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Page 112 ~ Referral/Consult;
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Page 114 ~ Referral/Consult;
Page 115 ~ Referral/Consult;
Page 117 ~ Referral/Consult;

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X Deleted Page(s) X
X No Duplication Fee X
X For this Page X
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4-25-69

PLAINTEXT

TELETYPE

URGENT

79 cards sent to wfo 4-30-69 pjg

TO SACS WASHINGTON FIELD
CINCINNATI
ST. LOUIS
BALTIMORE
CHICAGO
LOUISVILLE
CLEVELAND

FEDERAL BUREAU OF INVESTIGATION
U. S. DEPARTMENT OF JUSTICE
COMMUNICATION SECTION
APR 25 1969
612PM EDT
TELETYPE

FROM DIRECTOR FBI

CHARLES H. KEATING, JR., SPECIAL INQUIRY, BUDED MAY TWO, NEXT, WITHOUT FAIL.

WHITE HOUSE HAS REQUESTED EXPEDITE INVESTIGATION OF KEATING WHO IS BEING CONSIDERED FOR PRESIDENTIAL APPOINTMENT, POSITION NOT STATED. BORN DECEMBER FOUR, NINETEEN TWENTY-THREE, CINCINNATI, OHIO. HE IS ENGAGED IN THE PRACTICE OF LAW IN CINCINNATI, OHIO, WHERE HE IS AFFILIATED WITH THE FIRM OF KEATING, MUETHING AND KLEKAMP. KEATING'S RESIDENCE ADDRESS IS NOT KNOWN.

BACKGROUND INFORMATION FURNISHED BY WHITE HOUSE INDICATES KEATING ATTENDED THE UNIVERSITY OF CINCINNATI RECEIVING J.D. DEGREE IN NINETEEN FORTYEIGHT. HE WAS ADMITTED TO PRACTICE LAW IN OHIO IN NINETEEN FORTYEIGHT.

Tolson
DeLoach
Mohr
Bishop
Casper
Callahan
Conrad
Felt
Gale
Rosen
Sullivan
Tavel
Trotter
Tele. Room
Holmes
Gandy

WHB:aag
(5)

REC-82 MCT-40 161-6327

See note page 3

2 ENCLOSURES

Return to Mr. BURKE, Room 1254.

14 APR 30 1969

7100

20 JUN 20 1969

MAIL ROOM TELETYPE UNIT

TELETYPE TO WASHINGTON FIELD
RE: CHARLES H. KEATING, JR.

BEFORE THE U. S. DISTRICT COURT, SOUTHERN DISTRICT OF OHIO, NINETEEN FIFTY; U. S. DISTRICT COURT, EASTERN DISTRICT OF KENTUCKY, NINETEEN FIFTYFOUR; AND THE U. S. SUPREME COURT IN NINETEEN FIFTYEIGHT.

KEATING IS THE FOUNDER AND PRESENTLY LEGAL COUNSEL OF CITIZENS FOR DECENT LITERATURE INCORPORATED. THIS IS AN OHIO CORPORATION AND HAS LOCAL AFFILIATES THROUGHOUT THE UNITED STATES. HIS WIFE IS MARY ELAINE KEATING AND THEY HAVE SIX CHILDREN. HE SERVED IN THE U. S. NAVAL AIR CORPS DURING WORLD WAR TWO. OTHER BACKGROUND FURNISHED BY WHITE HOUSE BEING SUBMITTED YOUR OFFICES BY AIRTEL.

CHECK RECORDS OF APPROPRIATE STATE AND FEDERAL BARS AND BAR ASSOCIATIONS INCLUDING ABA.

CINCINNATI, WASHINGTON FIELD, CHICAGO, AND CLEVELAND SEE YOUR FILES INDICATING KEATING WAS SUBJECT OF INVESTIGATION IN NINETEEN FIFTYSIX - FIFTYSEVEN CAPTIONED ATOMIC ENERGY ACT, FRAUD AGAINST THE GOVERNMENT AND ESPIONAGE - X. THOROUGHLY REVIEW YOUR FILES AND MAKE RECONTACTS WHERE NECESSARY. THE DEPARTMENT DECLINED PROSECUTION IN CONNECTION WITH THE AFOREMENTIONED INVESTIGATION.

TELETYPE TO WASHINGTON FIELD
RE: CHARLES H. KEATING, JR.

DUE TO THE URGENT NATURE OF REQUEST, IT IS IMPERATIVE THAT BUDED BE MET WITHOUT FAIL. NO DELAY WILL BE TOLERATED.

SPIN.

NOTE: Request received today from White House.

"The records of the American Bar Association, Chicago, Illinois, were checked and disclosed

☒ No record

☐ Current member

☐ Former member

Records contain no unfavorable information."

4-22a (Rev. 11-17-59)

NUMEROUS REFERENCE

SEARCH SLIP

Subj: _____

Supervisor _____ Room _____

R# 204 Date _____ Searcher Initial _____

Prod. JD

	FILE NUMBER	SERIAL
	Keating, Charles	
FBI	117-2070	
NI	1-8034-17	
NI	7-10445-2	
NI	29-15724-4 Kans SK 80	
NI	61-8879-29 P-17	
NI	61-10490-195	
NI	62-9-21-332 P. 76, 77	
NI	62-178901-502	
NI	62-75147-30-22 EP 66	
NI	24 EP 40	
NI	62-802169-12	
NI	20	
NO	63-4296-26-731	
NI	105-56402-42	
NI	101-3-1234	
NI	100-3-1236	
NI	100-135-15-216	
NO	94-46941-88	
NI	121-10429-1X	
NI	141-8946-6	
ND	145-1-967	
ND	145-1-1013	
ND	145-0-1872	

APR 24 1969

4-22a (Rev. 11-17-59)

NUMEROUS REFERENCE

SEARCH SLIP

Subj: _____

Supervisor _____ Room 125

R# 15 Date _____ Searcher Initial _____

Prod. 4

FILE NUMBER	SERIAL
Kesters, Charles (cont.)	
STL 145-1399 with pg 1	215 R151
NDL 145-1-A "Citizens from second elevation Capital News Service"	Wash P 151
	2-28-60
C.H.	
NI 100-10571	13 R151
NDL 94-53954 with pg	17 R151

APR 24 1969

Pg 3

4-22 (Rev. 1-22-60)

Federal Bureau of Investigation
Records Branch

_____, 19___

- [ ] Name Searching Unit - Room 6527
- [ ] Service Unit - Room 6524
- [ ] Forward to File Review
- [ ] Attention: _____ b6
- [x] Return to: _____ 1264 b7C
  Supervisor Room Ext.

Type of References Requested:
- [ ] Regular Request (Analytical Search)
- [x] All References (Subversive & Nonsubversive)
- [ ] Subversive References Only
- [ ] Nonsubversive References Only
- [ ] Main _____ References Only

Type of Search Requested:
- [ ] Restricted to Locality of _____
- [ ] Exact Name Only (On the Nose)
- [ ] Buildup [ ] Variations

Subject Charles Humphrey Keating
Birthdate & Place 12-4-23 Ohio
Address _____

Localities _____

R# _____ Date 4-30-69 Searcher Initials ZJ

Prod. _____

		FILE NUMBER	SERIAL
		NR	
		Charles H.	
	I	117-2070	
NP	I	145-999	
ND	I	62-9-52-251 p29	
NP	I	67-415876-74	
ND		94-8-214-198	
	I	94-53154-11	
	I	11 x2	
	I	17	
	I	21	
	I	30	
ND	I	32	
ND	I	34	
ND	I	145-0-A Wash. Post +	
		Times Herald 2-14-66	
SI	X	145-1399-215	

4-22a (Rev. 11-17-59)

NUMEROUS REFERENCE

SEARCH SLIP

Subj: Kealeha

Supervisor [redacted] Room 1264 b6 b7C

R# _____ Date 4-30 Searcher Initial Y

Prod. _____

	FILE NUMBER	SERIAL
	Charles	
T	117-2070	
	~~124-892~~	
	~~25-399030~~	
NK	9-4600	
NY	1-1152-15-89	
N.I.	1-8034-17	
NI	7-10445-2	
MF	29-15724-4	
NI.	61-8879-29 p 17	
NI	61-10490-195	
NI	62-9-21-332 p 76, 77;	
NI.	62-17890-502	
NI	62-75147-30-22 p 66	
NI	24 p 40	
NI	62-80269-12	
NI	20	
ND I	63-4296-26-731	
NI	65-56402-42	
NI	100-3-1234	
NI	1236	
NI	100-135-15-216	
NP	94-46940-88	

4-22a (Rev. 11-17-59)

NUMEROUS REFERENCE

SEARCH SLIP

Subj: Keating

Supervisor [redacted] Room 1264 b6 b7C

R# _____ Date 4-30-69 Searcher Initial JF

Prod. _____

	FILE NUMBER	SERIAL
	Charles	
NI	121-10429-1X	
NI	140-8946-6	
ND	145-0-967	
ND	1003	
ND	1072	
SI I	145-1399-215	
ND I	145-0-A Wash. Capital News Service 2-28-60	
	C. Humphrey nr	
	C. H.	
ND I	94-53154-17	
NI	100-10571-13	
	C.	
NI	62-31615-486	
NI	140-8946-1	
NI	44-5402-1	

4-22 (Rev. 1-22-60)

Federal Bureau of Investigation
Records Branch

, 19

- ☐ Name Searching Unit - Room 6527
- ☐ Service Unit - Room 652
- ☐ Forward to File Review
- ☐ Attention
- ☑ Return to [redacted] 1254
  Supervisor Room Ext.

b6
b7C

Type of References Requested:

- ☐ Regular Request (Analytical Search)
- ☑ All References (Subversive & Nonsubversive)
- ☐ Subversive References Only
- ☐ Nonsubversive References Only
- ☐ Main _____ References Only

Type of Search Requested:

- ☐ Restricted to Locality of
- ☐ Exact Name Only (On the Nose)
- ☐ Buildup ☐ Variations

APR 24 1969

Subject Charles H. Keating Jr.
Birthdate & Place 12-4-23 Ohio
Address

Localities

R# 250 Date 4-24 Searcher Initials L.W

Prod. 13

	FILE NUMBER	SERIAL
	117-2070	
NPX	145-999	
NPX	62-9-52-251 P.29	
NPX	67-415876-74	
NPX	94-8-214-198	
NPX	94-53154-11	
NPX		11X2
NPX		17
NPX		21
NPX		30
NPX		32
NPX		34
NPX	145-0-A. Wash. Post and Times Herald 2-14-66	
SPX	145-1399-215	

Blurbs

N. APR 24 1969

THE WHITE HOUSE
Washington

MEMORANDUM

DATE April 23, 1969

TO : Mr. Cartha D. DeLoach, FBI

FROM : John D. Ehrlichman

SUBJECT : FBI Investigation

Subject's Name KEATING, CHARLES H. JR.

Date of Birth 12/4/23 Place of Birth Cincinnati, Ohio

Present Address 1811 Provident Tower, Cincinnati, Ohio

Egil Krogh has requested:

Telephone request for name check. Results telephonically furnished White House staff member Dave Gergen's office 4/24/69 WJB

___ Copy of Previous Report

X Name Check - Please Call us as soon as possible.

X Full Field Investigation

Sel To: wfo Ci, Sl, Ba, Cg, Lv, & CV 4-25-69 WHB/pjg

Sel to: wfo, Ci, Sl, Ba, Cg, Lv, & CV 4-25-69 WHB/pjg

Sel to: wfo, Ci Sl, Ba, Cg, Lv, CV 4-29-69 WHB/pjg

The person named above is being considered for:

___ White House staff position

X Presidential appointment

___ Position with another Agency

ATTACHMENTS:

___ SF 86 (in duplicate)

___ SF 87, Fingerprint Card

X Biography - ~~will be sent tomorrow.~~

REMARKS:

REPORT SHOULD BE DELIVERED BY FBI TO: JOHN D. EHRLICHMAN

161- 6327 -1

ENCLOSURE

CDL

Citizens for Decent Literature inc.

18th FLOOR, PROVIDENT TOWER • CINCINNATI, OHIO 45202

Phone- 513-381-1150

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213 - 352-2069

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Rt. Rev. Msgr. Nicholas H. Wegner
Director, Boys' Town, Nebraska

BIOGRAPHICAL SKETCH

CHARLES H KEATING, JR.

Personal:

Born, Cincinnati, Ohio, December 4, 1923. CI 1
Married (Mary Elaine); six children.
Senior partner, law firm of Keating, Muething & Klekamp, Cincinnati, Ohio.
Fighter pilot, United States Naval Air Corps, World War II. STL WFO BA
National Collegiate Swimming Championship.
Member, All-American Swim Team.

Legal Background:

Admitted to Ohio Bar, 1948.
1950, U. S. District Court, Southern District of Ohio. CI & CG
1954, U. S. District Court, Eastern District of Kentucky. LS
1958, U. S. Supreme Court.
Legal education: University of Cincinnati (J. D., 1948). CI
Fraternity: Phi Alpha Delta.
Member: Cincinnati, and Ohio and Kentucky State Bar Associations. CI & LS
Rated "av" by Martindale-Hubbell.

Business Background:

Member of the Board of Directors and Executive Committee of American Financial Corporation (assets in excess of $400 million).
Member of the Board of Directors and Executive Committee of Lindner Enterprises.
Member of the Board of Directors and Executive Committee of The Provident Bank (assets in excess of $200 million).
Member of the Board of Directors and Executive Committee of United Liberty Life Insurance Company.
Member of the Board of Directors of The Security Bank, Athens, Ohio.
Member of the Board of Directors of The New Richmond National Bank, New Richmond, Ohio.
Member of the Executive Committee, The Athens National Bank, Athens, Ohio.
Member of the Executive Committee, Hunter Savings Association.

161 — 6327 1

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Chicago, Illinois

William Voll
South Bend, Indiana

Carl Wall
Fort Wayne, Indiana

Hon. Vincent Yano
Honolulu, Hawaii

Citizens for Decent Literature, Inc.:

CI

Founder (1956) and present Legal Counsel.
CDL is an Ohio corporation with local affiliates throughout the United States. CDL is a non-profit, non-sectarian, non-political corporation with national headquarters in Cincinnati, Ohio, formed for and dedicated to the cause of good, decent, and wholesome literature, with a view to oppose and eliminate obscene literature by cooperating with law enforcement in the enforcement of the laws.

Outline of Legal Activities for CDL:

Assisted local prosecutors in preparation of their cases.
Called as an expert witness in obscenity trials.
Appeared as amicus curiae in prosecutions and appeals on all court levels.
Submitted amicus curiae briefs in support of the prosecution in important obscenity cases on all court levels, including the U. S. Supreme Court, among them the famous Ginzburg, Mishkin, and Fanny Hill cases.
Testified before Congressional committees and sub-committees.

Other Activities for CDL:

Travels extensively (estimated at 100,000 miles each year) throughout the United States speaking and organizing CDL units which has given him a background unmatched in seeing the problems this nation faces as a result of the obscenity so prevalent in the mass media.
Appeared on numerous local (in the cities he visits) and national television and radio programs.
Has been the subject of articles in the Reader's Digest (series of seven), The Wall Street Journal, National Observer, and other similar publications.

Awards for CDL Work:

1962, San Francisco Federation of High Schools Annual Youth Award (previously given to Dr. Tom Dooley, the Lennon Sisters, Walt Disney).
1964, American Legion Child Welfare Award.
1964, National Kolping Society Annual Service Award.
1965, Xavier University's Annual St. Francis Xavier Medal Award (previously given to Bishop Fulton J. Sheen, Stan Musial, Father Charles Dismas Clark--the "Hoodlum Priest," President John F. Kennedy (posthumously), Carlos Romulo).

FBI WASH TO

Bannerman

SE ONLY

DCH	NR	4/29	JAB
AIRR			
NIS			
OSI			
STATUS:			

FBI WASH DC

557PM URGENT 4-25-69 BJP

TO WASHINGTON FIELD CINCINNATI ST LOUIS BALTIMORE CHICAGO

LOUISVILLE CLEVELAND

FROM DIRECTOR 161-6307 2P

CHARLES H. KEATING, JR., SPECIAL INQUIRY, BUDED MAY TWO, NEXT, WITHOUT FAIL.

WHITE HOUSE HAS REQUESTED EXPEDITE INVESTIGATION OF KEATING WHO IS BEING CONSIDERED FOR PRESIDENTIAL APPOINTMENT, POSITION NOT STATED. BORN DECEMBER FOUR, NINETEEN TWENTY-THREE, CINCINNATI, OHIO. HE IS ENGAGED IN THE PRACTICE OF LAW IN CINCINNATI, OHIO, WHERE HE IS AFFILIATED WITH THE FIRM OF KEATING, MUETHING AND KLEKAMP. KEATING'S RESIDENCE ADDRESS IS NOT KNOWN.

BACKGROUND INFORMATION FURNISHED BY WHITE HOUSE INDICATES KEATING ATTENDED THE UNIVERISTY OF CINCINNATI RECEIVING J.D. DEGREE IN NINETEEN FORTYEIGHT. HE WAS ADMITTED TO PRACTICE LAW IN OHIO IN NINETEEN FORTYEIGHT; BEFORE THE U.S. DISTRICT COURT, SOUTHERN DISTRICT OF OHIO, NINETEEN FIFTY; U.S. DISTRICT COURT, EASTERN DISTRICT OF KENTUCKY, NINETEEN FIFTYFOUR; AND U.S. SUPREME COURT IN NINETEEN FIFTYEIGHT.

END PAGE ONE

BA FILE TO BE DESTROYED [illegible]

161-FH

SEARCHED INDEXED
SERIALIZED FILED
APR 25 1969
FBI — BALTIMORE

KEATING IS THE FOUNDER AND PRESENTLY LEGAL COUNSEL OF CITIZENS FOR DECENT LITERATURE INCORPORATED. THIS IS AN OHIO CORPORATION AND HAS LOCAL AFFILIATES THROUGHOUT THE UNITED STATES. HIS WIFE IS [redacted] AND THEY HAVE SIX CHILDREN. HE SERVED IN THE U.S. NAVAL AIR CORPS DURING WORLD WAR TWO. OTHER BACKGROUND FURNISHED BY WHITE HOUSE BEING SUBMITTED YOUR OFFICES BY AIRTEL. b6 b7C

CHECK RECORDS OF APPROPRIATE STATE AND FEDERAL BARS AND BAR ASSOCIATIONS INCLUDING ABA.

CINCINNATI, WASHINGTON FIELD, CHICAGO, AND CLEVELAND SEE YOUR FILES INDICATING KEATING WAS SUBJECT OF INVESTIGATION IN NINETEEN FIFTYSIX - FIFTYSEVEN CAPTIONED ATOMIC ENERGY ACT, FRAUD AGAINST THE GOVERNMENT AND ESPIONAGE - X. THOROUGHLY REVIEW YOUR FILES AND MAKE RECONTACTS WHERE NECESSARY. THE DEPARTMENT DECLINED PROSECUTIN IN CONNECTION WITH THE AFOREMENTIONED INVESTIGATION.

END

WJH

FBI BALTO

4-25-69

Airtel

To: SACs, Washington Field - Enc.
Cincinnati - Enc.
St. Louis - Enc.
Baltimore - Enc.
Chicago - Enc.
Louisville - Enc.
Cleveland - Enc.

From: Director, FBI

CHARLES H. KEATING, JR.
SPECIAL INQUIRY
BUDED: 5-2-69 WITHOUT FAIL

ReButel instant date.

Attached is background furnished by White House.

MAILED 23
APR 25 1969
COMM-FBI

161-6327-2
NOT RECORDED
22 JUN 9 1969

WHB:aag
(16)

Return to Mr. BURKE, Room 1254.

Tolson
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Callahan
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Felt
Gale
Rosen
Sullivan
Tavel
Trotter
Tele. Room
Holmes
Gandy

MAIL ROOM TELETYPE UNIT

20 JUN 20 1969

4-29-69

PLAINTEXT

TELETYPE URGENT

TO SACS WASHINGTON FIELD
CINCINNATI
ST. LOUIS
BALTIMORE
CHICAGO
LOUISVILLE
CLEVELAND

FROM DIRECTOR FBI

CHARLES H. KEATING, JR., SPECIAL INQUIRY, BUDED MAY TWO, NEXT, WITHOUT FAIL.

RE BUREAU TELETYPE APRIL TWENTYFIVE, LAST.

DISREGARD BUREAU FILE NUMBER IN RE TELETYPE.

FEDERAL BUREAU OF INVESTIGATION
U. S. DEPARTMENT OF JUSTICE
COMMUNICATIONS SECTION
APR 29 1969
1255 PM
TELETYPE

VIA TELETYPE
APR 29 1969
1320 PM RMC
ENCIPHERED

161-6327-3
NOT RECORDED
22 JUN 9 1969

Tolson
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Bishop
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Callahan
Conrad
Felt
Gale
Rosen
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Tavel
Trotter
Tele. Room
Holmes
Gandy

WHB:aag
(3)

Return to Mr. BURKE, Room 1254.

10 JUN 20 1969 7100

MAIL ROOM ☐ TELETYPE UNIT ☐

FEDERAL BUREAU OF INVESTIGATION
U. S. DEPARTMENT OF JUSTICE
COMMUNICATION SECTION
APR 29 1969
TELETYPE

Mr. Tolson
Mr. DeLoach
Mr. Mohr
Mr. Bishop
Mr. Casper
Mr. Callahan
Mr. Conrad
Mr. Felt
Mr. Gale
Mr. Rosen
Mr. Sullivan
Mr. Tavel
Mr. Trotter
Tele. Room
Miss Holmes
Miss Gandy

MR. CLEVELAND
ROOM 1246

FBI WASH DC

FBI CLEVELAND

12:09PM URGENT 4-29-69 EIP

TO: DIRECTOR ~~(161-6327)~~, AND SAC, CINCINNATI

FROM: CLEVELAND (161-589)

[redacted] b6 b7C

CHARLES H. KEATING, JR., SPECIAL INQUIRY. BUDED MAY TWO NEXT WITHOUT FAIL.

cc destroyed 10/14/69 pgg

RE BUREAU TELETYPE TO WASHINGTON FIELD OFFICE APRIL TWENTYFIVE LAST, AND BUREAU AIRTEL TO WASHINGTON FIELD OFFICE APRIL TWENTYFIVE LAST.

A REVIEW OF CLEVELAND'S FILE WHEN APPLICANT WAS SUBJECT OF INVESTIGATION IN NINETEEN FIFTYSIX - FIFTYSEVEN, CAPTIONED, "ATOMIC ENERGY ACT, FRAUD AGAINST THE GOVERNMENT, AND ESPIONAGE - X," CLEVELAND HAD LEAD TO INTERVIEW [redacted] WHO, AT THAT TIME, WAS VACATIONING AT LAKESIDE, OHIO. [redacted] WAS INTERVIEWED CONCERNING APPLICANT, HOWEVER, HE INDICATED AT THAT TIME THAT HE RESIDED AT THREE NINE TWO TWO NORTH CLIFF LANE, CINCINNATI, OHIO. THIS WAS THE ONLY LEAD CLEVELAND HAD IN THIS INVESTIGATION AND REFERENCED BUREAU AIRTEL CONTAINS NO ADDITIONAL LEADS FOR CLEVELAND. b6 b7C

161-6327-4
NOT RECORDED
22 JUN 9 1969

CINCINNATI LOCATE [redacted] AND INTERVIEW b6 b7C

END PAGE ONE

70 JUN 20 1969

CV 161-589

PAGE TWO

REGARDING APPLICANT.

UACB, NO REPORT BEING SUBMITTED.

RUC

END

CKG

FBI WASH DC

FEDERAL BUREAU OF INVESTIGATION
U. S. DEPARTMENT OF JUSTICE
COMMUNICATION SECTION
APR 29 1969
TELETYPE

Mr. Tolson
Mr. DeLoach
Mr. Mohr
Mr. Bishop
Mr. Casper
Mr. Callahan
Mr. Conrad
Mr. Felt
Mr. Gale
Mr. Rosen
Mr. Sullivan
Mr. Tavel
Mr. Trotter
Tele. Room
Miss Holmes
Miss Gandy

MR. CLEVELAND
ROOM 1246

FBI WASH DC*

FBI CINCINTI

1206 PM URGENT 4/29/69 JDC

TO DIRECTOR, FBI AND SACS, BALTIMORE, CHICAGO, CLEVELAND, INDIANAPOLIS, LOS ANGELES, LOUISVILLE, ST. LOUIS AND WFO.

FROM CINCINNATI (161-713) 3P

CHANGED CHARLES HUMPHREY KEATING, JR., SPECIAL INQUIRY, BUDED MAY TWO NEXT WITHOUT FAIL

[redacted] b6 b7C

TITLE MARKED CHANGED TO SHOW MIDDLE NAME HUMPHREY.

REFERENCE BUREAU TEL APRIL TWENTYFIVE, LAST, CAPTIONED "CHARLES H. KEATING, JR., SPIN".

FOR INFORMATION INDIANAPOLIS AND LOS ANGELES, WHITE HOUSE HAS REQUESTED EXPEDITE INVESTIGATION OF KEATING WHO IS BEING CONSIDERED FOR PRESIDENTIAL APPOINTMENT, POSITION NOT STATED, BORN DECEMBER FOUR, NINETEEN TWENTYTHREE, CINCINNATI, OHIO, WHERE ENGAGED IN PRACTICE OF LAW, NINETEEN FORTYEIGHT TO PRESENT, CURRENTLY AFFILIATED CINCINNATI FIRM KEATING MUETHING AND KLEKAMP. [redacted] b7D CONFIDENTIALLY ADVISED HE IS BEING CONSIDERED AS CHAIRMAN, PRESIDENTIAL COMMISSION ON DECENCY AND PORNOGRAPHY. KEATING FOUNDER (NINETEEN FIFTYSIX) AND CURRENT GENERAL

END PAGE ONE

MCT-36 161-6327-5
NOT RECORDED
22 JUN 9 1969

TELETYPE UNIT cc destroyed 6/4/69
20 JUN 20 1969 0JG 7100

COUNSEL, CITIZENS FOR DECENT LITERATURE, INC., (CDL), OHIO CORPORATION WITH HEADQUARTERS ONE SIX EIGHT ZERO FEDERAL PLAZA BUILDING, FIVE SIX SEVEN ZERO WILSHIRE BOULEVARD, LOS ANGELES, CALIFORNIA. FOLLOWING INDIVIDUALS PROFESSIONAL ASSOCIATES IN CALIFORNIA. RAYMOND P. GAUER, PRESIDENT; JAMES CLANCY, LEGAL COUNSEL, BOTH LOCATED LOS ANGELES HEADQUARTERS, CDL. GAUER RESIDES EIGHT TWO ONE S. BRONSON AVENUE AND CLANCY NINE ZERO FIVE FIVE LA TUNA CAYON ROAD, SUN VALLEY, CALIFORNIA; [redacted] b6 b7C FT. WAYNE, INDIANA AND [redacted] INDIANAPOLIS, INDIANA. KEATING SERVED AS NAVAL AVIATION CADET AND PILOT, U.S. NAVY, JULY, NINETEEN FORTYTHREE TO NOVEMBER, NINETEEN FORTY-FIVE, NAVY FILE NUMBER FOUR THREE EIGHT ONE FIVE ZERO. KEATING ADMITTED KENTUCKY BAR NINETEEN FIFTYSEVEN. KEATING SERVED PART TIME EMPLOYMENT AS CLERK, NINETEEN FORTY SEVEN; FULL TIME AS ATTORNEY, NINETEEN FORTY EIGHT TO NINETEEN FIFTY FIVE, CINCINNATI LAW FIRM MERLAND, O'MEARA, SANTER, AND WILLGING, WORKED FOR HERMAN SANTEN, DECEASED. [redacted] FORMER PARTNER, NOW LOCATED NOTRE DAME b6 b7C LAW SCHOOL, SOUTH BEND, INDIANA.

KEATING WELL KNOWN TO OHIO CONGRESSMAN ROBERT A. TAFT, FIRST DISTRICT (TAFT LEAVING WDC TWO PM WEDNESDAY) AND DONALD D. CLANCY, SECOND DISTRICT, BOTH LOCATED WASHINGTON, D. C. ALL OFFICES CONDUCT INDICATED INVESTIGATION.

END

SLB

FBI WASH DC*

FEDERAL BUREAU OF INVESTIGATION
U. S. DEPARTMENT OF JUSTICE
COMMUNICATIONS SECTION
APR 29 1969

TELETYPE

Mr. Tolson
Mr. DeLoach
Mr. Mohr
Mr. Bishop
Mr. Casper
Mr. Callahan
Mr. Conrad
Mr. Felt
Mr. Gale
Mr. Rosen
Mr. Sullivan
Mr. Tavel
Mr. Trotter
Tele. Room
Miss Holmes
Miss Gandy

MR. CLEVELAND
ROOM 1246

FBI WASH DC

FBI CINCINTI
PLS HOLD FOR 2 MSGS
314PM URGENT 4/29/69 JDC
TO DIRECTOR, JACKSONVILLE, AND MIAMI
FROM CINCINNATI (161-713) 2P

[redacted] b6 b7C

CHARLES HUMPHREY KEATING,JR., SPIN, BUDED MAY TWO,NEXT, WITHOUT FAIL

REFERENCE BUREAU TEL TO CINCINNATI, APRIL TWENTY FIVE, LAST.
FOR INFORMATION JACKSONVILLE, WHITEHOUSE HAS REQUESTED
EXPEDITE INVESTIGATION OF KEATING, WHO
IS BEING CONSIDERED FOR PRESIDENTIAL APPOINTMENT, POSITION
NOT STATED. BORN DECEMBER FOUR, NINETEEN TWENTY THREE,
CINCINNATI, OHIO. HE IS ENGAGED IN PRACTICE OF LAW, FIRM
KEATING, MUETHING, AND KLEKAMP, CINCINNATI, OHIO. KEATING
FOUNDER OF CITIZENS FOR DECENT LITERATURE, INC., OHIO, CORPORATION.

KEATING EMPLOYED PART-TIME AS SALESMAN FOR ONE
YEAR, NINETEEN FORTYSIX OR FORTY SEVEN BY PRUDENTIAL
INSURANCE COMPANY, CINCINNATI, OHIO, WHILE ATTENDING UNIVERSITY
OF CINCINNATI LAW SCHOOL, SUPERVISOR, [redacted] b6 b7C

161-6327-6

END PAGE ONE

NOT RECORDED
22 JUN [illegible]

cc destroyed
6/4/69 JUN 20 1969 7108

CHECK WITH PRUDENTIAL OFFICE,CINCINNATI, REVEAL PRUDENTIAL RECORDS TO VERIFY ABOVE EMPLOYMENT LOCATED CARE PRUDENTIAL INSURANCE COMPANY, SOUTH CENTRAL HOME OFFICE, JACKSONVILLE,FLORIDA.

FORMER SUPERVISOR [redacted] RETIRED, LAST REPORTED RESIDING VICINITY FT. LAUDERDALE, FLORIDA. b6 b7C

JACKSONVILLE VERIFY EMPLOYMENT AND ENDEAVOR

TO LOCATE [redacted] FOR INTERVIEW. MIAMI ATTEMPT TO LOCATE AT FORT LAUDERDALE. b6 b7C

FBI WASH DC

FEDERAL BUREAU OF INVESTIGATION
U. S. DEPARTMENT OF JUSTICE
COMMUNICATION SECTION
APR 30 1969

TELETYPE

Mr. Tolson
Mr. DeLoach
Mr. Mohr
Mr. Bishop
Mr. Casper
Mr. Callahan
Mr. Conrad
Mr. Felt
Mr. Gale
Mr. Rosen
Mr. Sullivan
Mr. Tavel
Mr. Trotter
Tele. Room
Miss Holmes
Miss Gandy

MR. CLEVELAND
ROOM 1246

FBI WASH DC

FBI JACKSVLE

9:40 AM 4-30-69 URGENT BEB

TO: DIRECTOR, FBI

MIAMI

FROM: JACKSONVILLE (161-308) (P)

[redacted] b6 b7C

CHARLES HUMPHREY KEATING, JR. SPIN BUDED MAY TWO NEXT WITHOUT FAIL.

RE CINCINNATI TEL TO BUREAU APRIL TWENTYNINE LAST.

INVESTIGATION JACKSONVILLE REFLECTS FORMER SUPERVISOR [redacted] RESIDING [redacted] [redacted] POMPANO BEACH, FLORIDA. b6 b7C

MIAMI LOCATE AND INTERVIEW AS PER RE TEL.

END

COR

48A^

FBI WASH DC

161-6327-1
NOT RECORDED
JUN 3 1969

cc destroyed
6/4/69 pgg

7100

70 JUN 20 1969

NA 6 10 4/30/69

FBI WASH DC

FEDERAL BUREAU OF INVESTIGATION
U. S. DEPARTMENT OF JUSTICE
COMMUNICATION SECTION
APR 30 1969
TELETYPE

Mr. Tolson
Mr. DeLoach
Mr. Mohr
Mr. Bishop
Mr. Casper
Mr. Callahan
Mr. Conrad
Mr. Felt
Mr. Gale
Mr. Rosen
Mr. Sullivan
Mr. Tavel
Mr. Trotter
Tele. Room
Miss Holmes
Miss Gandy

FBI ST LOUIS

432PM URGENT 4-30-69 SEG

TO DIRECTOR & CINCINNATI

FROM ST. LOUIS (161-M) 1P

CHARLES H. KEATING, JR., AKA, SPI, BUDED: MAY TWO NEXT

MR. CLEVELAND
ROOM 1246

[redacted] b6 b7C

REURTEL APRIL TWENTYFIVE LAST.

APPOINTEE'S U. S. NAVY RECORDS AT SLMO DISCLOSED FOLLOWING FORMER EMPLOYEMNT: FORTYEIGHT TO FIFTY, MERLAND, O'MEARA, SANTEN AND WILLGING, CINCINNATI, OHIO.

FOLLOWING RELATIVES LISTED: CHARLES H. KEATING, FATHER, SEVEN NINETYFIVE LUDLOW AVE., CINCINNATI, OHIO, IN FORTYFIVE; ADELE KIPP KEATING, MOTHER, FIVE FORTYSEVEN EVANSWOOD PL., CINCINNATI, OHIO, IN FORTYTHREE; WILLIAM KIPP KEATING, BROTHER, SAME ADDRESS.

CINCINNATI HANDLE IF NOT ALREADY DONE.

P.

END

PGH

FBI WASH DC

161-6327-8
NOT RECORDED

cc destroyed
6/4/69

7100

70 JUN 20 1969

(Rev. 12-19-67)

FEDERAL BUREAU OF INVESTIGATION

REPORTING OFFICE	OFFICE OF ORIGIN	DATE	INVESTIGATIVE PERIOD
CINCINNATI	BUREAU	4/30/69	4/28-30/69

TITLE OF CASE

CHARLES HUMPHREY KEATING, JR.,
Aka,
Charles H. Keating, Jr.

REPORT MADE BY: SA [redacted] b6 b7C

TYPED BY: mul

CHARACTER OF CASE

SPECIAL INQUIRY

REFERENCES:

Bureau teletype to Cincinnati, 4/25/69.
Bureau airtel to Cincinnati, 4/25/69.
Cincinnati teletype to Bureau, 4/29/69.
Cincinnati teletype to Jacksonville, 4/29/69.
Cleveland teletype to Bureau, 4/29/69.

- RUC -

ADMINISTRATIVE:

Cincinnati files reveal KEATING was subject of former Bureau investigation conducted during August, 1956 - May, 1957, case captioned, "CHARLES H. KEATING, JR.; ET AL (RESEARCH LABORATORIES OF COLORADO, INC., Aka.), AEA; FAG - ESPIONAGE - X", OO; CI, Bufile 117-2070, Ci File 117-104.

ACCOMPLISHMENTS CLAIMED ☒ NONE						ACQUIT-TALS
CONVIC.	AUTO.	FUG.	FINES	SAVINGS	RECOVERIES	

CASE HAS BEEN:
PENDING OVER ONE YEAR ☐ YES ☒ NO
PENDING PROSECUTION OVER SIX MONTHS ☐ YES ☒ NO

APPROVED [signature] SPECIAL AGENT IN CHARGE

DO NOT WRITE IN SPACES BELOW

161-6327-9
NOT RECORDED
10 MAY 1 1969

COPIES MADE:
(1) - Bureau (AMSD)
1 - Cincinnati (161-713)

Dissemination Record of Attached Report				
Agency				
Request Recd.				
Date Fwd.				
How Fwd.				
By		7100		

Notations: Spec. Inq.

10 JUN 20 1969

COVER PAGE

GPO : 1968 O - 299-885

CI 161-713

This investigation was conducted on initial allegation that KEATING, then acting as Treasurer of captioned firm, had visited the Lockland, Ohio, AEC Office, obtained a letter from authorities there classified "Secret" and inturn had written a letter to the Chicago AEC Office on behalf this company which he marked "Secret" and Government was alleged to have disclosed restricted data to non-cleared personnel. Investigation determined that AEC authorities at Lockland had reviewed notes taken by KEATING during his visit and they contained no classified information.

Results of this investigation were furnished to WILLIAM F. TOMPKINS, Assistant Attorney General, Internal Security Division, U. S. Department of Justice, Washington, D. C. who, on 5/9/57, furnished the following written opinion in declining prosecution of KEATING as follows:

"In proof undertaken pursuant to the provisions of 18, USC, 1001, it would be incumbant upon the Government to show that the statement in question was material to the proceedings in which it was made. On the basis of the information furnished by representatives of the AEA, it appears extremely doubtful that materiality could be established in the circumstances of this case. Upon careful consideration of all factors in this case, it is the opinion of this Division that the facts in this case do not constitute a suitable basis for prosecution of the subject under 18, USC, 1001, and it does not appear that further investigation is warranted at this time."

In view of the declination of prosecution above, no mention of this prior investigation was made in attached report.

FD-204 (Rev. 3-3-59)

UNITED STATES DEPARTMENT OF JUSTICE
FEDERAL BUREAU OF INVESTIGATION

Copy to:

Report of: SA [redacted] Office: CINCINNATI b6 b7C
Date: 4/30/69

Field Office File #: 161-713 Bureau File #:

Title: CHARLES HUMPHREY KEATING, JR.

Character: SPECIAL INQUIRY

Synopsis: Birth as CHARLES H. KEATING, 12/4/23, Cincinnati, Ohio, verified. Enrolled at University of Cincinnati (UC) as CHARLES HUMPHREY KEATING, JR., but uses name CHARLES H. KEATING, JR. Attendance at UC, 9/41-5/43, 1946 and at UC Law School, 6/46-6/48, verified. Awarded LLB Degree (later Juris Doctor) maintained "B-" average in college, rank, class standing and accummulative average not available. Marriage to [redacted] 11/5/49, at Cincinnati, verified. KEATING admitted Ohio Bar 8/18/48, USDC, SDO, 10/4/49, and US Court of Appeals, Sixth Circuit, 6/2/51, both Cincinnati, in good standing, no grievances. Member Ohio State Bar Association 1951-52 only and Cincinnati Bar Association 1954-present, in good standing. Active in practice of law, Cincinnati, Ohio, since 1948, currently senior partner, firm of Keating, Muething and Klekamp. Is General Counsel of Lindner Enterprises, Cincinnati, Ohio. Founder in 1956 of Citizens for Decent Literature, Inc. (CDL) an Ohio Corporation, currently serves as General Counsel this organization which maintains Los Angeles, California, National Office. Law partners, fellow attorneys, subordinates, judges, professional and social acquaintances, and neighbors all furnished favorable information concerning moral character, reputation, associates and loyalty of KEATING, and members of immediate family. KEATING and brother, WILLIAM KEATING (law partner and current Cincinnati City Councilman) described as self-made men whose b6 b7C

This document contains neither recommendations nor conclusions of the FBI. It is the property of the FBI and is loaned to your agency; it and its contents are not to be distributed outside your agency.

father was an invalid. KEATING was intercollegiate breast stroke champion in 1946, navy fighter pilot, 1943-45, and has become nationally known as prime mover in CDL organization which fights obscenity through available laws and not as censoring body. KEATING described as extremely intelligent person of unquestioned integrity, who is sincere, energetic, dynamic, religious and devoted to his family. KEATING mentioned in Reader's Digest articles re obscenity and has submitted Amicus Curiae briefs in support of prosecution to U. S. Supreme Court in landmark obscenity cases. Credit satisfactory and arrest negative re KEATING and family.

- RUC -

DETAILS:

AT CINCINNATI, OHIO

CI 161-713
JRC/dms
1

The following investigation was conducted by IC [redacted] b6 b7C

BIRTH DATA

On April 29, 1969, [redacted] b6 b7C Clerk, Bureau of Vital Statistics, City of Cincinnati, Cincinnati, Ohio, advised the appointee, CHARLES H. KEATING, was born on December 4, 1923, at Cincinnati, Ohio, to CHARLES H. KEATING, Sr., and ADELE, nee KIPP, KEATING. [redacted] stated that the appointee's birth was recorded under their register number 8330.

CI 161-713
LAW/mae
1

The following investigation was conducted in Columbus, Ohio, by SA [redacted] b6 b7C

On April 29, 1969, [redacted] Ohio State Bar Association, 33 West 11th Avenue, furnished the following information as contained in her records: b6 b7C

CHARLES H. KEATING member of the Ohio State Bar Association during the years 1951 and 1952 only. Records show at that time that he had a business address of First National Bank Building, Cincinnati, Ohio.

On April 29, 1969, [redacted] Grievances and Discipline of Supreme Court of Ohio, State of Ohio, advised after a review of her records that there was no record of any grievances against CHARLES H. KEATING, JR. b6 b7C

On April 29, 1969, [redacted] Deputy Clerk, Ohio State Supreme Court, Statehouse Annex, furnished the following information as contained in her records: b6 b7C

CHARLES H. KEATING, JR. took the Ohio State Bar Examination in June, 1948, and passed and was admitted to practice law in the State of Ohio on August 18, 1948. Records show that he attended the University of Cincinnati. He has been a member in good standing since the date of admission in 1948, and no charges were ever brought against him. His name is listed on the records as CHARLES HUMPHREY KEATING, JR.

CI 161-713
JDH/cb
1

EMPLOYMENTS:

The following investigation was conducted by SA [redacted] on April 29, 1969, at Cincinnati, Ohio: b6 b7C

[redacted] Manager, Prudential Insurance Company, Carew Tower Building, advised that [redacted] was his predecessor as manager for instant firm. He stated that to the best of his knowledge, [redacted] is retired from instant firm and is residing in Fort Lauderdale, Florida. He stated that he has no employment record concerning CHARLES H. KEATING, JR. having been employed at instant firm as a salesman during 1946 or 1947 as they have no personnel records at the Cincinnati Office going back that far. He stated that personnel records going back that far might be obtained from instant firm's South Central Home Office located in Jacksonville, Florida. In conclusion, he advised that he is not personally acquainted with the aforementioned Mr. KEATING and that there is no one presently employed who could have possibly been acquainted with Mr. KEATING during the latter's employment at this firm. b6 b7C

[redacted] Partner, Merland, O'Meara, Niehaus, Monahan, and Rusche Law Firm, First National Bank Building, advised that CHARLES H. KEATING, JR. was employed by instant firm from about 1947 up through about 1955 or 1956. He also stated that KEATING was a very successful lawyer and that he has been a practicing attorney for about 12 years. He said that KEATING was a man of high repute with a lot of drive, and that he was also an extrovert. He said that KEATING was a great crusader for worthwhile causes and that he has acquired a national reputation. He said that KEATING is presently General Counsel for Lindner Enterprises and that he considered him to be an "eager-beaver". He stated that KEATING worked his way through school as his father was an invalid. He said that KEATING was a very capable fellow and a basically honest individual. He said that b6 b7C

he considered KEATING to be an opportunist and that KEATING had no fear of "walking in where angels fear to tread". He stated that he could furnish no derogatory information concerning KEATING's character, reputation, morals, and loyalty to the United States Government. In conclusion he stated that he would recommend KEATING for any presidential appointment and that he personally thought KEATING would be terrific if appointed to a National Decency Committee. [redacted] advised that there was nobody presently available at instant law firm who could furnish information concerning Mr. KEATING. b6 b7C

[redacted], Attorney, Santen and Santen Law Firm, First National Bank Building, advised that he has been acquainted with CHARLES H. KEATING, JR. for about 35 years. He said that KEATING worked for his father's law firm for about 7 or 8 years. He stated that his father's law firm was known as Merland, O'Meara, Santen, and Santen, and that Mr. MERLAND and Mr. SANTEN of this law firm were both deceased. He said that KEATING was a very strong competitor, had a great desire to excel, and that both KEATING and his (KEATING's) brother also worked to support their family as their father was completely incapacitated. [redacted] said that he worked for about 1½ years as a clerk for CHARLES H. KEATING, JR. in the Keating, Muething, and Klekamp Law Firm in the past. He said that he considered KEATING to be "A+" in his estimation and that he considered KEATING to be of good morals, character, loyalty and associates. In conclusion he stated that he would highly recommend KEATING for any presidential citation which he might be offered. In addition, [redacted] advised that there was no one presently available or employed by instant law firm who would have been acquainted with CHARLES H. KEATING, JR. during the latter's affiliation with his father's law firm. He stated that BILL WILLGING, a former employee of his father's law firm was deceased. b6 b7C

CI 161-713
JRC/dms
1

The following investigation was conducted by IC [redacted] on April 29, 1969: b6 b7C

MARRIAGE RECORD

[redacted] Deputy Clerk, b6 b7C
Hamilton County Marriage License Records, Cincinnati, Ohio, advised that CHARLES H. KEATING, Jr., son of CHARLES H. KEATING, Sr., and ADELE, nee KIPP, KEATING, married [redacted] daughter of EDWARD H. FETTE and MARIE TOLE at Cincinnati, Ohio, on November 5, 1949. [redacted] stated that this marriage was recorded under Book Number 553, page 494, of the Hamilton County Marriage License Records.

