysis

- **Credit Policy Exceptions:** 1) Lay's financial statements do not contain full disclosures such as certification language, contingent liabilities and complete cash flow information. 2) Lay's financial statement is over six months old. Waiver of these credit exceptions is requested based on the marketability and collateral coverage provided by the stock securing

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this facility. As this relationship grows, RM will attempt to obtain more detailed financial information. Of note, Lay's financial assistant, Sally Keepers, verbally stated to RM that Lay has no contingent liabilities.

- **Use of Proceeds.** Lay intends to use proceeds of these facilities to fund investments in marketable securities and to finance personal expenses. While Lay currently has margin debt secured by NYSE stocks such as Compaq Computer and Eli Lilly, it is likely that he will primarily use this line to finance purchases of Enron stock. Furthermore, Lay intends to refinance a \$5MM loan made to him by Enron for the purpose of purchasing Enron stock. The following table details total corporate exposure to Lay and the anticipated usage of these facilities:

	<u>Amount</u>
<b>Facility A:</b>	
Refinance Enron Corp. Loan (secured by Enron stock)	\$5,000,000
Refinance NationsBank margin debt	\$1,429,600
Add'l Purpose Credit Availability	<u>\$4,070,400</u>
Total Facility A	\$10,500,000
<b>Facility B:</b>	
Non-Purpose Credit Availability (70% LTV; listed stock)	\$2,000,000
Other NationsBank Exposure (secured by various securities)	<u>\$1,000,000</u>
<b>TOTAL CORPORATE EXPOSURE</b>	<b>\$13,500,000</b>

Advances under Facility A will be considered 'purpose credit' as defined by Regulation U. As a result, each advance must have 2 to 1 collateral coverage. However, according to NationsBank counsel (Linda Zimmerman), Reg U does not require additional monitoring unless Lay subsequently requests a release or substitution of collateral. Facility B will have a 70% advance ratio against approved listed stock taken as collateral.

- **Repayment Sources.** Although Lay has substantial cash flow generating ability, the primary repayment source for this loan is the timely liquidation of marketable securities by Lay. Enron has recently been trading near its 52-week high of \$37 as a result of strong earnings growth, and average trading volumes should allow Lay to liquidate shares in an orderly manner. Enron is a fully integrated natural gas company whose interests in gas pipelines, exploration and production, natural gas liquids and power generation provide diversification.

Secondary sources of repayment include Lay's earnings from his employment at Enron and the substantial value of Lay's unexercised Enron stock options (value of currently exercisable options is approximately \$3.4MM).

- **Collateral/Rule 144.** Lay beneficially owns less than 1/2% of Enron's outstanding shares. However, due to Lay's position as Chairman and CEO, he must follow the control restrictions of Rule 144. After satisfying the standard public reporting requirements, the number of shares Lay may sell during any three month period may not exceed the greater of the following:

