originates rather than selling to Aames for securitization.

PacificAmerica may also begin purchasing loans itself, further increasing competition for Aames and forcing it to pay.

Aames does have this advantage: With its high-flying stock it can purchase other subprime mortgage houses. In August, Aames bought One Stop Mortgage, a Costa Mesa, Calif.-based originator and purchaser of loans, and it may acquire other such outfits.

The company also plans to increase its origination of loans. "We're continuing to build our retail outlets nationally," says Aames Chief Executive Gary Judis. Note, however, that competition is making loan originations much less profitable.

Delinquency and charge-off rates for subprime lenders will increase "materially" over the next few years.

On top of all this, Aames has a cash problem. Its actual cash earnings lag its reported profits, the inevitable result of booking future income as current income.

Yet Aames must pay a major expense—its loan acquisition costs, which run from 4% to 6% of the acquired loans' face value—in hard coin. In fiscal 1996 net cash used to pay these and other expenses was $122 million, or $7 per share.

Ever eager to help a cash-poor company raise capital, Wall Street just underwrote 2.1 million new Aames shares at $51 each. At the same time the company inked another deal to raise $150 million in senior notes.

But while the public was buying, Judis was selling. This year Judis has sold about 500,000 Aames shares, about one-third of his holdings.

Judis claims that as the stock has risen, he has had to sell it to diversify his assets. "Still my concentration in Aames stock well exceeds 30% of my net worth," he says. But chances are he wouldn't feel the need to diversify if he thought the stock were going higher.

Wealthy Americans who were planning to renounce their citizenship in order to save on taxes have a new problem to consider.

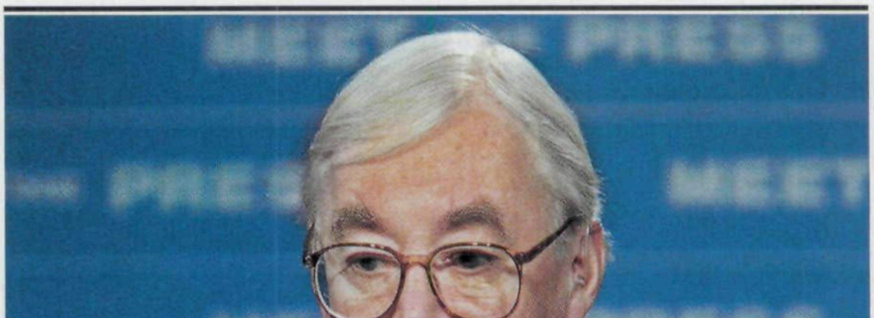
And don't come back

By Robert Lenzner

AFTER DECADES of being a successful American industrialist, former Wheelabrator-Frye Chairman Michael Dingman became a taxpatriate a few years ago. Like a growing number of wealthy people, Dingman renounced his U.S. citizenship. He became a citizen of the Bahamas and began spending most of his time on his yacht and in his new waterfront palace in Lyford Cay, Bahamas.

As a non-U.S. citizen, Dingman couldn't vote in U.S. elections or carry a licensed weapon. But he was able to escape the U.S.' increasingly punishing taxes on income and cap-

AP / WIDE WORLD PHOTOS



The Senate Finance Committee's senior Democrat, New York's Daniel Patrick Moynihan
"You have to be careful to protect the rights of people you despise."

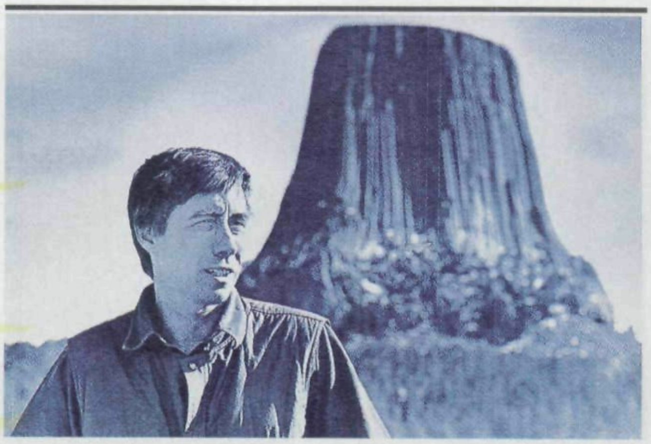
ital gains. And he had a legal right to visit his old country for up to 120 days every year, without facing tax penalties. Other wealthy taxpatriates include Ted Arison, the Carnival Cruise founder, and John T. Dorrance III, a Campbell Soup heir.

When FORBES showed that the trickle of taxpatriates threatened to become a small flood *(Nov. 21, 1994)*, an outcry erupted in Washington. But rather than address the root of the problem—high taxation—the pols tried to impose special taxes on future taxpatriates' wealth.

In February 1995 the Democrats proposed creating an exit tax of 28% of appreciated gains on all assets as the price of leaving—in essence making the taxpatriate pay a capital gains tax on his holdings as if he had liquidated them on the way out of the country. But lobbyists for would-be tax refugees were able to block that proposed legislation by arguing that it violated their international human rights.

Next step: In August 1996 the Republicans pasted some anti-taxpatriate language into the Health Insurance Portability & Accountability Act. This law now subjects expatriates with a net worth of over $500,000 to taxation on their income earned in the U.S. for ten years from the time they renounce their citizenship, no matter where they live or whose flag they salute. But this is a law without teeth. Any clever entrepreneur can live by borrowing against assets rather than paying himself an income. Any good international tax lawyer can move ownership of U.S. assets into a foreign corporation or trust, thus making most taxpatriates' U.S.-sourced income vanish.

The latest effort to keep intrepid taxpatriates on the reservation was passed with no fanfare in early October. A little-noticed provision of the Illegal Immigration Reform & Immigrant Responsibility Act of 1996 says, in essence, that Americans can still renounce their citizenship and flee to tax havens like the Bahamas, Ireland and Switzerland. But if they do, they can't necessarily come back to the U.S., not even to visit the grandkids or attend their college reunions.



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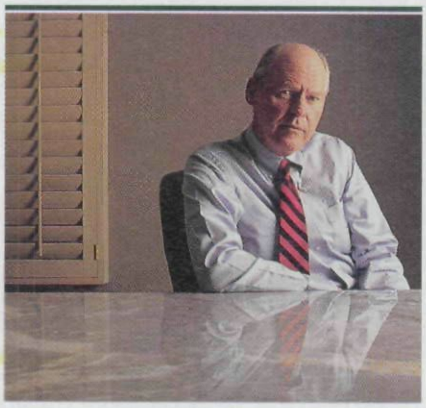

ROBERT BURROUGHS / GAMMA LIAISON NETWORK

John T. Dorrance III and Michael Dingman

They, and other former U.S. citizens who pay little or no taxes to Uncle Sam, can spend 120 days in the U.S. But flee now, and you may never visit these shores again.

Under the new law, the taxpatriate—any expatriate for that matter—must apply for a visa for every visit. The law states that the U.S. Attorney General may prohibit the issuance of a visa to a former U.S. citizen if there are solid grounds to believe that citizenship was renounced in order to avoid taxes.

In short, taxpatriates will now be treated as exiles without any visiting rights, just like the illegal immigrants the U.S. wants to cut off.

Michael Dingman and other taxpatriates who renounced their U.S. citizenship before February 1995 won't be affected by either of the two new anti-taxpatriate laws. They have been grandfathered. But several would-be taxpatriates have been caught between the dock and the departing ship.

Joseph Bogdanovich, 84, is the chairman of Star-Kist Foods and is vice chairman of H.J. Heinz Co. Bogdanovich became a citizen of another country—Heinz won't say which—in December 1994. But he did not receive his certificate of loss of U.S. nationality until Feb. 14 of 1995. That was eight days after the deadline mandated by the Clinton Administration's proposed 28% exit tax, meaning Bogdanovich would have been subject to the exit tax had it gone through.

Bogdanovich hired lobbyists who helped defeat the exit-tax proposal, but he is still subject to August's law subjecting taxpatriates to U.S. taxes on U.S.-sourced income. It is not clear whether Bogdanovich was able to spirit his assets out of the country, but his 3.8 million shares of H.J. Heinz, worth $137 million, are now held in trust. Heinz will say only that Bogdanovich works out of Heinz's U.K. headquarters in London, acquiring fish supplies for Star-Kist.

As to Bogdanovich's status under last month's Illegal Immigration Reform & Immigrant Responsibility Act: He was grandfathered.

The matter isn't settled. Daniel Patrick Moynihan (D–N.Y.), the Senate Finance Committee's ranking Democrat, thinks that treating taxpatriates like illegal immigrants is a bad idea.

"You have to be careful to protect the rights of people you despise," says Moynihan. "Our legislation which called for a capital gains tax on appreciated assets as the price of expatriation was a fairer way to deal with the problem. What passed was a bad bill."

In short, if the Democrats ever regain control of the tax-writing committees, there will probably be another effort to discourage taxpatriation—not by lowering existing taxes, but by imposing new taxes. ■