CI 161-713
LET/mae
1

The following investigation was conducted by SA [redacted] at Cincinnati, Ohio: b6 b7C

EDUCATION:

UNIVERSITY OF CINCINNATI

On April 29, 1969, [redacted] Assistant to the Registrar, University of Cincinnati, advised CHARLES HUMPHREY KEATING, JR. is a former student at the University. KEATING attended from September 15, 1941 through May 18, 1943. In May, 1943, KEATING left school and entered the Naval Air Corps. He returned to the University during January, 1946 and completed Spring Semester. Records show KEATING entered the University of Cincinnati Law School during June, 1946. b6 b7C

[redacted] advised KEATING's record shows he was a graduate of St. Xavier High School having graduated in 1941. His record shows KEATING was born December 4, 1923, and he is the son of CHARLES HUMPHREY KEATING, 547 Evanswood Place, Cincinnati, Ohio. b6 b7C

[redacted] stated KEATING completed approximately 2½ years of college and maintained a "B-" average. [redacted] stated a cumulative average was not computed inasmuch as he did not graduate. b6 b7C

[redacted] advised he has no information that anyone presently at the University would know KEATING personally. b6 b7C

UNIVERSITY OF CINCINNATI LAW SCHOOL

On April 29, 1969, DEAN [redacted] University of Cincinnati Law School, advised he knows CHARLES KEATING by reputation only. KEATING enjoys an outstanding reputation in the greater Cincinnati area. b6 b7C

He stated that none of the present faculty would have known KEATING as a student.

Assistant Dean, [redacted] advised CHARLES HUMPHREY KEATING, JR. entered the University Law School on June 10, 1946, and graduated with an Bachelor of Laws (LLB), June 4, 1948. KEATING's record shows that he was awarded a Juris Doctor Degree by the University and this degree is retroactive to the date of his original degree. b6 b7C

Dean [redacted] stated that neither cumulative grades nor class standing are shown in the school record. b6 b7C

[redacted] advised that he has known CHARLES KEATING personally for the past five years. This association has been a casual acquaintance however he holds KEATING in high esteem. KEATING is highly regarded in the Cincinnati, Ohio area. WILSON stated KEATING is a gentleman of high ideals, moral character and integrity. He stated that he has no reason to question KEATING's loyalty to the United States. b6 b7C

CI 161-713
ECM/mul
1

The following investigation was conducted by SA [redacted] b6 b7C

BAR MEMBERSHIPS

[redacted] Deputy Clerk, Clerk of Courts Office, U. S. District Court, Southern District of Ohio, advised on April 29, 1969, the Roll of Attorneys for above court revealed CHARLES H. KEATING, JR. admitted to the State of Ohio Bar in August, 1948, born in Cincinnati on December 4, 1923, with offices at 1314 First National Bank Building, was admitted to practice by above court on October 4, 1949. He is presently in good standing and no grievances or complaints have been filed against his name. b6 b7C

[redacted] Chief Deputy Clerk, U. S. Court of Appeals, Sixth Circuit, Cincinnati, Ohio, advised on April 30, 1969, the Roll of Attorneys for this court revealed CHARLES H. KEATING, JR. of Cincinnati, Ohio, was admitted to practice before this court on June 2, 1951. He is presently in good standing and has no complaints or grievances against his name. b6 b7C

[redacted] Executive Director, Cincinnati Bar Association, 125 East Ninth Street, advised on April 28, 1969, records in her office reveal CHARLES H. KEATING, JR., born December 4, 1923, at Cincinnati, who was admitted to the Ohio Bar in 1948, became a member of the Cincinnati Bar Association on October 21, 1954, and is currently a member in good standing. No complaints or grievances have been filed against his name. b6 b7C

[redacted] stated that she has been acquainted with KEATING professionally since they were fellow law students at the University of Cincinnati Law School where Mr. KEATING was one term ahead of her. She stated he came from a very fine Cincinnati family, is a devoted family man and an outstanding Cincinnati attorney. She stated his wife is a delightful person and they have a very fine family b6 b7C

relationship. She furnished favorable information concerning KEATING's moral character, reputation and associates, describing him as intelligent, capable attorney and a very loyal American. She recommended him highly for a position of trust with the Federal Government.

CI 161-713
ECM/mul
1

EMPLOYMENT

Law Firm
Keating, Muething and Klekamp

[redacted] Secretary to CHARLES H. KEATING, JR., Senior Partner above firm, on April 28, 1969, furnished the following pertinent background information concerning Mr. KEATING: b6 b7C

Name:	CHARLES HUMPHREY KEATING, JR. (although father deceased, KEATING still uses Jr.)
Birth:	December 4, 1923, Cincinnati, Ohio
Residence:	7676 Green Farms Drive, Cincinnati, Ohio (College Hill area) since 1963
Parents:	CHARLES HUMPHREY KEATING, SR., born November 30, 1890, Cincinnati, Ohio, deceased.
	ADELE KIPP KEATING, born January 1, 1899, Cincinnati, Ohio, currently residing 3637 Amberson, Cincinnati, Ohio
Brother:	WILLIAM J. KEATING, born March 30, 1927, Cincinnati, Ohio, resides 2959 Alpine Terrace, Cincinnati, Ohio, current law partner of Mr. KEATING and Cincinnati Councilman. Formerly Cincinnati Municipal and Common Pleas Court Judge.
Spouse:	[redacted] born [redacted] Cincinnati, Ohio, housewife, married November 5, 1949, St. Mary Margaret Church, Cincinnati, Ohio. b6 b7C
Children:	All born Cincinnati, Ohio, and reside at home:
	[redacted] born [redacted] attends Xavier University, Cincinnati, Ohio

[redacted] born [redacted]

[redacted] born [redacted]

b6
b7C

[redacted] born [redacted]

[redacted] born [redacted]

[redacted] born [redacted]

Education: Graduated St. Xavier High School, 1941.

Attended University of Cincinnati, 1941-43, as well as 1946 (no degree)

University of Cincinnati Law School, fall, 1946, awarded Juris Doctorate Degree 1948.

Member University of Cincinnati Swimming Team and National Collegiate Breast Stroke Champion, 1946.

Military Service: U. S. Navy Air Corps Cadet and Pilot, July, 1943 to November, 1945. Naval Officer file number 438150.

Employments: 1946 or 1947, one year salesman (part-time) with Prudential Insurance Company, Carew Tower, Cincinnati, Ohio.

1947-48 to 1955, clerk (part-time while in law school), afterward full-time as legal lawyer firm of

Merland, O'Mera, Santer and Willging, First National Bank Building, Cincinnati. Supervised by HERMAN SANTER, deceased. MERLAND also deceased.

January, 1955 to 1959, partner law firm of Keating, Muething and Keating, Cincinnati, Ohio.

1959 to January, 1962, partner law firm Keating and Muething, Cincinnati, Ohio

January, 1962, to present, senior partner law firm Keating, Muething and Klekamp. Offices on the 18th floor, Provident Tower Building, Fourth and Vine Streets, Cincinnati, Ohio.

Founder (1956) and currently general counsel, Citizens for Decent Literature, Inc., an Ohio corporation with headquarters at 1680 Center Plaza Building, 5670 Willshire Boulevard, Los Angeles, California.

Bar Memberships: State of Ohio, 1948
State of Kentucky, June 20, 1958
U. S. District Court, Southern District of Ohio, Cincinnati, 1949
U.S. District Court, Eastern District of Kentucky, 1954
U.S. Supreme Court of the United States, 1958.

[redacted] stated Mr. KEATING and his firm have represented, as their principal clients, [redacted] brothers of their corporation, American Finance Corporation, a holding company, with assets in excess of 400 million dollars, headquartered in Cincinnati, and in this connection, Mr. KEATING has served as a member of

b6
b7C

the Board of Directors of many [redacted] enterprized, including American Finance Corporation, Lindner Enterprizes, the Provident Bank (assets in excess of 200 million dollars), United Liberty Life Insurance Company, Hunter Savings Association, all in Cincinnati, as well as the Security Bank and Athens National Bank, both located Athens, Ohio, and the New Richmond National Bank at New Richmond, Ohio, adjacent to Cincinnati. b6 b7C

[redacted] also advised Mr. KEATING received the following awards for his work with the Citizens for Decent Literature Association: b6 b7C

1962	San Francisco Citation of High Schools, Annual Youth Award (previously given to Dr. TOM DOOLEY and WALT DISNEY).
1964	American Legion Child Welfare Award
1965	Xavier University Annual St. Francis Xavier Medal Award (previously awarded to Bishop FULTON J. SHEEN, STAN MUSIAL and the late President JOHN F. KENNEDY).

[redacted] advised in connection with Mr. KEATING's activities with the Citizens For Decent Literature organization, he had testified before several congressional committees and subcommittees concerning obscenity, he is associated in prosecution of cases throughout the country and has filed Amicus Curiae brief before the U. S. Supreme Court in support of prosecution in important obscenity cases. b6 b7C

She stated he was also mentioned in a series of articles appearing in Reader's Digest concerning obscene literature which she provided. Pertinent portions as they apply to KEATING are set forth elsewhere in this report.

[redacted] also advised she has worked with Mr. KEATING and has been his personal secretary for the past nine years except for a four month break in service during 1965. She stated she is also well acquainted socially with Mr. KEATING's wife and children and visits in their home. She described KEATING as an extremely intelligent, personable and industrious man who is highly respected throughout the country as an extremely capable attorney and expert on matters involving the legal ramifications of obscenity. She stated he is very generous with his time and talents and financial resources in helping young attorneys in the firm. She stated he exercises good judgment and is a man of complete personal integrity. He is active in the affairs of his church, St. Vivians Parish in northern Cincinnati, has served on the Archdiocese School Board and is currently president of the Cincinnati Pepsi Marlins, a competitive age swimming team consisting of 200 families and 300 children. She stated he and his wife have a very fine relationship and he is a dedicated family man. She stated he drinks only wine and only to moderation, does not smoke and was formerly an intercollegiate breast stroke swimming champion. She stated he associated with only "top notch" individuals, is completely loyal to this country and improving the American way of life and she would recommend him without hesitation for any position of trust with the Federal Government.

b6
b7C

EMPLOYMENT

The following investigation was conducted at Cincinnati, Ohio, by SA [redacted] b6 b7C

On April 30, 1969, [redacted] b6 b7C 1811 Provident Tower, partner in the law firm of Keating, Muething, and Klekamp, furnished the following comments:

[redacted] b6 b7C first became acquainted with CHARLES H. KEATING, Jr., when the two of them were in law school at the University of Cincinnati in 1946. They graduated in the class of 1948, and each of them then entered separate law firms. In Feburary of 1955, [redacted] and Mr. KEATING and Mr. KEATING's brother, WILLIAM KEATING, formed a partnership then known as Keating, Muething, and Keating. This partnership continued with this name until WILLIAM KEATING was appointed to the Municipal Bench. WILLIAM KEATING was later elected to the Municipal Bench and ultimately elected to the Common Pleas Court Bench before retiring to run for City Council, which position he currently holds.

In 1962, the firm became a partnership of CHARLES H. KEATING, Jr., [redacted] and [redacted] b6 b7C WILLIAM KEATING, the City Councilman, has returned to the office since leaving the Common Pleas Bench, however, he is not currently listed as a partner.

[redacted] b6 b7C advised that since 1946, he has been very closely associated with appointee and his entire family. He considers the entire

family to be of excellent character, reputation, morals, and is of the opinion that they have an extreme loyalty to the United States. He mentioned that there has never been any friction whatsoever in this law partnership which he has had since 1955 with the appointee and commented, "We don't have a writing between us". He stated that he has complete trust and confidence in CHARLES KEATING and considers him to be a person with untiring energy, and one who is extremely confident and capable in all fields he has undertaken. He advised that one of Mr. KEATING's greatest assets in his opinion, has to do with his loyalty and devotion to duty.

He stated that Mr. KEATING has been quite active in the Milford Retreat for Men and it is his recollection that possibly KEATING's interest in combating obscenity and immoral literature may have originated through a contact with a priest who was active several years ago in the Milford Retreat. He advised that Mr. KEATING has endeavored, through available laws, to combat these obscenities which have become even more prevalent now than they were when KEATING first began this crusade.

[redacted] advised that the fact that he has been able to remain in a partnership which is completely amiable with KEATING speaks more strongly than any words he could suggest to compliment Mr. KEATING in all respects, and he definitely has the highest respect and the highest degree of confidence in KEATING and would be most pleased to see him appointed by the President of the United States to a position in the Federal Government.

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On April 29, 1969, [redacted] a partner in appointee's law firm, advised that he has been associated with CHARLES H. KEATING, Jr., for over ten years and has been personally acquainted with him for at least 13 years. KEATING's mother is a friend of KLEKAMP's mother-in-law. Mr. KLEKAMP also confirmed the dates of the partnership as previously mentioned by [redacted]

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[redacted] stated that Mr. KEATING spends a considerable part of his time and his money, in the opinion of [redacted] in connection with the Citizens for Decent Literature, Incorporated. He states that he feels that [redacted] has a feeling of responsibility to the public which inspires him to be as active as he has in this field. He also knows appointee to be a man who is close to his family, one who is active in youth affairs, and a prominent sponsor of "The Marlins", a local swim group. KEATING has also been quite active in Men of Milford, a Catholic men's retreat group. [redacted] advised that he has never heard anything derogatory regarding appointee or any member of his family. He stated that to his knowledge, there has never been any dissension within the legal firm which he and appointee are both a part of.

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He advised that Mr. KEATING is a person who is untiring, he "gets the job done well" in every undertaking he has approached, and in [redacted] opinion, he has an outstanding character, reputation, morals, and loyalty to the United States.

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[redacted] associate in appointee's law firm, advised on April 29, 1969, that he has known CHARLES H. KEATING, Jr., for the past nine years and has been an associate in this office for the past eight years. He advised that from a close familiarity, from business trips, from social affairs, and from seeing Mr. KEATING in situations which present stresses, strains, and pressures, he can make nothing other than a strictly positive comment as pertains to his character, reputation, and morals.

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He knows Mr. KEATING to be a fine family man who is highly regarded by his community and by his peers of the law as an outstanding individual.

[redacted] stated that Mr. KEATING has been selected by Xavier University for the Xavier Medal, which is only given to one man each year. The qualities required by Xavier University before presenting this medal cover all phases of community life, religious life, general demeanor, intelligence, attitude, and other such sterling qualities. He stated that the awarding of this medal clearly voices the opinion of Xavier University regarding the appointee.

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He described Mr. KEATING as very aggressive, "a doer", and a person of outstanding ability. He advised that he, himself, has complete trust in Mr. KEATING and would be willing to trust his own children to KEATING's supervision. He stated that he would offer his highest recommendation for a Presidential appointment for Mr. KEATING to a position in the Federal Government.

[redacted], associate in the law firm of appointee, advised on April 29, 1969, that he has been associated with this firm since 1962. He stated that he met Mr. KEATING when he was in law school seeking a firm to become associated with upon his graduation. He advised that he has subsequently met Mr. KEATING's entire family and feels that the entire family are all people of excellent character, reputation, and morals. He advised that he was even acquainted with Mr. KEATING's father prior to his death. All of the members of this family he has found to be pleasant, outgoing, and honorable people. He stated that Mr. KEATING's father apparently was ill for many years with Parkinson's disease, and as a result of this illness, Mr. KEATING himself apparently "grew up the hard way". b6 b7C

[redacted] advised that as an attorney, Mr. KEATING feels that he should use the available laws to the best of his ability to combat obscenity in all phases. b6 b7C

[redacted] also mentioned that Mr. KEATING has sponsored "The Marlins" Swim Club and that he, himself, a graduate of the University of Cincinnati Law School, was an outstanding swimmer when in college and has a great deal of interest generally in athletics. He has also been quite active in religious sponsored youth improvement groups and as a person, has a "fountain of energy". b6 b7C

[redacted] stated that he knew of nothing derogatory concerning Mr. KEATING, there has never been any unpleasantness in this law firm to his knowledge, and he feels that Mr. KEATING b6 b7C

is largely responsible for the amiable attitude of the members of the firm. He stated that from conversation with other members of his own graduating law class who have gone into different firms, he feels confident that he could not have selected a better firm. He advised that Mr. KEATING sets an excellent example, as he is most competent and capable himself, and is quite able to delegate responsibility to associates and partners within the firm. He advised that Mr. KEATING in effect runs this law firm. He concluded that everything Mr. KEATING does is done well, and whatever the job may be that Mr. KEATING is under consideration for, if appointed, that job will be handled extremely well.

[redacted] associate in appointee's law firm, on April 29, 1969, advised that he met CHARLES H. KEATING, Jr., in April of 1961. He advised that he, himself, graduated from Notre Dame and then served in the Armed Forces before seeking a law firm with which to practice. He advised that in April of 1961, he became an associate of this firm, where Mr. KEATING is the senior partner. He mentioned that both CHARLES and WILLIAM KEATING were champion swimmers when they were in college. He further mentioned that Mr. KEATING had graduated from St. Xavier High School and the University of Cincinnati Law School, and during World War II had served in the Naval Air Corps.

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He stated that Mr. KEATING, in his opinion, was a person who is brilliant, has a dynamic personality, and is gifted with the knowledge as to what motivates other people. He

described him as a born leader, a healthy competitor, a person who lives right himself and enjoys others who conduct themselves in the same manner. He stated that he has never heard anything derogatory concerning Mr. KEATING and he personally would highly endorse him for any position which the President may see fit to appoint Mr. KEATING to.

[redacted] Lindner Enterprises, who maintains offices at 3955 Montgomery Avenue, and the Provident Bank Building, advised on April 29, 1969, that he has been acquainted with CHARLES H. KEATING, Jr., for approximately the past 13 years. His relationship with KEATING is twofold -- as an attorney and as a personal friend. He advised that he is acquainted with the entire KEATING family and considers all of them to be of outstanding character, reputation, morals, and completely loyal to the United States. He advised he knows of nothing whatsoever derogatory concerning any member of the KEATING family. b6 b7C

He described appointee as a man, who in his opinion, is extremely capable, possesses tireless energy, and a person who he would be proud to see representing his Government. He requested that the records show that he wholeheartedly endorses Mr. KEATING for a Presidential appointment.

[redacted] advised that his brother, [redacted] was out of town at the time of this interview, however, stated that he felt positive that his brother's comments concerning CHARLES H. KEATING, Jr., would be substantially the same as those expressed by himself, as set forth above. b6 b7C

CI 161-713
JPF/mae
1

CITIZENS FOR DECENT LITERATURE, INCORPORATED

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The following investigation was conducted by SA [redacted] at Cincinnati, Ohio:

[redacted] Director of Offices for Administrative Services, U. S. Post Office, Cincinnati, residing at 1811 Minion Road, Cincinnati, Ohio, advised on April 29, 1969, that he had known KEATING since 1959 when they first began to work together for Citizens For Decent Literature. [redacted] stated that KEATING was the founder and chairman of Citizens For Decent Literature.

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He described KEATING as a man of high morals, keen intellect, and as a man of great integrity. [redacted] also stated that Mr. KEATING is a man who is deeply loyal to the United States and a man of deep religious convictions. Mr. KEATING's associates are all very fine people as far as [redacted] knew, and Mr. KEATING's family was an extremely happy and well adjusted one.

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[redacted] recommended Mr. KEATING without reservations of any kind for a position of responsibility with the Federal Government as he believed Mr. KEATING to be a very fine man.

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[redacted] former Executive Secretary for Citizens for Decent Literature, Cincinnati, Ohio, residing 8438 Miami Road, Cincinnati, Ohio, advised on April 29, 1969, that she had known Mr. KEATING since 1955. [redacted] advised that she worked closely with Mr. KEATING for ten years while secretary for Citizens For Decent Literature. She resigned as secretary in 1965.

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Mr. KEATING was described by [redacted] as a loyal, competent, and extremely intelligent man. She stated that Mr. KEATING attended church every morning before work, and that his moral life was above reproach.

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He has a wonderful family according to [redacted]
She said that she felt Mr. KEATING to be "One of the Nation's most outstanding men." [redacted] recommended Mr. KEATING without reservation for a position of responsibility with the Federal Government.

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CI 161-713
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The following investigation was conducted by SA [redacted] b6 b7C

CITIZENS FOR DECENT LITERATURE, INC.

[redacted] Medical Representative, Lederle Laboratories Division, American Cyanamid Company, 10340 Evendale Drive, Cincinnati, Ohio, advised on April 29, 1969, he has known CHARLES H. KEATING, JR. well both socially and as a professional associate working together on matters supported by the Citizens Committee for Decent Literature, Inc., for the past 13 to 15 years. He stated he has been tremendously impressed with KEATING's drive and leadership in connection with the above group and has always found KEATING to be a person of high intelligence, unquestioned integrity and excellent moral character, reputation and associates. He stated he considers KEATING to be an outstanding citizen, attorney, husband and father, knows nothing unfavorable concerning him and considers him to be one of the few experts in the country on the subject of obscenity and pornography. He knew nothing of an unfavorable nature concerning KEATING and would recommend him for a position of responsibility with the Federal Government feeling that the Government would be extremely fortunate to obtain KEATING. b6 b7C

CI 161-713
FJB/msw
1

The following investigation was conducted by SA [redacted] b6 b7C on April 29, 1969:

[redacted] b6 b7C Cincinnati, Ohio, advised he has been closely associated with CHARLES H. KEATING, JR., both socially and through business contacts. He considers KEATING to be an all round four star performer. He describes him as an outstanding Catholic layman, and he is an educator in the field of constitutional and moral law. KEATING is nationally recognized as being highly skilled in this regard and briefs prepared by him have been accepted by the Supreme Court of the United States. He is also highly competent in legal matters.

KEATING is the national founder of an organization titled Citizens for Decent Literature and has for approximately ten years been this organization's guiding force and the individual primarily responsible for the financing of this organization.

[redacted] b6 b7C describes KEATING as a highly competitive individual and gives as examples the fact that KEATING is a skilled pilot who flies his own plane and the fact that KEATING was a swimming star at the University of Cincinnati and tried out for the Olympic Swimming Team.

[redacted] b6 b7C states that KEATING has outstanding leadership ability and high moral character. He believes his loyalty to the United States would be beyond reproach.

CI 161-713
ANE/mae
1

PROFESSIONAL ACQUAINTANCES

The following investigation was conducted by SA [redacted] at Cincinnati, Ohio: b6 b7C

[redacted] President Elect, Cincinnati Bar Association, advised on April 29, 1969, that he had had very little contact with CHARLES KEATING. He considered KEATING a very capable attorney, but felt that he did not have enough personal contact to express an opinion as to his suitability for a Government position. He described KEATING's professional reputation as very good. [redacted] has no reason to question his loyalty to the United States Government. b6 b7C

[redacted], President, Cincinnati Bar Association, was contacted on April 29, 1969, and advised that he only knew KEATING on a very limited scale. He felt that KEATING has an excellent reputation. [redacted] believes that KEATING made a professional error when he criticized the United States Supreme Court for its decisions on pornography, but this was a subject on which KEATING had very strong feelings which were the overriding considerations. [redacted] felt that he could not comment further on the appointee because of his limited personal knowledge. b6 b7C

[redacted] Carew Tower, advised on April 29, 1969, that he has known KEATING for over 20 years. He described the appointee as an outstanding person and a great American. He is extremely capable in his legal practice and in all other activities in which he engages. KEATING has an excellent professional and personal reputation. [redacted] commented that there are a number of people in Cincinnati who could be considered antagonistic toward KEATING, but that is based on professional jealousy born by his aggressiveness in business transactions. The appointee has a fine family life. He is the founder, and one of the prime moving forces behind, the Citizens for Decent Literature, Incorporated. He is also a director on the Board of the American Financial Company. His aggressiveness has brought about the phenominal growth of the Provident Bank, Cincinnati. He described the appointee as honest, b6 b7C

trustworthy, aggressive, and extremely dedicated to the cause for decency. The appointee is and has always been loyal to the United States Government. [redacted] recommends KEATING for a position of trust with the United States Government. [redacted] was formerly Chairman of the House Committee on Internal Security and Chairman of Hamilton County Republican Committee. b6 b7C

[redacted], advised on April 29, 1969, that she has known the appointee since he was a small child because of her close friendship with his mother. KEATING has always had a very fine reputation and has maintained very high professional standards. She has always found him to be trustworthy, honest, of the highest integrity and character, and a dedicated family man. He has always been a hard worker and a man who fully applies himself to every task he approaches. He is active in the Citizens for Decent Literature. JUNG said that KEATING's loyalty to the United States Government is above question. She recommends KEATING for a position of trust with the United States Government. b6 b7C

[redacted] advised on April 30, 1969, that he had known the appointee since high school. [redacted] holds KEATING in the highest respect and feels that he is one of the outstanding men he knows. He described him as extremely aggressive, trustworthy, honest, and dedicated to a cause or project once he begins. He has been very active in the Citizens for Decent Literature. He has continuously operated within the confines of professional ethics. He approaches everything with a great deal of enthusiasm and competitive spirit. [redacted] believes that KEATING's loyalty to the United States Government is above reproach. KEATING is highly successful in his business activities and is one of the most dynamic figures that [redacted] has been acquainted with. [redacted] recommends KEATING for a position of trust with the United States Government. b6 b7C

CI 161-713
ECM/mul
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The following investigation was conducted by SA [redacted] at Cincinnati, Ohio:

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[redacted] Director of Security, The Kroger Company, 1014 Vine Street, advised on April 29, 1969, that he has been well acquainted professionally as well as socially with CHARLES H. KEATING, JR. for about 12 years. He stated during the bulk of this period as Chief of Police for the City of Cincinnati, he, [redacted] worked rather closely with KEATING because of KEATING's tremendous knowledge and talents in the field of obscenity and pornography. He stated KEATING came from a very fine family background although KEATING and his brother, BILL KEATING, now a Cincinnati City Councilman, both worked hard and whatever financial status they have acquired they obtained through their own efforts personally. He stated KEATING has a very fine relationship with his wife who is an outstanding mother and he is extremely close to his family. He stated all of the KEATINGs are interested in swimming. CHARLES KEATING was a former intercollegiate breast stroke champion and is currently president of the Pepsi Marlins swimming club, a competitive age group swim club in the Cincinnati area.

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b7C

[redacted] stated KEATING has an outstanding reputation as an attorney, not only in Cincinnati but throughout the United States because of the courage and restraint he has exercised in his personal campaign to improve the moral fiber of this country by establishing a higher degree of law enforcement and better statutes for the control of the distribution of obscene literature. He stated KEATING has submitted several Amicus Curiae briefs in support of prosecution of important obscenity cases being decided by the Supreme Court in recent years. Mr. [redacted] pointed out he felt KEATING was not unreasonable in his opposition and had, on occasions, observed KEATING wherein borderline cases he defended distribution of material which some crusaders would call obscene but it did have literary class. [redacted] described KEATING as a man of

outstanding moral character, personal habits and associates, whose loyalty to this country is unquestionable in his mind. He recommended KEATING without reservation for any responsible position in the Federal Government for which he is qualified and felt the Government would be indeed fortunate to secure KEATING's services.

CI 161-713
WRM/mjv
1

JUDGES

The following investigation was conducted by Special Agent [redacted] on April 29, 1969, at Cincinnati: b6 b7C

Judge JOHN W. PECK, U. S. Court of Appeals, Sixth Circuit, advised that he has known CHARLES H. KEATING, JR., for a period of some 20 years, but in reality, was much better acquainted with KEATING's younger brother, BILL, who has held various positions in the City Government and had been a former Common Pleas judge in Hamilton County.

Judge PECK remarked that he has had no social contact with CHARLES KEATING, JR., but has had quite extensive professional contact with him and always found him to be a person of excellent intelligence, whose reputation was spotless insofar as he knew.

He continued by stating he is also fairly acquainted with the law firm which includes the appointee and that this firm possesses a very good reputation among the other attorneys in the city of Cincinnati. He stated that he had no reason to question the judgment of the appointee since he felt that he was mature, conscientious, intelligent and who had only associated with people of excellent reputations.

Judge PECK pointed out that he considered the appointee to be a loyal American and who certainly could be trusted in a position of responsibility in the Federal Government. He concluded by stating that based on his own knowledge, as well as information from other sources, he would highly recommend CHARLES KEATING, JR., for a position of confidence with the Federal Government.

U. S. District Judge TIMOTHY S. HOGAN, SDO, advised that his knowledge of the appointee comprised a period of 10 years, most of which has been from information from other members of the legal profession as opposed to direct contact with the appointee. He described the appointee as being a most successful and astute business man and although he realized his next comment was of a

negative nature, nevertheless, he had never heard anything unfavorable concerning appointee with respect to his personal life or professional ethics.

He stated that he was aware that the appointee and his younger brother, BILL, were fairly active on the political scene in Cincinnati and that the appointee was a member of a very profitable law firm in the city. He stated that he would highly recommend the appointee for a position of trust and responsibility with the Federal Government, explaining further that within recent years, he had personally endorsed a young attorney for employment with the appointee's law firm and that this individual is currently affiliated with the law firm with which the appointee is a member.

Judge HOGAN stated he possessed no personal knowledge regarding appointee's habits, but again felt that from a negative standpoint, the appointee is of good reputation, intelligent, conscientious and loyal to the United States.

Judge RAYMOND E. SHANNON, Ohio Court of Appeals, First District, 1115 Paxton Avenue, advised that he has had fairly extensive contact with the KEATING family for a period in excess of 20 years, adding that the appointee's father, who is now deceased, had been a reputable business man in the dairy business in Cincinnati.

He explained that he and the appointee's younger brother, BILL, are members of the same fraternity and although not immediate neighbors, he and the appointee's brother do get together on occasion. He explained that he, himself, had formerly been in the Hamilton County Prosecutor's Office and that at that time, appointee had caused some friction among his personnel in view of his active part in the Citizens For Decent Literature Committee. He explained this remark by stating that the appointee was a very aggressive, intelligent, conscientious man, who, in his opinion, projected two images.

He stated the first image was that of a very mature and conscientious individual who was most opposed to any form of pornography and who was very vocal and

articulate in his role on behalf of the Citizens For Decent Literature. He stated that along this line, the CDL had filed amicus curiae (friend of the court) briefs in behalf of CDL in connection with cases involving smut literature and/or films. He added that the appointee was an expert in this particular field and had gained national recognition for his standing against pornography.

He explained that since the appointee was an articulate speaker, he could generate the general populace to become agitated against anyone arrested in connection with a pornographic matter, but that he felt since the appointee was a respectable attorney, he, the appointee, should and undoubtedly did realize the limitations that the Prosecutor's Office had to cope with in connection with this type of case.

He stated this is what he meant when he initially remarked that appointee projects two images, namely, that of active vocal opponent in connection with anything pornographic, but yet an attorney who would undoubtedly be familiar with any problems of law enforcement officials in combating pornographic matters.

[redacted] stated he considered appointee to be honest, most reputable in his professional dealings, and an expert in the decent literature field. He stated that he was aware that the appointee had testified both in state courts in Ohio, as well as other states on behalf of the prosecution in pornographic cases and in his considered opinion, the appointee could be trusted in a responsible position with the Federal Government. b6 b7C

[redacted] concluded by stating that he believed the appointee to be independently wealthy as a result of his partnership in a profitable law firm, adding that he heard he was worth some four million dollars and he believed this figure to be substantially correct. b6 b7C

He concluded by stating that the appointee's partner was a very respected and conscientious attorney, who, although not as forceful and aggressive as appointee, was in large measure responsible for the success of the law firm, since he was a very thorough, quiet individual

who had an excellent reputation in legal circles in the Cincinnati area.

The following investigation was conducted by Special Agent [redacted] at Cincinnati, Ohio, on April 29, 1969: b6 b7C

JOHN W. KEEFE, Judge, Court of Common Pleas, Hamilton County, Ohio, was interviewed. Judge KEEFE had previously served four terms as Municipal Court judge and one term in the Court of Appeals. Regarding his knowledge and association with CHARLES H. KEATING, JR., Judge KEEFE advised as follows:

He has known the appointee for approximately 15 years and described him as highly intelligent and very high morals. He opined that KEATING would be especially well qualified for a presidential appointment. He opined that KEATING's loyalty was unquestionable. He termed him a confident lawyer and felt that there would be no conflict of interest in any such position, to his knowledge. He reiterated that KEATING was singularly well qualified and would so recommend him.

Judge KEEFE had no information regarding the appointee or his family, or background, of a derogatory nature.

Interview was had with Judge OTIS R. HESS, who has served on the bench since January 1, 1930, and is currently in the Court of Appeals, First Appellate District of Ohio.

Concerning his knowledge and association with CHARLES H. KEATING, JR., Judge HESS advised as follows:

He has known Mr. KEATING for approximately 20 years, dating back to his, KEATING's, college days when he was an Olympic swimmer. Judge HESS is also a close associate of the appointee's brother, WILLIAM J. KEATING.

Judge HESS has followed the career of the appointee after his graduation from the University of

Cincinnati Law School and through his successful legal practice. He described KEATING's morals as beyond reproach and his legal abilities as extra ordinary. He felt also that the appointee had a great ability to organize and lead in matters socially and civically.

Judge HESS was cognizant that in recent years, Mr. KEATING has engaged in the fight against indecent literature through the Citizens For Decent Literature, Incorporated. He opined that the appointee presently occupies a high position in the aforementioned organization on a national level.

Judge HESS felt that Mr. KEATING's loyalty was beyond reproach. He knew of no conflict of interest. He further opined that the appointee would put a large amount of his own funds into the organization to fight pornographic and indecent literature.

He described Mr. KEATING as a hard working extraordinary hard driving individual and when he undertakes a position wholeheartedly, functions in that regard. He felt that his legal ability speaks for itself in that he represented one of the largest financial institutions in this area, namely, the Lindner organization.

Judge HESS further opined that the community and university ties, as well as religious activities of Mr. KEATING, all lead to a man of exceptional capabilities. He knows of no derogatory information relating to appointee or his family.

Interview was had with Judge FRANK M. GUSWEILER, Court of Common Pleas, Hamilton County, Cincinnati, Ohio, where he has been a judge since 1958.

Judge GUSWEILER has known CHARLES H. KEATING, JR., since 1956. He opined that he was possibly better acquainted with the appointee's brother, WILLIAM J. KEATING, in that WILLIAM had replaced Judge GUSWEILER as a judge in Municipal Court in 1958. Judge GUSWEILER knows the appointee's wife and family. He described Mr. KEATING as a good lawyer and his character and background is "of the finest". In the appointee's current

position heading a law firm, he felt his intelligence was of the highest.

Judge GUSWEILER reflected on only one disagreement, if you could call it that, that he had with CHARLES KEATING, JR., dating back to 1950. At that time, the appointee was in charge of the Citizens For Decent Literature, Incorporated and in this capacity, was attempting to promote public appeal concerning violations of the obscenity laws. At that time, a couple of local theaters were showing adult questionable films and the CDL, along with other related groups, including a labor union and church groups, were "needling the prosecutor" into bringing charges regarding said theaters.

Judge GUSWEILER was the presiding judge of the Municipal Court at that time and one of the theater men was arrested on an obscenity charge. The CDL, along with other groups, appealed to public opinion in a large "write-in campaign" which, in essence, Judge GUSWEILER felt was attempting to sway the presiding Judge DENNING at the time.

The presiding judge therefore requested in view of the volume of mail received, that the case be reassigned which was done and Judge GUSWEILER presided in the matter. Judge GUSWEILER opined that he did not feel at that time that it was proper to try to influence a presiding judge and the court in advance. In other words, evidence should speak for itself.

The only conflict, if you could call it that, at that time, was in Judge GUSWEILER's opinion, that of the volume of mail being deluged on the court. Judge GUSWEILER took the attitude that the public should not direct letters to the court, but should speak out in public opinion polls and direct correspondence to Congress, thereby activating legislation in that regard.

Judge GUSWEILER termed the appointee's legal abilities as excellent and opined that Mr. KEATING was never unprepared and always well briefed when he presented a case in Judge GUSWEILER's court and he faced

the issues legally and forcefully. His character, reputation and intelligence are above reproach.

He opined that there was no conflict of interest other than the fact of close family ties, in that the appointee was his brother's, WILLIAM's, close advisor and supporter and would certainly desire to further WILLIAM KEATING's political career.

He opined that WILLIAM KEATING would like to advance to Congress and, in fact, it was his brother's suggestion that along those lines, he could probably further his career better from Cincinnati City Council than he could from the court.

Judge GUSWEILER had no derogatory information relating to Mr. KEATING and felt that he had impeccable morals. He noted that KEATING had a number of children, was prominent in sports and interested in youth and athletics.

CI 161-713
BCK/bha
1

NEIGHBORHOOD

The following investigation was conducted by Special Agent [redacted] b6 b7C

On April 29, 1969, [redacted] b6 b7C 7610 Green Farms Drive, advised she has known the appointee and his family for seven years. She stated the entire family, including the appointee, have a very good reputation in the community. She considers that they all have excellent characters and associates, and that their loyalty to the United States Government is unquestioned. She advised the appointee has always been a very capable individual, and she would recommend him for a position of trust in the United States Government.

[redacted] b6 b7C advised she has known the appointee for nine years. She stated her husband has known the appointee since they were in high school together. She advised the appointee and his family have an excellent reputation in the community, and all are of the highest moral character. She stated the appointee has always been very civic minded, and she has no reason to doubt his loyalty to the United States Government. She stated she is acquainted with many of his associates and they are all of excellent reputations. She stated the appointee is a very capable man, and she would recommend him for a position of trust in the United States Government.

[redacted] b6 b7C advised she has known the appointee since his high school days. She has known him and his family as neighbors for six years. She considers them to be very good neighbors with excellent reputations. She said the appointee's character and associates are very good, and she has no reason to doubt his loyalty to the United States Government. She said he has always impressed her as being a very capable man, and she would recommend him for a position of trust in the United States Government.

CI 161-713
BCK/bha
1

SOCIAL ACQUAINTANCES

The following investigation was conducted b6 b7C by Special Agent [redacted]

On April 29, 1969, Reverend Father [redacted] b6 b7C [redacted] Pastor, St. Vivian's Church, 7600 Winton Road, advised he has known the appointee as a member of his parish for the past six years. He stated he is a close personal friend of the appointee and his family, and knows them all to be of excellent character. His known associates are all fine people, and the appointee and his family have an excellent reputation in the community. He has no reason to doubt the appointee's loyalty to the United States Government. He stated he considers him to be a very good man, very capable, and would recommend him without qualification for a position of trust in the United States Government.

On April 29, 1969, [redacted] b6 b7C DDS, 3815 Harrison Avenue, advised he has known the appointee for five years, both as a social and business acquaintance. He stated that he and the appointee are both members of the Marlins Swim Club, and the appointee has been an officer of this club in the past. He stated the appointee's character is excellent and his associates are all of the highest quality. His loyalty to the United States Government is unchallenged. He advised he is acquainted with the appointee's entire family, and all are of the highest moral character. He stated the appointee has always been very active in the Citizens For Decent Literature, Incorporated, was one of the organizers of this group, and is presently a member of the Board of Directors of the group. He stated the appointee has always been extremely active in the Citizens For Decent Literature, Incorporated, and has always demonstrated himself to be a very capable individual. [redacted] recommended the appointee for a position of highest trust in the United States Government.

On April 29, 1969, [redacted] b6 b7C [redacted] advised that he has known the appointee since 1962. He stated that he is a social acquaintance of the appointee, and both he and the appointee are members of the Marlins Swim Club. He stated he has known the appointee's family and all are of very good reputation in the community. [redacted] advised that all of the appointee's known associates are of good reputation and

he considers the appointee's character to be spotless. He has no reason to doubt the appointee's loyalty to the United States Government. The appointee has been very active in the Citizens For Decent Literature, Incorporated, a group which appointee helped to found. This group has done much to oppose and eliminate obscene literature in the community. [redacted] advised he has observed the appointee on many occasions and has always been impressed by his very fine capability. He would recommend the appointee for a position of high trust in the United States Government. b6 b7C

On April 30, 1969, Reverend [redacted] DD, Pastor, Roselawn Community Baptist Church, 7181 Reading Road, advised he has known the appointee only since August, 1968, however, he has been closely associated with the appointee in church matters. He advised he has been highly impressed by the appointee's capabilities, and his high integrity. He stated he has met the appointee's family, and find they are extremely fine individuals. He understands the appointee has an excellent reputation in the community as a civic leader, who is extremely active in the Citizens For Decent Literature, Incorporated. The appointee has been extremely effective in his activities for decent literature and for elimination of obscene material. He advised that to the best of his knowledge, the appointee's associates are of outstanding character, and the appointee has given him no reason to doubt his loyalty to the United States Government. He recommended the appointee for a position of trust in the United States Government. b6 b7C

CI 161-713
JRC/dms
1

The following investigation was conducted by IC [redacted] at Cincinnati, Ohio, on April 29, 1969: b6 b7C

CREDIT

[redacted] Clerk, Credit Bureau of Cincinnati, Incorporated, Cincinnati, Ohio, advised that the appointee, CHARLES H. KEATING, Jr., and his wife, [redacted], were first known to the credit bureau files on October 10, 1947. [redacted] stated that the appointee and his wife have resided at 7676 Green Farms Drive, Cincinnati, since approximately August of 1962, and that they maintained previous residences at 9162 Long Lane, 1320 Wittenkind, 1822 North Bend Road, and 795 Ludlow Avenue, Cincinnati, Ohio. [redacted] stated that the appointee was shown to be self-employed as an attorney at the present time and that he had previously been employed as Legal Counsel and Director for the American Financial Corporation. [redacted] stated that her files contained no derogatory information relative to the appointee, and he and his wife were considered to have a satisfactory credit rating. b6 b7C

[redacted] advised that the appointee's father, CHARLES H. KEATING, Sr., and ADEL K. KEATING, were first known to the credit bureau files in September, 1924. [redacted] stated the appointee's parents were last shown to be owners of the property at 3637 Amberson Avenue, Cincinnati, and that they had previously resided at 795 Ludlow Avenue, Cincinnati. [redacted] stated that the credit bureau files revealed that the appointee's father was last known to be retired and that he had been retired since approximately 1934, due to ill health. [redacted] stated that her file b6 b7C

regarding the appointee's parents contained no derogatory information and that they were considered to have a satisfactory credit rating.

[redacted] advised that the appointee's brother, WILLIAM J. KEATING, born 1927, and his wife, [redacted] were first known to the credit bureau files on December 11, 1950. WILLIAM J. and [redacted] KEATING were last known to reside at 2957 Alpine Terrace, Cincinnati, in December, 1967, and they maintained previous residences at 3453 Arnold, and 3573 St. Charles Place, Cincinnati. [redacted] stated that WILLIAM J. KEATING was last shown to be an attorney with Keating, Muething, and Klekamp in October, 1968, and that he previously had been shown as a judge in the Municipal Court, Cincinnati, Ohio, and a self-employed attorney. [redacted] stated that her file contained no derogatory information relative to WILLIAM J. and [redacted] KEATING and they are considered to have a satisfactory credit rating.

b6
b7C

ARREST

[redacted] Clerk, Records Section, Cincinnati Police Department; [redacted] Clerk, Master Name Index File, Cincinnati Police Department; and [redacted] Records Supervisor, Hamilton County Sheriff's Office, Cincinnati, Ohio, each advised their respective records contained no information identifiable with the appointee or members of the appointee's immediate family.

b6
b7C

CI 161-713
REH/mul
1

The following investigation was conducted by SA [redacted] at Athens, Ohio: b6 b7C

CREDIT AND ARREST

On April 29, 1969, [redacted] Manager, Credit Bureau of Athens, Athens, Ohio, advised her files contain no reference to CHARLES H. KEATING, JR. b6 b7C

On April 29, 1969, Captain [redacted] Athens Police Department, Athens, Ohio, advised his files contain no record of arrest for CHARLES H. KEATING, JR. b6 b7C

CI 161-713
REH/mul
1

The following investigation was conducted by SA [redacted] at Athens, Ohio:

b6
b7C

MISCELLANEOUS

On April 29, 1969, Mr. R. C. COOK, President, The Security Bank, 6 North Court Street, Athens, Ohio, advised CHARLES H. KEATING, JR. is a member of the Board of Directors of that bank and has been since 1963. He holds no other position with that institution. Mr. COOK advised that Mr. KEATING is a fine individual and one who he could recommend for any position. He stated Mr. KEATING is a loyal American.

Mr. B. TAD GROVER, JR., President, The Athens National Bank, Athens, Ohio, advised on April 29, 1969, KEATING is a member of the law firm which represents his bank but is not a member of the Board of Directors and does not hold any official position with the Athens National Bank. Mr. GROVER advised, however, he is personally acquainted with KEATING and knows of no one he could recommend more highly for any position whatever.

CI 161-713
ECM/mul
1

NEWSPAPER LIBRARY FILES

[redacted] Librarian, Cincinnati Enquirer, a daily newspaper of general circulation in the Cincinnati, Ohio, area, furnished his file on CHARLES H. KEATING, JR. and the Citizens for Decent Literature, Inc. which contained the following pertinent information: b6 b7C

The Cincinnati Enquirer, 617 Vine Street, in article of April 3, 1946, reported that CHARLES H. KEATING, a member of the University of Cincinnati Swimming Team, had won the National Intercollegiate Breast Stroke Championship the previous weekend at the Yale University pool, New Haven, Connecticut, where he beat Ohio State's previously unbeaten [redacted] in the 200 yard final with a yard to spare. b6 b7C

The June 3, 1958, issue of the Cincinnati Enquirer contained an article captioned, "Stiffen Penalties on Smut Purveyors", which reported under a Washington by-line on January 30, 1958, that CHARLES KEATING, JR., a young Cincinnati attorney, told a "House judiciary sub-committee today that severe penalties are needed 'to quell' the indecent literature business". KEATING was accompanied by his daughters, [redacted] age 7, and [redacted] age 6, as he was also sworn in to practice before the U. S. Supreme Court. b6 b7C

The February 28, 1960, issue of the Cincinnati Enquirer contained an article "Decent Literature Unit Dons National Cloak" which reported that the Citizens for Decent Literature (CDL), a movement founded in Cincinnati about five years ago by Cincinnati attorney CHARLES H. KEATING, JR. to "fight obscene literature, went national officially yesterday with the unanimous acceptance here by interested parties from across the nation of a national organization plan". Approximately 400 persons attended meetings and

workshops at the Hotel Netherland Hilton and Mr. KEATING was named the Chief Legal Counsel of the group.

Aims of the National CDL were listed as follows:

"To create public awareness of the nature and scope of obscene or pornographic literature."

"To encourage the reading of decent literature."

"To expect the enforcement of the laws pertaining to obscene or pornographic literature."

"To serve as a medium for the accummulation and dissemination of information pertinent to the problem."

The November 30, 1965, issue of the Cincinnati Enquirer contained an article captioned, "Attorney to Get XU Medal" which reported that CHARLES H. KEATING, JR. founder and national co-chairman of Citizens for Decent Literature, had been awarded the St. Francis Xavier Medal of XU, which is given annually to men who "demonstrate in today's world the qualities of health of mind that distinguished St. Francis Xavier". KEATING, as founder of CDL, was instrumental in that organization gaining "world-wide recognition for its approach to the control of obscene and pornographic books and pictures."

The June 4, 1966, issue of the Cincinnati Enquirer contained an article captioned, "Loyola Award Given Keating", which reported that CHARLES H. KEATING, JR., Cincinnati attorney, and founder of the CDL, was to be presented the 1966 Daniel A. Lord Award from Loyola Academy during graduation exercises and was cited for "distinguished service toward the advancement of Catholic Secondary Education" through his work to promote publication and sale of decent literature.

The August 4, 1968, issue of the Cincinnati Enquirer contained an article captioned, "Smut Fought 13 Years", reported that CHARLES H. KEATING, JR., Cincinnati attorney and founder of CDL, has, for the past 13 years, endeavored to "Rid America of hard core professional pornography". CDL was reported as having 300 chapters throughout the country.

"But so far decency's won - lost record is dismal. CDL lost 23 or 26 cases in the U. S. Supreme Court in the last year".

"And if Associate Justice Abe Fortas is approved as the Court's new Chief Justice, 'then the ballgame is over for decency' KEATING said."

"On the other hand, if Fortas' nomination is rejected, "it will be because of our efforts'...

"Keating insists that CDL aims not to censor communications or to burn books but to 'enforce laws already existing against the guys who put hard core pornography in the corner cigar store stand.' He estimates that 75 to 100 publishers are doing a $2 billion smut business."

The March 20, 1969, issue of the Cincinnati Enquirer contained an article captioned, St. X to open pool in fall" which reported that St. Xavier High School, Cincinnati, Ohio, will open a $500,000 natatorium next fall through the generosity of CHARLES H. KEATING, JR. and WILLIAM J. KEATING to be built in memory of their father, CHARLES H. KEATING, SR. The pool will be an eight lane, 50 meter olympic indoor pool and will be finished by June, 1970.

[redacted] Librarian, Cincinnati Post-Times Star, 800 Broadway, made available files on appointee and CDL which contained no additional information. b6 b7C

CI 161-713
ECM/mul
1

MAGAZINE ARTICLES

[redacted] Personal Secretary to CHARLES H. KEATING, JR., Keating, Muething and Klekamp, 18th floor, Provident Tower, Fourth and Vine Streets, furnished six reprints concerning obscenity and pornography which appeared in the Reader's Digest published at Plainville, New York, beginning in May, 1964, and ending December, 1968, which contained the following pertinent information concerning KEATING:

b6
b7C

An article captioned, "Poison In Print - And How To Get Rid of It" by CLARENCE W. HALL, which appeared in the 1964 issue of Reader's Digest, which reported that CHARLES H. KEATING, JR. of Cincinnati, Ohio, founder of a fast growing organization called Citizens for Decent Literature (CDL), said: 'Fearing a phony cry of censor, we have been jeered into a national sheepishness about taking action against this evil. Lick that timidity and you've gone a long way to lick the problem.' Keating should know. A former all American swimming champion and U. S. Navy fighter pilot, '6'4" young lawyer and his CDL have effectively proved that the tide can be swept back by concerted community action. The two instruments of his attack are (1) An aroused citizenry; (2) Enforcement of existing laws that make the distribution and sale of obscenity a crime...

"...Keating's concern over the flood of printed poison was galvanized one day in 1956 when he noticed youngsters at a newsstand snickering over a display set apart from the rest of the magazines and paperbacks. Moving over for a look Keating was shocked. Besides "girlie" magazines featuring nudes in suggestive poses, dozens of publications depicted not only raw sex but stories of abnormal sex behavior. By any decent citizen's definition, this was pornography, dirt for dirt's sake...

"The first arrest in the Cincinnati drive was that of a stationery and candy store proprietor caught selling lewd publications to grade school students...

Immediately other dealers began cleaning up their stands. When they asked CDL for a list of offended magazines, Keating sent them instead, a copy of the city ordinance "We're not a censoring body', he said, 'The law is plain enough!'. During the next two years seven other dirt peddlers were brought into court, all were convicted, all but one appealed; all appeals failed... News of Cincinnati's success brought hundreds of appeals for guidance from other communities. In September, 1962, CDL went 'national' with headquarters - a clearing-house of information freely supplied to any community - in Keating's law office. CDL's biweekly publication, 'The National Decency Reporter', alerts all chapters to significant court decisions, analizes cases where convictions have been overturned. Its counseling film, 'Perversion For Profit', is a shattering expose of the obscenity racket.

"A growing potent arm of CDL is its youth division with more than 200 chapters...

"CDL advises all chapters, adult and youth, 'Demand only that the laws against distribution and sale of obscene publications be enforced. Don't tell people what they can or cannot read. Limit yourself to calling attention to materials you believe violate community standards, and bring it to the proper authorities - preferably a jury decision - to determine whether the material is, in fact, obscene...

CDL has testimony from police chiefs, court psychotherapists, and FBI Director J. EDGAR HOOVER, establishing a direct relationship between the stimulus of obscene publications and criminal behavior, both adult and juvenile."

An article appearing in the February, 1967, issue of the Reader's Digest captioned, "A Victory over the Smut Peddler", by O. K. ARMSTRONG, which reported that "CHARLES H. KEATING, JR., Chairman of Citizens For Decent Literature, a national organization with more than 300 chapters, says 'The Supreme Court decision of

last March 21, 1969, makes it a different ballgame... Any area that decides to rid itself of obscenity can do so by competent enforcement and vigorous prosecution. There is no excuse for pornographers to be in business after the court's decision.'"

FD-263 (Rev. 12-19-67)

FEDERAL BUREAU OF INVESTIGATION

REPORTING OFFICE	OFFICE OF ORIGIN	DATE	INVESTIGATIVE PERIOD
JACKSONVILLE	BUREAU	4/30/69	4/30/69

TITLE OF CASE

CHARLES HUMPHREY O'KEATING, JR.

REPORT MADE BY

TYPED BY

:mhw b6 b7C

CHARACTER OF CASE

SPECIAL INQUIRY

REFERENCES:

Jacksonville teletype to Bureau 4/30/69;
Cincinnati teletype to Jacksonville 4/29/69.

- RUC -

ACCOMPLISHMENTS CLAIMED ☒ NONE						ACQUIT-TALS
CONVIC.	AUTO.	FUG.	FINES	SAVINGS	RECOVERIES	

CASE HAS BEEN:

PENDING OVER ONE YEAR ☐ YES ☒ NO

PENDING PROSECUTION OVER SIX MONTHS ☐ YES ☒ NO

APPROVED

SPECIAL AGENT IN CHARGE

DO NOT WRITE IN SPACES BELOW

161-6327-10

NOT RECORDED

5 MAY 2 1969

COPIES MADE:

1 - Bureau (AM)
1 - Jacksonville (161-308)

Spec. Inq.

Dissemination Record of Attached Report				
Agency				
Request Recd.				
Date Fwd.				
How Fwd.				
By				

Notations

70 JUN 20 1969

GPO : 1968 O - 299-885

VIA TELETYPE

MAY 1 1969

ENCIPHERED

Mr. Tolson
Mr. DeLoach
Mr. Mohr
Mr. Bishop
Mr. Casper
Mr. Callahan
Mr. Conrad
Mr. Felt
Mr. Gale
Mr. Rosen
Mr. Sullivan
Mr. Tavel
Mr. Trotter
Tele. Room
Miss Holmes
Miss Gandy

MR. CLEVELAND
ROOM 1246

WA01

940 AM URGENT 5-1-69 TDB

TO DIRECTOR PLAINTEXT

FROM MIAMI 161-637 RUC 1P

b6
b7C

CHARLES HUMPHREY KEATING, JR., SPI.

RE CINCINNATI TEL TO BUREAU, APRIL TWENTYNINE, LAST.

ON APRIL THIRTY, LAST, [redacted], POMPANO BEACH, FLA., ADVISED SA [redacted] HE RECALLS KEATING WORKING FOR PRUDENTIAL INSURANCE COMPANY, CINCINNATI, OHIO, AS A PART TIME SALESMAN BETWEEN FORTYFIVE AND FIFTY. DESCRIBED KEATING AS AN EXCELLENT EMPLOYEE AND A LOYAL AMERICAN OF THE HIGHEST CHARACTER, REPUTATION AND ASSOCIATES, FURTHER STATING HE HAS HIGHEST REGARD FOR KEATING AND WOULD RECOMMEND WITHOUT RESERVATION FOR ANY POSITION OF TRUST.

b6
b7C

END

RNK FBI WASH DC

161-6327-11

cc destroyed
6/14/69

7100

70 JUN 20 1969

@

FEDERAL BUREAU OF INVESTIGATION
U. S. DEPARTMENT OF JUSTICE
COMMUNICATION SECTION
MAY 1 1969

TELETYPE

FBI WASH DC

FBI ST LOUIS

1046AM URGENT 5-1-69 MSM

TO DIRECTOR

FROM ST. LOUIS (161-NPRC-M) 1P

Mr. Tolson
Mr. DeLoach
Mr. Mohr
Mr. Bishop
Mr. Casper
Mr. Callahan
Mr. Conrad
Mr. Felt
Mr. Gale
Mr. Rosen
Mr. Sullivan
Mr. Tavel
Mr. Trotter
Tele. Room
Miss Holmes
Miss Gandy

b6
b7C

MR. CLEVELAND
ROOM 1246

CHARLES H. KEATING, JR., AKA, SPI.

RECORDS, MPRC, ST LOUIS, DISCLOSED KEATING SERVED IN US NAVY AS ENLISTED MAN FROM JULY SIX, FORTYTHREE TO FEBRUARY TWENTY, FORTYFIVE. ENLISTMENT TERMINATED AS AVIATION CADET TO ACCEPT COMMISSION.

SERVED ON ACTIVE DUTY IN US NAVY AS OFFICER FROM FEBRUARY TWENTYONE, FORTYFIVE, TO NOVEMBER TWENTYONE, FORTYFIVE. HONORABLY RELIEVED AS ENSIGN BY REASON OF CONVENIENCE OF GOV.

SERVED IN US NAVY RESERVE, INACTIVE STATUS, FROM OCTOBER THIRTYONE, FORTYTWO TO JULY FIVE, FORTYTHREE, AND FROM NOVEMBER TWENTYTWO, FORTYFIVE TO JUNE SEVENTEEN, FIFTYNINE, AT WHICH TIME HONORABLY DISCHARGED AS ENSIGN.

NO UNFAVORABLY INFROMATION NOTED IN MILITARY RECORDS.

REBUTEL APRIL TWENTYFIVE, LAST. BUDED: MAY TWO, NEXT. REPORT FOLLOWS. P.

END

SLB 304

cc destroyed 6/4/69

FBI WASH DC

161-6327-12

NOT RECORDED

JUN 20 1969

70 JUN 20 1969

FD-204 (Rev. 3-3-59)

UNITED STATES DEPARTMENT OF JUSTICE
FEDERAL BUREAU OF INVESTIGATION

Copy to:

Report of: SA [redacted] Office: JACKSONVILLE b6 b7C
Date: 4/30/69

Field Office File #: 161-308 Bureau File #:

Title: CHARLES HUMPHREY KEATING, JR.

Character: SPECIAL INQUIRY

Synopsis: Records South-Central Office, Prudential Insurance Company, Jacksonville, Florida, reflect appointee employed Cincinnati, Ohio, 8/12/46 to 7/7/48 and contain no detrimental information.

- RUC -

DETAILS:

AT JACKSONVILLE, FLORIDA

On April 30, 1969, [redacted] Assistant b6 b7C
Personnel Director, South-Central Office, Prudential Insurance Company, Prudential Building, advised the company records reflect the appointee was employed as a Special Agent (Sales Representative) in the Cincinnati, Ohio, office from August 12, 1946, to July 7, 1948, when he resigned for "other work," nature not given. [redacted] informed the records contain nothing of a detrimental nature and that anything which would have reflected against his consideration for re-employment would be noted on the record.

This document contains neither recommendations nor conclusions of the FBI. It is the property of the FBI and is loaned to your agency; it and its contents are not to be distributed outside your agency.

☆ U.S. GOVERNMENT PRINTING OFFICE: 1967-O-273-878

FD-36 (Rev. 5-22-64)

F31

Date: 5/1/69

Transmit the following in _____
(Type in plaintext or code)

Via AIRTEL AIR MAIL
(Priority)

TO: DIRECTOR, FBI

FROM: SAC, LOS ANGELES (161-1507) (P)

RE: CHARLES HUMPHREY KEATING, JR.
SPECIAL INQUIRY
BUDED: 5/2/69

b6
b7C

Re Cincinnati teletype to Bureau dated 4/29/69.

Enclosed herewith to the Bureau is one copy each of two newspaper articles pertinent to the appointee, which were obtained from the "Los Angeles Times," Los Angeles, 4/30/69, dated and captioned as follows:

"Anti-Smut Leader Takes Campaign to Congress" dated 5/28/60 (Exhibit A)

"Blue Pencil Brigade Blunting Effectiveness in California Campaign" dated 11/22/64 (Exhibit B)

ENCLOSURE

1 - Bureau (Encs. 2)
1 - Los Angeles

MRA/bje
(2)

161-6327-13
NOT RECORDED
1 MAY 3 1969

Approved: _____ Sent _____ M Per _____
Special Agent in Charge

Anti-Smut Leader Takes Campaign to Congress

MAY 28 1960

WASHINGTON, May 27 (UPI)—The leader of a nation-wide anti-smut movement piled hundreds of magazines before a House subcommittee today and claimed the publications "caused" a spirit of wantonness.

Charles H. Keating Jr. of Cincinnati told the Post Office subcommittee he got the magazines from citizens who bought them at newsstands and sent them to his Citizens for Decent Literature orzanization.

Keating conceded that he solicited the magazines in letters sent "to all communities and citizens interested in decency."

Against Censorship

Keating said his organization was against "state censorship", but he advocated creation of state legislative bodies with subpoena powers to investigate the problem of pornography.

Keating, a former Navy fighter pilot, said his organization had two purposes: to educate the public about pornography and to force "enforcement of valid statutes making obscenity crime."

He claimed many prosecutors and police officials were not attempting to press their cases because they were "brainwashed by the mass media."

He said 500 communities were definitely interested in forming citizens anti-smut groups and another 300 communities had expressed milder interest.

Keating said opponents of citizens groups "will yelp censorship, art, borderline, and other undefined words and phrases to disguise . . the rot they peddle."

Subcomittee Chairman Kathryn E. Granahan (D-Pa.) said she had only five letters opposed to Keating's viewpoints, one signed by a writer from Holy City, Cal.

161-6327-13 EXHIBIT A

ENCLOSURE

Blue Pencil Brigade Blunting Effectiveness in California Campaign

BY ROBERT R. KIRSCH

SUN NOV 22 1964

de·cent, adj. (F. or L. DECENT, fr. L. DECENS, DECENTIS, pres. part. of DECERE, to be fitting or becoming; akin to L. DECUS glory, honor, ornament, Gr. DOKEIN to seem good . . .)

—Webster's New International Dictionary, Second Edition.

I may be old-fashioned and utterly out of tune with the age but I was trained to give the benefit of the doubt to all people. My grandmother, God rest her soul, told me: "You must believe a man's words, until his actions tell you the truth." My grandfather was more skeptical. He said, "Watch out for the man who announces his own goodness; he is trying to drown out something else."

Homilies aside, I have had some shocking disappointments lately. The latest case in point took place in Visalia, the county seat of Tulare, close to Merced, the town in which I spent some of my most formative years. There, last month, an important book trial took place. It was the result of a civil suit for declaratory relief brought by Tulare Dist. Atty. Jay R. Ballantyne against two bookdealers, Gordon S. Hogue and Clarence Weinberg, involving three paperback books and an illustrated magazine. The suit was tried before Superior Judge Meredith Wingrove, a visiting jurist from Kings County.

Before I go into the trial itself, let me hasten to say that we, in Los Angeles County, who pride ourselves on our enlightenment, could take a few lessons from Tulare. Down here we do not content ourselves with going after books or paintings. We go after writers, painters, publishers and seek to jail them as well as to suppress the works of their pens. While I am at it, the coverage of the Visalia trial by the Visalia Times-Delta is a model of objective journalism. Both sides were covered, accurately and right down the middle.

The Visalia trial was notable for another fact. It was the first time that Charles H. Keating Jr., national co-chairman of Citizens for Decent Literature, appeared as an expert witness for the prosecution (indeed, the only expert witness for the prosecution) and thereby hangs another tale. The Citizens for Decent Literature has been an active organization in trying to cleanse (by their standards) the newsstands and bookstores of America, one of a group of vigilante organizations concerned about the moral health of the nation. Naively, I understood the CDL to be an educational and propaganda organization, trying to elevate the taste of the readers of this country. Obviously, they are not limited to this role. In fact, we in Los Angeles County, possibly uniquely in the country, have a CDL attorney, James J. Clancy, who is also a deputy district attorney, heading a drive on "pornography" here which curiously coincided with Chief Deputy Dist. Atty. Manley Bowler's recent and unsuccessful campaign to be elected to the office of District Attorney.

One of the targets of Mr. Clancy's detergent and deterrent efforts, both as a CDL attorney and a deputy district attorney, is the artist Connor Everts, against whose series of drawings, "Studies in Desperation," Mr.

EXHIBIT B

161-6327-13

ENCLOSURE

Clancy is attempting to protect the community. Less dedicated folk might think, as I do, that what Los Angeles needs is more Connor Everts. Particularly, since Mr. Everts' work has been compared to Goya's "Horrors of War" by local critics, and his paintings and drawing have appeared in the Gallery of Modern Art in Washington, D.C., the Los Angeles County Museum of Art, the Museum of Modern Art in New York, the Pasadena Art Museum, without offending the sensibilities of viewers every bit as concerned with art as Mr. Clancy, that protector of the public morals, who told the owner of the gallery displaying Mr. Everts' work: "My mind is set like concrete against modern art."

But let us give the benefit of the doubt to Mr. Clancy and to Mr. Bowler, who appointed him, and to the County Board of Supervisors, who approved this special appointment. Let us not be too quick to raise questions. Mr. Clancy is sworn to uphold the law, to protect us against possible contagion. Let us examine the performance of his CDL colleague in Visalia, the eminent Mr. Keating. And then let us

Please turn to Page 10, Column 1

Continued from First Page

on to other activities of the CDL. Assistant Dist. Atty. Robert G. Bereman, who prosecuted the case for Dist. Atty. Ballantyne in Visalia, called Mr. Keating to the stand as an expert witness. Mr. Keating is a Cincinnati attorney who specializes in tax and business law and whose CDL post is an unpaid one. Mr. Keating testified that the books, in his opinion, were obscene under the law. Like all expert witnesses, Mr. Keating was subject to cross-examination by defense attorney Stanley Fleishman, a specialist in these cases and a long-time adversary of Keating and the CDL point of view. There was no love lost between them.

Mr. Keating began his testimony on Tuesday, Oct. 20. His cross-examination was not completed by the close of court that day. He told Judge Wingrove that he had a speaking engagement in Salt Lake City the next day. Both sides stipulated that Mr. Keating would be allowed to fill his speaking engagement and return to complete the cross-examination. The defense put on its experts, Henry Madden, Fresno State College librarian, Dr. Jay Ziskin, psychologist and counselor at California State College at Los Angeles, both of whom testified that in their opinion the material was not obscene. They were cross-examined. It was time for Mr. Keating to return for his cross-examination. Mr. Keating did not appear. There was a report that Mr. Keating's plane was misdirected. The trial went on.

The following day, Dr. Roger Chittick, associate professor of English at Fresno State College, testified that in his opinion the books were not obscene. He was cross-examined. Mr. Keating did not appear. The judge instructed the assistant district attorney to produce Mr. Keating for cross-examination by Tuesday, Oct. 27. Mr. Keating did not appear. Instead, he sent a telegram to Judge Wingrove, stating that the press of business kept him from returning to Visalia.

SUN NOV 21 1965

Judge Wingrove, who takes the law seriously, called Keating's action arrogant, said that Keating, as an attorney, should know that he is violating his oath as an attorney by not returning to Visalia to complete his testimony. "As far as this court is concerned, he is in contempt of court." He called Keating a "discredit to the bar." Later, he said, ". . . had he been in California, it wouldn't take me 15 seconds to get a bench warrant out for him."

The books and the magazine were held not obscene. He said: "I can't say it's utterly without social importance . . . I wouldn't recommend this type of literature . . . but it's not forced on people. I don't think it's likely to demoralize society in the United States."

As for Keating, the judge said: "He's out for this group (CDL). He wants to remove everything that doesn't meet his particular approval. He's a crusader along this particular line."

For those of us who have testified as expert witnesses in obscenity trials, Mr. Keating's position may be understandable if not justifiable. It is not pleasant to have to undergo cross-examination. But that is part of the law. It is easy to dish it out, the question is whether you can take it. Mr. Keating disappointed me.

Is there a lesson in all of this for the average citizen? I think there is an important one. It is not simply Visalia or Los Angeles, this case or that case. It is the old issue of the means and the end. Does any means justify the

EXHIBIT B CONTINUED

end? In a free society, in a society which wishes to guarantee the free flow of ideas and information, the means are most important. For we corrupt the spirit of the law, when we bend it, or circumvent it, or abuse it. Those who preach the need for a moral resurgence, for a restoration of decency, should by their acts defend the law, respect the law. And if they disagree with the law, they should work to change the law.

To the extent that the Citizens for Decent Literature and other groups work in these areas of education, they should have the respect of the community and even of those who disagree completely with them. Unfortunately, there are disquieting signs that this is not always the case. Just a few weeks ago, members of the California Library Assn. met here and compared notes on the methods of harrassment, threat and intimidation used by certain groups to "c l e a n s e" library shelves of books they do not like or approve. Booksellers and news dealers have been the subject of pressures uncomfortably like those in authoritarian lands. The National Decency Reporter, organ of the CDL, has published an article by Keating urging prosecutions of local "obscenity peddlers" regardless of the possibility of being overruled by higher courts.

I am certain that the intentions of the great majority of those people concerned about the mass of lurid and tawdry literature are honest and sincere. But, in tampering with free expression, they must be even more careful and decent (i.e., fitting, decorous, honorable, respectful of the law) to be above suspicion of contempt for the laws which guarantee that freedom. Victory in that "dim and uncertain area," as one Supreme Court justice called it, which "often separates obscenity from constitutionally protected expression," may be purchased at too great a price.

EXHIBIT β CONTINUED

FD-263.(Rev. 12-19-67)

FEDERAL BUREAU OF INVESTIGATION

REPORTING OFFICE	OFFICE OF ORIGIN	DATE	INVESTIGATIVE PERIOD
LOUISVILLE	BUREAU	5-1-69	4/28 - 30/69

TITLE OF CASE

CHARLES HUMPHREY O'KEATING, JR.

REPORT MADE BY

TYPED BY ds b6 b7C

CHARACTER OF CASE

SPI

REFERENCES: Bureau teletype to WFO, Cincinnati, St. Louis, Baltimore, Chicago, Louisville and Cleveland dated 4-25-69.
Bureau airtel to WFO, Cincinnati, St. Louis, Baltimore, Chicago, Louisville and Cleveland dated 4-25-69.
Cincinnati teletype to Director, Baltimore, Chicago, Cleveland, Indianapolis, Los Angeles, Louisville, St. Louis and WFO dated 4-29-69.

- RUC -

ACCOMPLISHMENTS CLAIMED ☒ NONE						ACQUIT-TALS
CONVIC.	AUTO.	FUG.	FINES	SAVINGS	RECOVERIES	

CASE HAS BEEN:
PENDING OVER ONE YEAR ☐ YES ☐ NO
PENDING PROSECUTION OVER SIX MONTHS ☐ YES ☐ NO

APPROVED: SPECIAL AGENT IN CHARGE

DO NOT WRITE IN SPACES BELOW

161-6327-14

COPIES MADE:
(1) - Bureau
1 - Louisville (161-251)

NOT RECORDED
18 MAY 5 1969

Dissemination Record of Attached Report				
Agency				
Request Recd.				
Date Fwd.				
How Fwd.				
By				

Notations

SPEC. INV.

70 JUN 20 1969

-A*- COVER PAGE

GPO : 1968 O - 299-885

FD-204 (Rev. 3-3-59)

UNITED STATES DEPARTMENT OF JUSTICE
FEDERAL BUREAU OF INVESTIGATION

Copy to:

Report of: SA [redacted] Office: LOUISVILLE
Date: 5-1-69

Field Office File #: 161-251 Bureau File #:

Title: CHARLES HUMPHREY KEATING, JR.

Character: SPECIAL INQUIRY

Synopsis: Current membership of appointee in Kentucky State Bar Association verified at Frankfort, Ky. Records of U.S. District Court, EDKY, shows appointee sworn in as practicing attorney 10-21-68. Credit and criminal checks re appointee negative at Lexington, Ky.

- RUC -

b6
b7C

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☆ U.S. GOVERNMENT PRINTING OFFICE: 1967-O-273-878

LS 161-251

DETAILS:

AT FRANKFORT, KENTUCKY

On April 28, 1969 [redacted] Director, Kentucky State Bar Association, State Capitol, Frankfort, Kentucky, advised SA [redacted] their records show that CHARLES H. KEATING, JR., 1811 Provident Tower, Cincinnati, Ohio is now a member in good standing. Mr. KEATING's membership is renewable on September 1, 1969. admitted June 20, 1958, became member June 58

[redacted] noted that Mr. KEATING is personally unknown to him, but there have never been any grievances or complaints filed with the Association in connection with the professional ethics of this attorney.

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AT LEXINGTON, KENTUCKY

On April 30, 1969, [redacted] Chief Clerk, U.S. District Court, Eastern District of Kentucky, Lexington, Kentucky, advised SA [redacted] that the Index Roll of Attorneys for the U.S. District Court, Eastern District of Kentucky, shows that CHARLES H. KEATING, JR. of Cincinnati, Ohio was sworn in as a practicing attorney for the U.S. ~~Circuit~~ District Court, Eastern District of Kentucky on October 21, 1948.

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[redacted] stated he was not personally acquainted with Mr. KEATING, and he felt there was no one now employed in any capacity of the U.S. District Court, Eastern District of Kentucky, who could comment about him.

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CREDIT

On April 30, 1969, [redacted] Lexington, Kentucky Credit Bureau, advised SA [redacted] there were no records on file identifiable with the appointee.

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CRIMINAL

On April 30, 1969 [redacted] Records Clerk, Lexington Police Department, and [redacted] Records Section, Fayette County Police Department, both advised SA [redacted] that there were no records in their respective files identifiable with CHARLES HUMPHREY KEATING, JR.

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b7C

FD-263 (Rev. 3-8-67)

FEDERAL BUREAU OF INVESTIGATION

REPORTING OFFICE	OFFICE OF ORIGIN	DATE	INVESTIGATIVE PERIOD
INDIANAPOLIS	BUREAU	5/1/69	4/29/69 - 4/30/69

TITLE OF CASE

CHARLES HUMPHREY O'KEATING, Jr.

REPORT MADE BY [redacted] b6 b7C

TYPED BY /ssc

CHARACTER OF CASE

SPI

REFERENCE: CItel, 4/29/69.

- RUC -

K

ACCOMPLISHMENTS CLAIMED None						ACQUITTALS	CASE HAS BEEN:
CONVIC.	AUTO.	FUG.	FINES	SAVINGS	RECOVERIES		PENDING OVER ONE YEAR ☐ YES ☐ NO PENDING PROSECUTION OVER SIX MONTHS ☐ YES ☐ NO

APPROVED _____ SPECIAL AGENT IN CHARGE

COPIES MADE:

(1) - Bureau
1 - Indianapolis (161-605)

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161-6327-15

NOT RECORDED
1 MAY 5 · 1969

Dissemination Record of Attached Report				
Agency				
Request Recd.				
Date Fwd.				
How Fwd.				
By				

Notations

A*

20 JUN 20 1969

(COVER PAGE)

FD-204 (Rev. 3-3-59)

UNITED STATES DEPARTMENT OF JUSTICE
FEDERAL BUREAU OF INVESTIGATION

Copy to:

Report of: [redacted]
Date: 5/1/69

Office: INDIANAPOLIS

b6
b7C

Field Office File #: 161-605

Bureau File #:

Title: CHARLES HUMPHREY KEATING, Jr.

Character: SPECIAL INQUIRY

Synopsis: Associates recommend.

- RUC -

DETAILS:

Investigation at South Bend, Indiana by Special Agent [redacted] at Fort Wayne, Indiana by Special Agent [redacted] and at Indianapolis, Indiana by Special Agent [redacted]

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On April 30, 1969, [redacted] Indianapolis, Indiana, advised that he is familiar with the applicant and has been so familiar since August, 1957, when he met him at a meeting held by an organization advocating the control of obscene literature. He stated he has maintained close contact with applicant through a mutual association with the Citizens for Decent Literature, being a member of the Executive Committee of said organization. He further advised that he is in touch with applicant frequently having last seen him in March of this year at St. Louis, Missouri.

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He stated that he has observed applicant at meetings and panel discussions concerning obscene literature and knows him to have an excellent knowledge, respect and ability to use the laws concerning obscene literature. He stated applicant is an excellent speaker and has the ability to convince people along his lines of thinking. He stated at no time has he heard or seen anything which would reflect adversely on applicant's morals, character or reputation, and considers him to be a loyal American. [redacted] advised that he would recommend applicant highly for any position of trust with the United States Government.

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IP 161-605

On April 29, 1969, [redacted] b6 b7C
Fort Wayne, Indiana, advised that he has known CHARLES HUMPHREY KEATING, Jr. for about eleven years. [redacted] is a national officer of the Citizens for Decent Literature, and he has made several speaking tours with KEATING and said he is the finest man he has ever met. KEATING is very dedicated to the cause of Citizens for Decent Literature, and has accomplished more than anyone else in an effort to get pornographic literature off the news stands. KEATING is extremely dedicated in trying to help the youth of this country.

[redacted] advised that KEATING is an outstanding b6 b7C
American of unquestionable moral character and associates with the finest people. [redacted] would not hesitate to recommend KEATING for a position of trust and loyality and could not suggest anyone better for such a position. KEATING is well respected and enjoys an excellent reputation among many of the influential people in the country.

On April 30, 1969, [redacted] b6 b7C
Street, South Bend, Indiana, Dean Emeritus, Notre Dame Law School, advised that he recalls applicant vaguely. He stated that while a law partner at Merland, O'Meara, Santen and Willging, First National Bank Building, Cincinnati, Ohio, CHARLES H. KEATING was given space in above law offices in return for certain services that were legal in nature. He stated that he could not recall the exact dates of this arrangement, but that it was sometime before 1952, as that was the year that he [redacted] relocated to Notre Dame University. [redacted] advised that his duties at Cincinnati were limited, and that he was in Columbus, Ohio, for the majority of time. Since his association was very vague, he stated that he could not realistically give an evaluation or recommendation on applicant. He did advise though, that at no time was knowledge of a derogatory nature brought to his attention regarding applicant.

FD-263 (Rev. 3-8-67)

FEDERAL BUREAU OF INVESTIGATION

REPORTING OFFICE	OFFICE OF ORIGIN	DATE	INVESTIGATIVE PERIOD
ST. LOUIS	BUREAU	5/1/69	4/29 - 30/69

TITLE OF CASE

CHARLES H. KEATING, JR., aka
Charles Humphrey Keating

REPORT MADE BY: IC [redacted]

TYPED BY: mck b6 b7C

CHARACTER OF CASE

SPI

REFERENCE: Butel, 4/25/69.
Buairtel, 4/25/69.
Cincinnati teletype, 4/29/69.
St. Louis teletype, 4/30/69.
St. Louis teletype to Bureau, 5/1/69.

STATUS: - RUC -

K

- A* -
COVER PAGE

ACCOMPLISHMENTS CLAIMED						ACQUIT-TALS	CASE HAS BEEN:
CONVIC.	AUTO.	FUG.	FINES	SAVINGS	RECOVERIES		PENDING OVER ONE YEAR ☐ YES ☐ NO PENDING PROSECUTION OVER SIX MONTHS ☐ YES ☐ NO

APPROVED: SPECIAL AGENT IN CHARGE

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161-6327-16

COPIES MADE:
1 - Bureau AM
1 - St. Louis (161-NPRC-M)

NOT RECORDED
8 MAY 5 1969

Spec. Inq.

Dissemination Record of Attached Report

Agency				
Request Recd.				
Date Fwd.				
How Fwd.	204			
By				

Notations

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DESTROYED IN 120 DAYS

70 JUN 20 1969

FD-204 (Rev. 3-3-59)

UNITED STATES DEPARTMENT OF JUSTICE
FEDERAL BUREAU OF INVESTIGATION

Copy to:

Report of: IC [redacted] Office: ST. LOUIS b6 b7C
Date: May 1, 1969

Field Office File #: SL 161-NPRC-M Bureau File #:

Title: CHARLES H. KEATING, JR.

Character: SPECIAL INQUIRY

Synopsis: KEATING served in U.S. Navy as enlisted man and as officer and in USNR. Received honorable discharge and release from active duty, and honorable discharge from Reserve. Former employment and relatives set forth.

- RUC -

DETAILS: AT ST. LOUIS, MISSOURI

On April 30, 1969, a review of the military service records on file at the Military Personnel Records Center, 9700 Page Boulevard, disclosed that CHARLES HUMPHREY KEATING, JR., Serial Number 703 20 33, enlisted in the U. S. Navy Reserve on October 31, 1942, and he reported for active duty in the U. S. Navy on July 6, 1943, at Wooster, Ohio. His enlistment was terminated on February 20, 1945, as an Aviation Cadet at Corpus Christi, Texas, to accept a commission.

He was appointed an Ensign, Serial Number 438 150, in the U. S. Navy Reserve on February 21, 1945, and he entered on active duty on the same date at Corpus Christi, Texas. He was honorably relieved from active duty on November 21, 1945, as an Ensign at Great Lakes, Illinois, by reason of convenience of the Government (Points System), and he reverted to inactive status in the Reserve.

He served in the U. S. Navy Reserve, inactive status, from October 31, 1942 to July 5, 1943, and from November 22, 1945 to June 17, 1959, at which time he was honorably discharged as an Ensign, by reason of inactivity in the reserve program.

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☆ U.S. GOVERNMENT PRINTING OFFICE: 1967—O—273-878

SL: #161-NPRC-M

His military occupation was shown as Naval Aviator. He had no foreign service, and he was awarded the American Theater Medal and the World War Two Victory Medal.

His character and efficiency ratings ranged from satisfactory to excellent, and there was no record of courts-martial or absence without official leave.

The following former employment was indicated by records: 1948 to 1950, Merland, O'Meara, Santen and Willging, Cincinnati, Ohio.

The following relatives were listed: CHARLES H. KEATING, father, 795 Ludlow Avenue, Cincinnati, Ohio (1945); ADELE KIPP KEATING, mother, 547 Evanswood Place, Cincinnati, Ohio (1943); WILLIAM KIPP KEATING, brother, same address.

The date and place of birth were shown as December 4, 1923, at Cincinnati, Ohio.

FD-263 (Rev. 12-19-67)

FEDERAL BUREAU OF INVESTIGATION

REPORTING OFFICE	OFFICE OF ORIGIN	DATE	INVESTIGATIVE PERIOD
WASHINGTON FIELD	BUREAU	5/2/69	4/29-5-1/69

TITLE OF CASE

CHARLES H. O'KEATING, JR.

REPORT MADE BY: SA [redacted] 2169

TYPED BY: mat b6 b7C

CHARACTER OF CASE

SPI

REFERENCE: Re Bureau teletype to WFO, 4/25/69, and 4/29/69.
Re Bureau airtel to WFO 4/25/69.
Re Cincinnati teletype to Bureau, 4/29/69.

- P -

LEADS: IRS

K

(3)

ACCOMPLISHMENTS CLAIMED ☐ NONE						ACQUIT-TALS	CASE HAS BEEN:
CONVIC.	AUTO.	FUG.	FINES	SAVINGS	RECOVERIES		PENDING OVER ONE YEAR ☐YES ☐NO PENDING PROSECUTION OVER SIX MONTHS ☐YES ☐NO

APPROVED [redacted] SPECIAL AGENT IN CHARGE

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161-6327-17

COPIES MADE:

(1) - Bureau
1 - WFO 161-5776)

Dissemination Record of Attached Report				
Agency				
Request Recd.				
Date Fwd.				
How Fwd.				
By	204			

Notations

JUN 20 1969

GPO : 1968 O - 299-885

COVER PAGE

FD-204 (Rev. 3-3-59)

UNITED STATES DEPARTMENT OF JUSTICE
FEDERAL BUREAU OF INVESTIGATION

Copy to:

Report of: SA [redacted] Office: Washington, D. C. b6 b7C
Date: 5/2/69

Field Office File #: 161-5776 Bureau File #:

Title: CHARLES H. KEATING, JR.

Character: SPECIAL INQUIRY

Synopsis:

No record WHO re appointee. Ohio senators and Congressmen TAFT and CLANCY recommended. No record Credit Bureau, MPD, or Park Police. No additional pertinent information CSC. No record HCIS. [redacted] b7E No record United States Department of State Passport Office. No record of appointee Federal Bar Association. Appointee admitted to United States Supreme Court, 1/30/58.

- P -

DETAILS: AT WASHINGTON, D. C.

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WFO 161-5776
LBB:mat
1

EMPLOYMENT

The White House Office

SA GEORGE E. SAUNDERS caused a check to be made of the records of captioned office on April 29, 1969, [redacted] Personnel Officer, advised that the files of that office contained no record for the appointee, CHARLES H. KEATING, JR. b6 b7C

On April 29, 1969, [redacted] Chief of Records, captioned orfice, advised SA GEORGE E. SAUNDERS the files of the office contained no record for the appointee. b6 b7C

On April 30, 1969, Representative ROBERT TAFT, JR., (Ohio), advised SA [redacted] he has known the appointee for more than fifteen years as a close personal friend, political associate, and fellow member of the Cincinnati bar. He has been in the company of the appointee and his wife, [redacted] and their children on numerous occasions. He described their home life as exemplary. b6 b7C

Representative TAFT holds the appointee in the highest personal esteem describing him as being prominent in numerous charitable, civic endeavors. He recently furnished recommendations in the appointee's behalf in connection with his nomination to a Presidential Commission. He knows nothing unfavorable concerning his character, associates, reputation, or loyalty. He recommends him to a position of trust and confidence in the United States Government.

WFO 161-5776
RTT:bmb
1

Representative DONALD D. CLANCY (Ohio), furnished the following information to SA [redacted] on May 1, 1969:

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He has known the appointee as a close personal friend, neighbor, and political associate for a number of years. He considers him to be among his closest personal friends. He describes him as a "self-made man" and as a successful attorney who unstintingly gives of his time to numerous charitable and social endeavors. He described the appointee and his wife, MARY KEATING and their six children as outstanding citizens and contributors to civic activities.

Representative CLANCY knows of no unfavorable information concerning the appointee's character, associates, reputation and loyalty. He recommends him without hesitation or qualification to a position of trust and responsibility in the United States Government.

WFO 161-5776
RTT:bmb
1

Ohio Senators

The following investigation was conducted by SA [redacted] on April 30, 1969:

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Senator WILLIAM B. SAXBE advised he has known the appointee for more than ten years primarily as a result of his excellent reputation among the Bar of the city of Cincinnati, Ohio. He could not recall having observed him in a court of law nor in an adversary type proceeding. His association with him has also included participation with him and others in various professional and political associations. He knows of no unfavorable information concerning his personal or professional ethics. He considers him to be a loyal American of good character, reputation and associates. He recommends him to a position of trust and responsibility in the United States Government.

Senator STEPHEN M. YOUNG advised he has no personal knowledge of the appointee. He said, however, he will interpose no objection to the appointee's nomination to a high federal post.

WFO 161-5776
LBB:mat
1

CREDIT AND POLICE AGENCIES

SE [redacted] caused a search to be made of the files of The Credit Bureau, Incorporated, Washington, D. C., and was advised on April 29, 1969, that the files contained no record for the appointee. b6 b7C

On April 29, 1969, IC [redacted] determined that no record was contained in the Metropolitan Police Department files concerning the appointee. b6 b7C

It is to be noted that at all times an indefinite number of unidentified records are out of file and not available for review.

On April 29, 1969, IC [redacted] searched the files of the United States Park Police and no identifiable record could be found concerning the appointee. b6 b7C

WFO 161-5776
LBB:mat
1

MISCELLANEOUS

The files of the House Committee on Internal Security were reviewed on April 29, 1969, by SE [redacted] and no identifiable record was found for the appointee. b6 b7C

SA PAUL F. DOUGHERTY caused a search to be made of the files of the Central Intelligence Agency and was advised on May 1, 1969, that the files contain no pertinent identifiable information concerning the appointee.

SE [redacted] caused a search to be made of the current and retired files of the Passport Office, Department of State and was advised on April 30, 1969, that no identifiable record could be located concerning the appointee. b6 b7C

SE [redacted] caused a search to be made of the files of the Bureau of Personnel Investigations, Civil Service Commission and was advised on April 30, 1969, that the files containted no additional pertinent information regarding the appointee. b6 b7C

On April 30, 1969, SE [redacted] caused a search to be made of the files of the Federal Bar Association concerning bar membership and no record was found for the appointee. b6 b7C

On April 30, 1969, SE [redacted] was informed that the records of the Supreme Court of the United States disclosed the appointee was admitted to practice before that court on January 30, 1958. b6 b7C

IC [redacted] Examined Search of US Secret Service, Dept of Treasury + was advised no record re appointee on 5/1/69 Per [redacted] b6 b7C

OPTIONAL FORM NO. 10
MAY 1962 EDITION
GSA GEN. REG. NO. 27

5010-106

UNITED STATES GOVERNMENT

Memorandum

Tolson
DeLoach
Mohr
Bishop
Casper
Callahan
Conrad
Felt
Gale
Rosen
Sullivan
Tavel
Trotter
Tele. Room
Holmes
Gandy

TO : Mr. Gale

DATE: 5/7/69

FROM : W. V. Cleveland

SUBJECT: CHARLES HUMPHREY KEATING, JR.
SPECIAL INQUIRY - WHITE HOUSE

Request received 4/25/69, for investigation of Keating who is being considered for Presidential appointment, position not stated. Keating, aged 45, is attorney with offices in Cincinnati, Ohio. He founded Citizens for Decent Literature, Incorporated, in 1956 and since then has become nationally known as an expert regarding obscene and pornographic literature. Persons interviewed commented favorably regarding his character, associates, loyalty, and reputation. Investigation complete.

Bureau files reveal FBI investigated Keating in 1956 and 1957 for possible violation of Atomic Energy Act and for fraud against the Government. In that regard it was alleged in June, 1956, while representing Research Laboratories of Colorado, Incorporated, Keating submitted application to Atomic Energy Commission (AEC) requesting "Q" clearances for officers of this company. Based on information in this application, including statement that [redacted] was elected President of this corporation, AEC granted the requested clearances. In August, 1956, [redacted] advised AEC his designation as President was possibly illegal and also he alleged Keating furnished classified AEC information to unauthorized persons. Results of that investigation were furnished to Department of Justice and by letter dated 2/15/57, Department said there was insufficient evidence to establish violation of Atomic Energy Act or espionage statutes. Also, by letter dated 5/9/57, Department stated facts failed to constitute suitable basis for prosecution under fraud against the Government statutes. A summary of foregoing information was included in enclosed summary memorandum.

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ACTION:

Attached for approval is a letter to the Honorable John D. Ehrlichman transmitting a summary memorandum containing the results of investigation concerning Mr. Keating.

161-6327-20
NOT RECORDED
22 JUN 9 1969

Enclosure 5-8-69

AWW:pec (7)

1 - Mr. De Loach
1 - Mr. Sullivan
1 - [redacted]
1 - Mr. Rosen

1 - Mr. Gale
1 - Mr. Cleveland
1 - Mr. Wells

b6
b7C

20 JUN 20 1969

May 8, 1969

CHARLES HUMPHREY KEATING, JR. SUMMARY

I. BIOGRAPHICAL DATA

Birth

Mr. Keating was born on December 4, 1923, in Cincinnati, Ohio.

Education 7676 GREEN FARMS DRIVE, CINCINNATI, OHIO

He attended the University of Cincinnati, Cincinnati, Ohio, from September, 1941, to May, 1943, and from January, 1946, to June, 1948, receiving an LL.B. degree.

Employment

Mr. Keating was employed on a part-time basis as a sales representative by the Prudential Insurance Company of America, Cincinnati, Ohio, from August, 1946, to July, 1948.

From 1947 to 1955 he was employed by the law firm of Merland, O'Meara, Santen, and Willging, Cincinnati, Ohio, first as a part-time law clerk and then as an attorney.

Since January, 1955, Mr. Keating has continued to be engaged in the practice of law in Cincinnati, Ohio. He is presently a partner in the law firm of Keating, Muething, and Klekamp.

Mr. Keating is presently serving as a member of the Board of Directors of Provident Bank, United Liberty Life Insurance Company, and the American Financial Corporation, all located in Cincinnati, Ohio. Also, he is a member of the Board of Directors of the Security Bank, Athens, Ohio, and the New Richmond National Bank in New Richmond, Ohio.

Tolson
DeLoach
Mohr
Bishop
Casper
Callahan
Conrad
Felt
Gale
Rosen
Sullivan
Tavel
Trotter
Tele. Room
Holmes
Gandy

GAWW:mgh mgh

MAIL ROOM ☐ TELETYPE UNIT ☐

ENCLOSURE

161-6327-21

Charles Humphrey Keating, Jr.

In 1956 Mr. Keating founded the organization known as Citizens for Decent Literature, Incorporated, a nonprofit organization formed for and dedicated to the cause of good, decent, and wholesome literature with a view to opposing and eliminating obscene literature by cooperating with law enforcement agencies. He is presently serving as Legal Counsel of this corporation.

Marital Status

Mr. Keating, his wife, the former [redacted] and their six minor children reside at 7676 Green Farms Drive, Cincinnati, Ohio. b6 b7C

Military Service

Mr. Keating served in the United States Naval Reserve as an enlisted man from October 31, 1942, to July 6, 1943, when he entered on active duty. On February 21, 1945, he was appointed an ensign and on November 22, 1945, he was honorably released from active duty by reason of convenience of the Government. Thereafter, he served in the United States Naval Reserve until June 17, 1959, when he was honorably discharged as an ensign. His service record is clear.

II. RESULTS OF INVESTIGATION

Interviews

[redacted] a member of the law firm of Merland, O'Meara, Niehaus, Monahan, and Rusche, Cincinnati, Ohio, advised he has known Mr. Keating for approximately 20 years, adding Mr. Keating was with this law firm for approximately nine years when it was known as Merland, O'Meara, Santen, and Willging. He described Mr. Keating as a great crusader for worthwhile causes, an extrovert, and an "eager beaver" who has no fear of "walking where angels fear to tread." [redacted] pointed out that Mr. Keating's father was an invalid for many years and consequently Mr. Keating had to provide for himself most of the time. He indicated Mr. Keating has a tremendous amount of drive and to the best of his knowledge enjoys an excellent professional reputation. [redacted] related he possesses no unfavorable information concerning Mr. Keating's character, associates, or loyalty and he recommended him for a position of trust and confidence. b6 b7C

Charles Humphrey Keating, Jr.

[redacted] a member of the law firm of Keating, Muething, and Klekamp, Cincinnati, Ohio, advised he first met Mr. Keating in 1946 when they were both attending the University of Cincinnati. He said he and Mr. Keating formed a law partnership in February, 1955, adding they have been business associates since that time. According to [redacted] he and Mr. Keating have enjoyed an extremely fine business relationship over the years. He said he has complete confidence in Mr. Keating, pointing out he is a person of untiring energy who has excelled in all his undertakings. [redacted] advised that for many years Mr. Keating has devoted much of his time to the control of obscene literature through existing laws or through the enactment of new ones. He indicated Mr. Keating is considered an expert in these matters and travels extensively to promote interest in legally curbing the distribution of such material. [redacted] concluded by stating he can only speak in the highest terms concerning Mr. Keating and his family members. He recommended Mr. Keating for a position of trust and confidence with the Government.

b6
b7C

[redacted] Director of Security, Kroger Company, Cincinnati, Ohio, advised he formerly served as Chief of Police in Cincinnati, Ohio, for many years. He said for approximately 12 years he worked closely with Mr. Keating because of Mr. Keating's tremendous knowledge relating to obscene and pornographic material. He stated Mr. Keating and his brother, William, who is a Cincinnati Councilman, are successful businessmen and civic leaders, adding their success has resulted from hard work and perseverance on their part. [redacted] indicated Mr. Keating enjoys an excellent professional reputation. He said he is widely known because of his personal campaign to improve the moral fiber of this country by establishing a higher degree of law enforcement and better statutes to control the distribution of obscene literature. According to [redacted] Mr. Keating has submitted several amicus curiae briefs in support of the prosecution in connection with important obscenity cases on all court levels, including the United States Supreme Court. [redacted] pointed out he does not believe Mr. Keating is unreasonable in his opposition to obscenity in literature, adding on several occasions he observed Mr. Keating defending the distribution of certain material in borderline cases. [redacted]

b6
b7C

described Mr. Keating as a man of outstanding character whose associates, habits, and loyalty are unquestionable. He recommended him without reservation for a responsible position, adding he feels the Government will be indeed fortunate to secure his services.

Raymond E. Shannon, Judge, Ohio Court of Appeals, Cincinnati, Ohio, advised he has had extensive contact with members of the Keating family for over 20 years, adding Mr. Keating's father, who is deceased, was in the dairy business and enjoyed an excellent reputation. Judge Shannon said that several years ago he, Judge Shannon, was a member of the Hamilton County Prosecutor's Office, Cincinnati, Ohio, and during that period Mr. Keating caused some problems for that office because of his ability to generate the populace to become agitated against anyone arrested in connection with the distribution of pornographic material. According to Judge Shannon, the trouble arose when the aroused populace expected more in the way of official action in these cases than could be taken because of the existing laws.

Judge Shannon continued by advising he considers Mr. Keating to be a very reputable and honest man who is regarded as an expert in the field of obscene literature. He related that Mr. Keating has testified in many courts throughout the United States in connection with cases pertaining to the distribution of pornographic material, adding he has gained national recognition for his stand against material of this type. He described Mr. Keating as a very aggressive, intelligent, and conscientious man whose loyalty is above reproach. He recommended Mr. Keating for a responsible position with the Government.

[redacted] President and General Manager, Ackerman Chacco and Company, Incorporated, Cincinnati, Ohio, advised he has been acquainted with Mr. Keating since the late 1930's. He said he holds Mr. Keating in the highest respect and considers him to be one of the outstanding men with whom he has been associated. [redacted] described Mr. Keating as an extremely aggressive, trustworthy, honest, and dedicated individual who approaches every undertaking with a great deal of enthusiasm and competitive spirit. He indicated Mr. Keating enjoys an excellent professional reputation and stated there is no reason to question his character, associates, or loyalty. He recommended him for a position of trust with the Government.

b6
b7C

Charles Humphrey Keating, Jr.

Donald D. Clancy, United States Representative from Ohio, was interviewed in Washington, D. C., and stated he has known Mr. Keating as a close personal friend, neighbor, and political associate for several years. He described Mr. Keating as a "self-made man," a successful attorney, and one who gives much of his time to charitable and civic endeavors. Representative Clancy commented favorably concerning Mr. Keating and members of his family, stating he has no reason to question their character, associates, loyalty, or reputation. He recommended Mr. Keating without hesitation or qualification for a position of responsibility with the Government.

Robert Taft, Jr., United States Representative from Ohio, when interviewed in Washington, D. C., advised he has known Mr. Keating for more than 15 years as a close personal friend, political associate, and fellow member of the bar of Cincinnati, Ohio. He said he has been in the company of Mr. Keating, his wife, Mary Keating, and their children on numerous occasions, adding the home life of the Keating family is exemplary. Representative Taft continued by stating he holds Mr. Keating in the highest personal esteem and pointed out that Mr. Keating has been very prominent in charitable and civic endeavors in the Cincinnati area. Representative Taft related he possesses no adverse information concerning Mr. Keating's character, associates, or loyalty and he recommended him for a position of trust and confidence with the Government.

William B. Saxbe, United States Senator from Ohio, was interviewed in Washington, D. C., and stated he has known Mr. Keating for more than ten years primarily by reputation; however, he pointed out he has attended some of the professional and political meetings at which Mr. Keating was also present. Senator Saxbe said Mr. Keating is highly regarded by his associates, adding he possesses no unfavorable information concerning Mr. Keating's personal reputation or his professional ethics. According to Senator Saxbe, he considers Mr. Keating to be a loyal American of good character and he recommended him for a position of trust and confidence.

Stephen M. Young, United States Senator from Ohio, when interviewed in Washington, D. C., stated he has no personal knowledge of Mr. Keating, but he said he interposes no objection to his nomination to a high Federal post.

Charles Humphrey Keating, Jr.

Thirty-three additional individuals, consisting of professional associates, social acquaintances, and neighbors, were interviewed and they commented favorably regarding Mr. Keating's character, associates, loyalty, and reputation. Mr. Keating was described as an honest, dynamic, intelligent, personable, industrious, and capable individual who exercises good judgment. It was stated he is an expert on matters relating to the legal ramifications of obscenity and in connection with his activities in this regard he has received national publicity and recognition. Mr. Keating was highly recommended for a position of trust and confidence with the Government. Persons acquainted with his close relatives stated they are reputable individuals whose loyalty to the United States is above reproach.

Close Relatives

In addition to his wife and children, mentioned previously, Mr. Keating has the following close relatives:

Father	Charles H. Keating, Sr. deceased
Mother	Adele K. Keating Cincinnati, Ohio
Brother	William K. Keating Cincinnati, Ohio

Credit and Arrest Checks

Information has been received from the appropriate credit reporting agencies indicating their files contain either no record or no additional pertinent information concerning Mr. Keating.

Information has been received from the appropriate law enforcement agencies indicating their files contain no record concerning Mr. Keating or his close relatives.

Bar Affiliations

Mr. Keating was admitted to practice law in Ohio in August, 1948, and in Kentucky in June, 1958. Additionally, he was admitted to practice law before the United States Supreme Court in January, 1958. He is a member of the Cincinnati, Ohio, Bar Association and the Kentucky State

Bar Association and no grievances have been filed against him. The files of other appropriate bars and bar associations were reviewed and either no record or no additional pertinent information was located concerning Mr. Keating.

Agency Checks

Information has been received from the following governmental agencies indicating their files contain either no record or no additional pertinent information concerning Mr. Keating:

Defense Central Index of Investigations, Fort Holabird, Maryland; House Committee on Internal Security; Central Intelligence Agency; Passport Office, Department of State; Bureau of Personnel Investigations, Civil Service Commission; United States Secret Service; and the White House Office.

Miscellaneous

During 1956 and 1957, an investigation was conducted by the FBI concerning Mr. Keating and others inasmuch as it was alleged Mr. Keating possibly committed fraud against the Government and also had violated provisions of the Atomic Energy Act of 1954 by disclosing classified Atomic Energy Commission information to unauthorized individuals.

With regard to the foregoing, in June, 1956, while representing the Research Laboratories of Colorado, Incorporated, Newtown, Ohio, Mr. Keating reportedly submitted an application to the Atomic Energy Commission in behalf of this corporation for the purpose of obtaining "Q" clearances so the officers of that firm could have access to classified data. It was alleged that in this application Mr. Keating indicated the Board of Directors of this corporation had elected [redacted] as President of this company and as a result of the information set forth in this application, the Atomic Energy Commission granted the requested clearances to the officers of Research Laboratories of Colorado, Incorporated. b6 b7C

In August, 1956, [redacted] advised the Atomic Energy Commission that his designation as President of Research Laboratories of Colorado, Incorporated, possibly b6 b7C

was illegal inasmuch as he was not certain whether the minutes of the Board of Directors meeting which showed he was elected as President were authentic. Also, he pointed out that Mr. Keating had possibly disclosed classified Atomic Energy Commission information to unauthorized individuals.

The results of investigation in this matter were submitted to the Department of Justice. By letter dated February 15, 1957, the Department of Justice advised there was insufficient evidence to establish a violation of the Atomic Energy Act of 1954 or of Federal espionage statutes in this case. By letter dated May 9, 1957, the Department of Justice additionally advised that the facts in this case did not constitute a suitable basis for prosecution of Mr. Keating under fraud against the Government statutes and it was pointed out further investigation in this matter was not warranted..

The central files of the FBI, including the files of the Identification Division, contain no additional pertinent information concerning Mr. Keating.

FD-350 (Rev. 7-10-57)

(Mount Clipping in Space Below)

Mr. Tolson
Mr. DeLoach
Mr. Mohr
Mr. Bishop
Mr. Casper
Mr. Callahan
Mr. Conrad
Mr. Felt
Mr. Rosen
Mr. Sullivan
Mr. Tavel
Mr. Trotter
Tele. Room
Miss Holmes
Miss Gandy

b6
b7C

Keating—Smut Foe

This article describes a situation of such magnitude that the U. S. Commission on Obscenity and Pornography has been appointed to seek a remedy.

Named to the committee by President Nixon June 13 was Charles H. Keating Jr., 45-year-old Cincinnati attorney, founder and legal counsel to Citizens For Decent Literature. He succeeded former U. S. Sen. Kenneth P. Keating, who has been named ambassador to India. The two Keatings are not related.

The Cincinnati lawyer, a longtime advocate of an anti-obscenity campaign, and who has been active in anti-smut work for some 12 years, said upon his appointment to the U. S. commission:

"I shall serve on the commission with the objective of seeing these criminals jailed. The decent people of this country want to strike back at the filth peddlers. I propose to be an articulate, active representative for these citizens."



Charles H. Keating Jr.

(Indicate page, name of newspaper, city and state.)

6H Cincinnati Enquirer
Cincinnati, Ohio

Cincinnati Post & Times Star
Cincinnati, Ohio

The Citizen Journal
Columbus, Ohio

Columbus Dispatch
Columbus, Ohio

Dayton Daily News
Dayton, Ohio

Journal Herald
Dayton, Ohio

Date: 6/29/69
Edition: Final
Author:
Editor: Brady Black
Title: Charles H. Keating, Jr.

Character or Classification: 161-713
Submitting Office: Cincinnati

☐ Being Investigated

161-6327-A
NOT RECORDED
184 JUL 22 1969

1 file
161-6327

55 JUL 23 1969

0-20 (Rev. 7-27-67)

Tolson
DeLoach
Mohr
Bishop
Casper
Callahan
Conrad
Felt
Gale
Rosen
Sullivan
Tavel
Trotter
Tele. Room
Holmes
Gandy

WASHINGTON--PRESIDENT NIXON TODAY APPOINTED CHARLES H. KEATING JR., A CINCINNATI, LAWYER TO THE COMMISSION ON OBSCENITY AND PORNOGRAPHY.

KEATING, 45, WILL SUCCEED FORMER SEN. KENNETH B. KEATING WHO HAS BEEN APPOINTED AMBASSADOR TO INDIA. THE TWO KEATINGS ARE NOT RELATED.

AS A MEMBER OF THE COMMISSION, KEATING WILL BE PAID $75 A DAY WHEN INVOLVED IN COMMISSION ACTIVITIES.

JG107PEDS/13

161-6327-A.

NOT RECORDED
184 JUN 25 1969

161-6327

FOR MR. TOLSON

59 JUN 26 1969

WASHINGTON CAPITAL NEWS SERVICE

September 10, 1971

161-6327-22

Honorable Willard E. Fraser
Mayor
Billings, Montana 59101

My dear Mayor:

I have received your letter of September 2nd, with enclosures, and readily understand the interest which prompted you to write. Thank you for bringing this matter to my attention; however, based on the information you have furnished, there does not appear to be any violation of Federal law coming within the investigative jurisdiction of this Bureau.

I am forwarding copies of your communication to the Assistant Postmaster General of the U. S. Postal Service and the Commissioner of the Internal Revenue Service for whatever action they deem appropriate.

MAILED 11
SEP 10 1971
FBI

Sincerely yours,

J. Edgar Hoover

1 - Butte - Enclosures (2)
1 - Cincinnati - Enclosures (2)

NOTE: Mayor Fraser attempted to get two appointments into FBI National Academy in 1965 through Senator Mansfield. Last outgoing 3/8/66 and nothing unfavorable in our files. Charles H. Keating, Jr., Attorney, Cincinnati, Ohio, is Chairman for Citizens' for Decent Literature, Inc., who has waged fight against pornography for over ten years. Copy of correspondent's letter and Keating's letter being furnished by form referrals to above mentioned agencies.

JPK:jks (5)

Tolson
Felt
Sullivan
Mohr
Bishop
Brennan, C.D.
Callahan
Casper
Conrad
Dalbey
Gale
Ponder
Rosen
Tavel
Walters
Soyars
Tele. Room
Holmes
Gandy

SEP 28 1971

MAIL ROOM ☐ TELETYPE UNIT ☐

OFFICIAL FILE COPY 161-6327-22

WILLARD E. FRASER
MAYOR

Office of The Mayor
City of Billings
Montana

2 September 1971

Mr. Tolson
Mr. Felt
Mr. Sullivan
Mr. Mohr
Mr. Bishop
Mr. Brennan, C.D.
Mr. Callahan
Mr. Casper
Mr. Conrad
Mr. Dalbey
Mr. Gale
Mr. Ponder
Mr. Rosen
Mr. Tavel
Mr. Walters
Mr. Soyars
Tele. Room
Miss Holmes
Miss Gandy

b6
b7C

Federal Bureau of Investigation
Washington,
District of Columbia

Hello:

Rackets by mail as well as by transcription - radio and television are nothing new, but it seems to me that this one is probably one that needs to be looked in to. Of course, all of us in Montana and America are against filth, and certainly garbage ought to be kept in the alley where if of right belongs, but I would suspect that this letter has fallen into the hands of a lot of decent "Little Old Ladies of both sexes" who have probably dug down into their meager bank accounts and sent checks to this man, and depleted their bank accounts of money they can not well afford to deplete - All in his "good cause" - or so they hope.

Being a Mayor who is young and suspicious, I have my doubts about the motives of one Charles H. Keating, Jr. of 1811 Provident Tower, Cincinnati, Ohio, and would suggest that he be investigated for what he is.

Please advise.

161-6327-22
NOT RECORDED
191 SEP 20 1971

Sincerely,

Willard E. Fraser

Willard E. Fraser
Mayor

2 ENCLOSURE

WEF:af
Enclosure

ACK
9-10-71
JPK:jko

20 SEP 1971

CORRESPONDENCE

SEP 7 1971

62-0-7126

SEP 30 1971

August 6, 1981

FEDERAL GOVERNMENT

AUG 7 1981

CHARLES H. KEATING, Jr.

Captioned individual, also known as Charles Humphrey Keating, Jr., who you advise was born December, 4, 1923 in Cincinnati, Ohio, was the subject of an applicant-type investigation by the FBI in 1969. Summary memorandum and FBI letter dated 5-8-69, relating to this investigation are attached for your review.

The central files of the FBI, and the records of the Identification Division, contain no additional pertinent information concerning the captioned individual based upon background information submitted in connection with this name check request.

Enclosures 2

NOTE: Per request of Fred F. Fielding, Counsel to the President at the White House.

DELIVERED TO LIAISON
DATE 8/7/81

V-60

62-27 161-6327-23

1- Mr. Moore, Attn; [redacted]
1- [redacted]
JAK:11

b6
b7C

Exec AD Adm.
Exec AD Inv.
Exec AD LES
Asst. Dir.:
Adm. Servs.
Crim. Inv.
Ident.
Intell.
Laboratory
Legal Coun.
Plan. & Insp.
Rec. Mgnt.
Tech. Servs.
Training
Off. of Cong. & Public Affs.
Telephone Rm.
Director's Sec'y

MAIL ROOM

This document contains neither recommendations nor conclusions of the FBI. It is the property of the FBI, and is loaned to your agency; it and its contents are not to be distributed outside your agency. This reply is result of check of FBI investigative files. To check arrest records, request must be submitted to FBI Identification Division. Fingerprints are necessary for positive check.

1981

FBI/DOJ

4-22 (Rev. 5-12-81)

FEDERAL BUREAU OF INVESTIGATION
Records Systems/Services Sections

_____, 19___

- ☐ Name Searching Unit, 4543, TL# 115
- ☐ Service Unit, 4654, TL# 225
- ☐ Special File Room, 5991, TL# 122
- ☑ Forward to File Review, 5447, TL# 143
- ☐ Attention _____
- ☐ Return to _____
  Supervisor, Room, TL#, Ext.

Type of Search Requested: (Check One)

- ☐ Restricted Search (Active Index - 5 & 20)
- ☐ Restricted Search (Active & Inactive Index - 5 & 30)
- ☑ Unrestricted (Active & Inactive Index)

Special Instructions: (Check One)

- ☑ All References (Subversive & Nonsubversive)
- ☐ Subversive Search
- ☐ Nonsubversive Search
- ☐ Main _____ References Only
- ☐ Exact Name Only (On the Nose)
- ☐ Buildup ☐ Variations
- ☐ Restricted to Locality of _____

ORIGINAL

AUG 5 1981

Subject Keating, Charles H. Jr.
Birthdate & Place 2-12-4-23 // C
Address Cincinnati, O.

Localities _____

R# 6014 Date 8/5 Searcher Initials 530

Prod. 11

	FILE NUMBER	SERIAL
C	UTD 161-6327	55 4-24-69
T	161-6327	F
NR T	190-15478	
SIT	117-2070	F
SIT	145-999	
NR T	62-0-79126	
NR T	63-0-31091	F F
NR T	94-53154-69,71,23	
M T	105-70374-7031,00 22	
	Charles Humphrey (Inv)	
T	161-6327-21	F

NAR

AUG 5 1981

FBI/DOJ

THE WHITE HOUSE

WASHINGTON

August 5, 1981

(Date)

TO: FBI, LIAISON

FROM: FRED F. FIELDING

SUBJECT: FBI Investigations

Summary

Subject's Name KEATING, Charles H., Jr.

Date of Birth December 4, 1923 Place of Birth Cincinnati, Ohio

Present Address 6326 North 38th St., Paradise Valley, Arizona 85253

We request: _____ Copy of Previous Report

x Name Check

_____ Full Field Investigation NO IRS TO FBI

_____ _____

The person named above is being considered for:

_____ White House Staff Position

X Presidential Appointment

_____ _____

Attachments:

_____ SF 86 1 2

_____ SF 87, Fingerprint Card

Remarks/Special Instructions:

Please Expedite

161-6327-23

File - Serial Charge Out
FD-5 (Rev. 6-17-70)

File _____ Date _____
Class. Case No. Last Serial

☐ Pending ☐ Closed

Serial No.	Description of Serial	Date Charged
8X1	DAILY NEWS 11-13-69	5-16-90

JEACH
Employee

RECHARGE Date _____

To _____ From _____

Initials of Clerk _____ Date _____

_____ Date charged

_____ Employee

_____ Location

Memorandum

To : SAC, LOS ANGELES (58C-PX-41605)(SARA)(P) Date 12/6/91

From : SA [redacted] b6 b7C

Subject: ALLEGATIONS CONCERNING
UNITED STATES SENATOR ALAN CRANSTON, ET AL;
Corruption of Federal Public Officials - Legislative;
OO: PX/LA

In view of Case Agent [redacted] resignation, it is recommended that this matter be reassigned to Special Agent [redacted] b6 b7C All investigation in this matter has been completed, and the new case agent need only coordinate with Phoenix Case Agent [redacted] to obtain formal declination from the United States Attorney's office, and complete the necessary closing LHM.

JAJ/jff
(2)

FLOATING SERIAL

Assn to [redacted] b6 b7C

Memorandum

To : SAC, LOS ANGELES (58C-PX-41605) (P) Date 1/8/90
(WCC-4/SARA)

From : SA [redacted]

b6
b7C

Subject: ALLEGATIONS INVOLVING U.S. SENATORS
ALAN CRANSTON, ETAL
CORRUPTION OF FEDERAL PUBLIC OFFICIALS -
LEGISLATIVE;
OO: Phoenix/Los Angeles

The allegations in this case have generated numerous newspaper articles. Therefore, it is requested that a separate subfile be opened to collect and hold these newspaper articles.

JAJ/amk
(2)

- 1* -

1-23-90 1/10/90
O&A
Subfile A

58C-PX-41605-SUB-A
SCF SA

-1

58C-PX-41605-1X1

SEARCHED KM INDEXED
SERIALIZED KM FILED KM
JAN 2
FBI — LOS ANGELES

(Indicate page, name of newspaper, city and state.)

(Mount Clipping in Space Below)

Date: LOS ANGELES HERALD
Edition: EXAMINER
SAT., OCT. 14, 1989
FRONT SECTION, PAGE 1

Title: LOBBY WANTS PROBE OF THRIFT CONTRIBUTIONS TO CRANSTON

Character:
or
Classification:
Submitting Office:
LOS ANGELES

Indexing:

Lobby wants probe of thrift contributions to Cranston

By Tupper Hull
Herald Examiner staff writer

SACRAMENTO — Common Cause, the self-styled citizens' lobby, yesterday asked the U.S. Senate Ethics Committee and the U.S. Department of Justice to investigate Sen. Alan Cranston and four of his colleagues who helped a now-defunct thrift that gave them large campaign contributions.

The probe request is the latest development in a growing controversy involving the failed Lincoln Savings and Loan Association of Irvine that many California political observers believe represents the greatest threat to Cranston's political future since he was first elected to the Senate in 1968.

The veteran Democrat received $39,000 in 1986 for his re-election campaign from Charles H. Keating Jr., an Arizona millionaire who owns Lincoln savings and loan.

Keating, widely known in Arizona for his Republican politics, and several of his business associates also gave $850,000 to three California Democratic voter registration projects in 1986, including one run by Cranston's son, Kim.

Cranston and Sens. Dennis DeConcini, D-Arizona; John Glenn, D-Ohio; John McCain, R-Arizona; and Donald Riegle, D-Michigan; all intervened with federal regulators in April 1987 to urge them to bring to an end a lengthy probe of Keating's financial empire. In April of this year, Lincoln was seized by federal regulators, and Keating was charged with defrauding depositors of $1.1 billion.

Bank officials say taxpayers may end up paying in excess of $2 billion to cover the losses incurred by Lincoln's depositers, making it their costliest savings and loan bailout in history.

In Washington, D.C., Common Cause President Fred Wertheimer yesterday told the Associated Press the Senate Ethics Committee should appoint a special prosecutor to find out whether Cranston and his four colleagues violated conflict of interest rules through their intervention on Lincoln's behalf.

Wertheimer also said the Justice Department should investigate possible violations of laws by the senators.

Cranston said in a prepared statement, "I did not violate any ethics rules or standards."

Cranston said he agreed to help Keating because a federal probe of the thrift had dragged on for two years, making it the longest investigation in the history of the Federal Home Loan Bank Board's history, with no apparent end in sight.

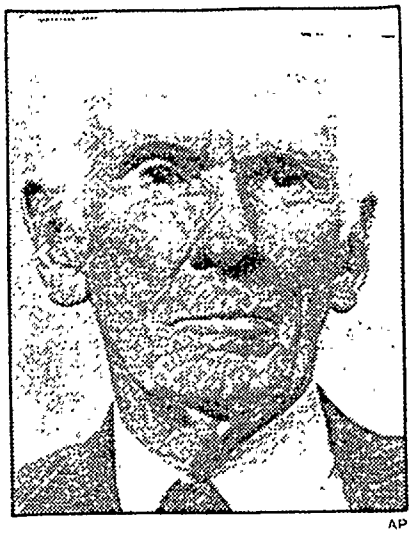
"I estimate that during the 20 years I have been in the Senate, I have helped 300,000 individuals and businesses cut through the red tape and delays of the federal bureaucracy," Cranston said. "After checking the facts as they were known at the time, I concluded that Lincoln had a legitimate complaint."

The growing cloud surrounding Lincoln and its owner is expected to play a role in Cranston's political future. In his 1992 re-election bid, he likely will face stiff opposition from a Republican challenger who will attempt to gain political mileage from the controversy.

"I would drool at the prospect of running advertisements saying Cranston and his son took a million dollars from Keating. Anyone would drool at the prospect," said Lee Stitzenberger, a GOP campaign consultant.

Stitzenberger said the magnitude of the Lincoln failure and the lawsuits it sparks are certain to keep Cranston's role in the affair before the public. "This is

FBI/DOJ



AP

Sen. Alan Cranston
Aided failed Lincoln Savings

-0.50 (Rev. 5-8-81)

The Orange County Register
(Indicate page, name of newspaper, city and state.)
Santa Ana, California

(Mount Clipping in Space Below)

Date: 10/17/89
Edition:

Title: Lincoln's parent company Georgia congressman linked

Character:
or
Classification: 58C-PX-41605-A
Submitting Office: Santa Ana Resident Agency
Indexing: L.A. Division

Lincoln's parent company, Georgia congressman linked

By Jonathan Lansner
The Register

Lincoln Savings and Loan's extensive political reach included the House of Representatives where an influential Georgia congressman had political ties to the institution's former parent company.

Rep. Doug Barnard, D-Ga., acknowledged Monday that American Continental Corp. Chairman Charles Keating, his family and his business associates donated $20,000 to his campaign during 1985 and 1986. Barnard's campaign raised $347,000 in those two years for his 1986 re-election to the House, according to Federal Election Commission records.

Keating's company lost control of Irvine-based Lincoln in April when it was seized by federal regulators. The government has filed a $1.1 billion fraud and racketeering suit against Keating, family members and company officers for the mishandling of Lincoln.

Barnard insisted that there was nothing wrong in Keating contributing to his campaign to represent a rural district of Georgia.

"My skirts are clean. ... My conscious is fully clear," Barnard said of his relationship with Keating.

When the House Banking Committee — of which Barnard is a member — begins a series of four hearings today on Lincoln's demise, Keating's political ties are likely to be examined. Already, five US senators have been criticized for meeting twice with regulators in April 1987 about Lincoln.

Keating, through his attorneys, repeatedly has defended his business and political activities.

Barnard, a former banker who during his eight terms in Congress has developed a reputation as a supporter of business interests, has been chairman of the House Commerce, Consumer and Monetary Affairs subcommittee since 1982.

That subcommittee in 1985 held hearings on new twists in the savings and loan industry such as direct investment in businesses and collecting deposits through wholesale operations. This contrasted to the industry's traditional role: making home loans and gathering deposits from small savers.

Keating testified in front of Barnard's committee in support of both tactics.

Barnard, who sided with Keating on those issues, also has been a strong supporter of tougher regulatory powers, especially when it comes to fraud and mismanagement. Barnard's committee issued a report in October 1988 that gave Congress a view of widespread insider abuse at the nation's savings and loans.

"As a former businessman, I am very sensitive to the appearance of a conflict of interest — I see nothing here," Barnard said.

Edwin Gray, who was the bank board's chairman through June 1987, said he was aware of Barnard's support for Keating causes.

In an interview last week, Gray said that in the fall of 1986 Barnard asked about the lengthy investigation that federal regulators in San Francisco were conducting into Lincoln's finances.

Barnard said he recalled the meeting, but claimed he did not come to bat for Keating.

"I never asked Ed Gray anything for Keating," Barnard said.

58C-PX-41605-1X2

FD-350 (Rev. 5-8-81)

(Mount Clipping in Space Below)

Probe asked on Keating tie to Glenn

By Sam Stanton
Republic Washington Bureau

WASHINGTON — The Senate Ethics Committee has been asked to probe the extent of Charles H. Keating Jr.'s influence with Sen. John Glenn, D-Ohio, a move that could lead to a similar look at Arizona Sens. Dennis DeConcini and John McCain.

The request for the probe was made this week by the Ohio Republican Party, which charged that Keating's contributions to Glenn's campaign committee and to an affiliated political-action committee may have led the senator to intervene with federal regulators in Keating's behalf in April 1987.

Glenn was one of five senators who met in DeConcini's office then to ask federal regulators why they were taking so long with an audit of Keating's Irvine, Calif.-based thrift, Lincoln Savings and Loan.

Glenn has denied any wrongdoing, and his office issued a statement charging that the request for an ethics

— See SENATE, page A7

(Indicate page, name of newspaper, city and state.)

Date: 9/29/89
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Senate may probe Keating-Glenn tie

— SENATE, *from page A1*

probe is "not about ethics, it's about politics."

But Ohio GOP Chairman Robert Bennett, in a letter to the committee dated Monday, said Glenn's ties to Keating "cry out for investigation by the Ethics Committee."

Glenn's campaign received $34,000 from Keating and his associates, and a political-action committee used for Glenn's presidential and Senate campaigns received an additional $200,000. Bennett charged those contributions may "have formed the impetus for Senator Glenn to have attempted his intervention" in Keating's behalf.

Wilson Abney, chief counsel for the Ethics Committee, said he could not confirm or deny the existence of a complaint against Glenn, although a source said earlier that the panel is tracking reports on the Keating case closely.

If the committee decided to look into the matter, it could extend its probe into Keating's influence with other senators, including DeConcini and McCain, who both received large campaign contributions from the Phoenix developer and his associates.

DeConcini and McCain both have denied any wrongdoing in their efforts in behalf of Keating, and aides to both senators have said they see no reason for an ethics probe of their actions.

Similarly, neither political party in Arizona is expected to ask for such a probe.

However, the House is scheduled to begin a probe of the Lincoln scandal next month.

Keating already is the subject of a $1.1 billion civil suit alleging that he funneled depositor funds from the thrift into his charitable and political causes, and officials have said the Lincoln failure could be the costliest S&L collapse in history.

The complaint against Glenn is the first move to have the Senate probe Keating's influence with senators.

DeConcini announced last week that he was returning his $48,000 in contributions because of the allegations in the lawsuit against Keating. McCain, who received $112,000 from Keating and his associates, has said he will take no action before a court rules on the case.

McCain has distanced himself from Keating since the April 1987 meeting, in which regulators warned the senators that criminal activity might



John Glenn / The senator has denied any wrongdoing.

be involved with Lincoln, but DeConcini continued trying to help Keating sell his thrift rather than have the government seize it. The sale never was allowed, and federal agents seized Lincoln on April 14.

Keating wielded great influence on Capitol Hill because of his contributions, and his access to senators led to the meeting, in which DeConcini, McCain, Glenn and Sens. Don Riegle, D-Mich., and Alan Cranston, D-Calif., took part.

Last year, Riegle returned $66,000 raised for him by Keating. But Cranston has said he has no plans to return $39,000 in campaign contributions he received or $850,000 that Keating gave to voter-registration drives aimed at helping Cranston.

Keating had business ties to each state represented by the senators. His American Continental Corp., the flagship of his financial empire, is based in Phoenix. Lincoln, a subsidiary, is based in California, and Keating is a native of Ohio.

Keating and his attorney have said Keating contributed to each man because he believed each was a good senator.

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Regulator Confirms He Met With Owner of Lincoln S&L

■ Thrifts: M. Danny Wall says the private sessions didn't influence his agency's decision to spare the company from seizure.

By SARA FRITZ
TIMES STAFF WRITER

WASHINGTON—M. Danny Wall, the chief federal regulator of the thrift industry, acknowledged Friday that he had met privately with the owner of Lincoln Savings & Loan shortly before his agency rejected a recommendation from its San Francisco office in 1987 to seize the failing Irvine institution.

Wall, who now heads the Office of Thrift Supervision, the successor agency to the Federal Home Loan Bank Board, said in an interview that he had three meetings and one telephone conversation with Charles H. Keating Jr., Lincoln's operator, while he was FHLBB chief.

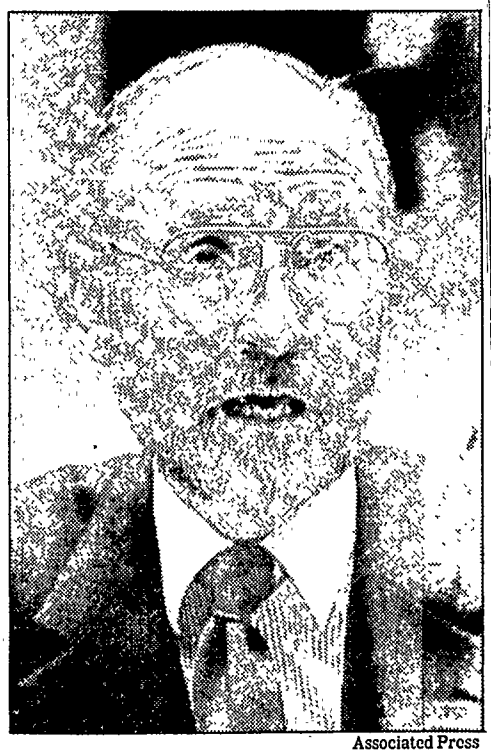
He was responding to charges by House Banking, Finance and Urban Affairs Committee Chairman Henry B. Gonzalez (D-Tex.) that Keating's personal pleas had persuaded the bank board not to seize Lincoln in 1987. Federal regulators took over Lincoln nearly two years later, and the delay cost taxpayers an estimated $2 billion and deprived many unsuspecting investors of their life savings.

Wall, who has been subpoenaed to testify about the Lincoln affair before the House committee Nov. 7, said he and Keating had been personal acquaintances before their meetings at the bank board office.

But he said Keating had no special access, that he requested nothing improper and that the meetings did not affect the board's decision not to seize Lincoln at that time.

Keating, who has been charged with milking Lincoln's assets and thus precipitating the worst savings and loan disaster in the nation's history, had been introduced to Wall several years earlier in the office of Sen. Jake Garn (R-Utah). Before heading the bank board, Wall was an adviser to Garn.

Wall said he had always known Keating as a man prone to "pontificating . . . someone who thought very much of his own opinion, who wanted to talk and not listen." But when Keating met with him at the bank board in 1987 and subsequently, Wall recalled, "his self-confidence over his being in a regulated business was eroding."



Associated Press

M. Danny Wall

He said the freewheeling businessman was temperamentally "not cut out" for the management of a business under federal and state regulation.

After Lincoln was bought in 1986 by Keating's company, American Continental Corp. of Phoenix, it shifted its investments into junk bonds, undeveloped real estate and other risky ventures. It is estimated that the failure of Lincoln, which was seized by the government last April, led to a $2-billion federal payout to insured depositors.

L. William Seidman, chairman of the Federal Deposit Insurance Corp., which has

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taken control of Lincoln's assets, testified before the Gonzalez committee earlier this week that he thought it was improper for Wall to have met with Keating at the time the bank board was reviewing a recommendation from its San Francisco office about action against Lincoln.

"I am of a different view," Wall declared in the interview. He said he has always been willing to meet with disgruntled savings and loan officials. "I have been in public service for 28 years. I will meet and talk to anyone. Of course, there are times when, legally, I can't. I certainly do it whenever time permits."

Wall said Keating first came to see him at the bank board on Sept. 24, 1987, about four months after the San Francisco regulators found cause to recommend supervisory action against Lincoln. Wall said he had not read the report from San Francisco at the time of the meeting but that Keating's visit brought it to his attention.

He said Keating called on him to bring the matter, which already had been the subject of a 16-month investigation, to a speedy conclusion.

NEXT STEP

■ The House Banking Committee will resume its hearings on the Lincoln Savings & Loan debacle on Thursday, when federal and state regulators with authority over California S&Ls will testify. Charles H. Keating Jr., chairman of Lincoln's parent company, American Continental Corp., and M. Danny Wall, head of the federal Office of Thrift Supervision, are scheduled to testify Nov. 7.

Like many other thrift officers who came to see him, Wall said, Keating often complained about how he was being treated by officials in the San Francisco office. But Wall said he dismissed those complaints as nothing he had not heard before in other cases.

"They always say, 'They are out to get me—they don't like me,' " he said. "What else would you expect someone to say?"

After the first meeting with Keating, Wall ordered an independent review of the matter by senior staff in the Washington headquarters. The office in San Francisco was prohibited from performing supervisory and examination activity.

Carl Hoyle, a spokesman for Wall, said Friday that an independent review was necessary because the earlier audit was no longer valid. He said Lincoln's financial picture had improved and, by December, the thrift had hired a new chief executive who had the confidence of the bank board.

The second review led to a decision not to take supervisory action against Lincoln.

Keating again came to see the bank board chairman Jan. 28, 1988, complaining about press "leaks" regarding the board's dealings with Lincoln, which he alleged were coming from the San Francisco office, Wall said. He said his reaction to Keating's complaint was that "you know full well there is nothing I can do about that."

Finally, on Jan. 17, 1989, Keating paid his last visit to Wall's FHLBB office, Wall said. He came at a time when the board was closing in on Lincoln for suspected violations of a number of regulations. Wall said Keating told him, "I've had enough, I want to get out," and declared his intention to sell Lincoln.

Wall later received a follow-up call on that visit from Keating after he had located a potential buyer. Sens. Alan Cranston (D-Calif.) and Dennis DeConcini (D-Ariz.) also telephoned Wall at the time and asked him to approve the sale, which was rejected by FHLBB.

Although Wall knew Keating before he went to work for FHLBB, he denied charges leveled by Gonzalez that as a Garn aide he had solicited donations from Keating for the Garn Institute of Finance at the University of Utah.

Both Lincoln and American Continental made contributions to the institute in 1986, according to Elaine Weiss, an official of the fund. The donations reportedly amounted to more than $25,000. A Keating spokesman and fund officials supported Wall's contention that he never raised funds for the Garn Institute.

Wall said he had attended two institute board meetings on behalf of the senator before becoming FHLBB chief. Weiss said Wall also has served as a program speaker for the institute from time to time.

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(Mount Clipping in Space Below)

Tale of Lincoln takeover outrages House panel

By Jonathan Lansner
The Register

WASHINGTON — Irvine-based Lincoln Savings & Loan used extensive political ties and high-priced attorneys and accountants to thwart government intervention for two years, federal and state regulators told a shocked congressional panel Tuesday.

Officials from the San Francisco office of the US Office of Thrift Supervision and the California Department of Savings and Loan were both grilled and praised by the House Banking Committee, which is examining the nation's most expensive savings and loan failure.

■ **BUGGED:** Regulators say their phone line at Lincoln was wired/**14**

Lincoln was taken away from American Continental Corp. of Phoenix by the federal government in April, almost two years after the San Francisco office had recommended such an action.

The cost of the takeover has been estimated at $2 billion. About 23,000 California investors lost an estimated $200 million from the purchase of uninsured corporate bonds during the two years after an initial warning was sounded about

Please see **LINCOLN/14**

LINCOLN: Panel shocked by political clout wielded by S&L

FROM 1

Lincoln's practices.

The regulators, whom several lawmakers called the heroes of the Lincoln fiasco, also blasted the Washington headquarters for caving in to Lincoln's arsenal of politicians and consultants.

Those ties, the committee was told, included five US senators, a member of former President Reagan's Cabinet, an economist who now is the chairman of the Federal Reserve Board and an independent auditor employed by Lincoln's parent company for $950,000 a year.

The banking committee is trying to figure out why the San Francisco office's recommendation was rejected and why the Washington office halted supervision of Lincoln in May 1988.

By giving in to Lincoln's powerful lobbying efforts — which included several secret meetings with Office of Thrift Supervision Director M. Danny Wall — the cost to US taxpayers to insure the institution's depositors ballooned to $2 billion, the House committee was told.

"I take no comfort in now being vindicated," said Michael Patriarca, top regulator at the San Francisco office.

In addition, the San Francisco officials charged that the delay in regulatory action allowed American Continental two more years of selling uninsured corporate notes rendered worthless by the company's bankruptcy.

The Office of Thrift Supervision defended its actions, saying both the San Francisco office and state regulators could have taken less harsh measures, but declined to do so.

"San Francisco failed to provide sufficient evidence to justify takeover," said Karl Hoyle, spokesman for the office.

Several lawmakers said they were stunned by Thursday's testimony.

Particularly incensed was House Banking Committee Chairman Henry Gonzalez, who called for Wall to step aside, at least while the committee's investigation continues. Gonzalez charged that Wall tried to get San Francisco officials to tone down their testimony.

"There was total corruption here," said Gonzalez, D-Texas.

Panel members also were told of Lincoln's high-risk business strategies — which included junk bonds, land and luxury hotels — and allegations of theft and fraud by company officials. The government filed a $1.1 billion fraud and racketeering suit against company officials in September.

"This is one of the most amazing days in my 15 years here," said

SEC-LA-101619

Rep. Charles Schumer, D-NY, who called American Continental Chairman Charles Keating Jr. "a financial pirate ... the Blackbeard of the financial industry."

Among the charges that San Francisco officials lodged at Wall during the hearing were that William Robertson, a staff member in the Washington office, was demoted in July 1987 after he concurred with the San Francisco office's report and moved to have Lincoln seized in July 1987.

They also testified that Wall effectively ended San Francisco's supervision of Lincoln by killing a September 1987 follow-up examination of its books that would have keyed on problems discovered by the review that led to San Francisco's takeover recommendation.

"This shouldn't have happened," said William Black, chief counsel for the San Francisco office. "Unfortunately, Lincoln can still happen again because the same people are still regulating thrifts."

The testimony of the San Francisco officials also implicated several political and government officials.

Five US senators, including California Democrat Alan Cranston, were mentioned repeatedly for meeting with San Francisco regulators in April 1987. All five had received large campaign contributions from American Continental officials.

The other senators are Dennis DeConcini, D-Ariz.; John McCain, R-Ariz.; John Glenn, D-Ohio; and Donald Riegle, D-Mich. Riegle and DeConcini later returned the contributions.

The senators have argued that a major reason they lobbied on Lincoln's behalf was a letter by Jack Atchison, then the partner in charge of Arthur Young & Co.'s audit of American Continental. The letter of Atchison, who joined American Continental in 1988, told the senators of the San Francisco office's vindictiveness and Lincoln's financial health.

Also discussed was the consulting work done for Lincoln by Federal Reserve Board Chairman Alan Greenspan. Greenspan wrote to San Francisco thrift officials in February 1985, saying Lincoln "posed no risk" to the federal deposit insurance.

It also was noted that another economist, George Bentson — who, with Greenspan wrote a report supporting Lincoln's pet strategy, investing in risky assets — was mentioned by the Reagan administration in 1986 as a possible nominee to the Office of Thrift Supervision's predecessor agency, The Federal Home Loan Bank Board.

(Mount Clipping in Space Below)

Wiretap revealed at S&L

Lincoln auditors' phone was bugged

By MARK BARNHILL
Daily News Washington Bureau

WASHINGTON — Lincoln Savings and Loan officials spent millions of dollars for political influence and may have used a wiretap to delay government action against the failed thrift, the House Banking Committee was told Thursday.

Texas Democrat Henry Gonzalez, the committee chairman, said the actions were part of a pattern of "high-level corruption" in the operation and supervision of Lincoln.

The institution was seized by the federal government last April, a day after its parent company filed for protection from its creditors in bankruptcy court.

The Federal Deposit Insurance Corp. has estimated the bailout could cost taxpayers more than $2.5 billion, making Lincoln the nation's costliest thrift failure.

Gonzalez said the illegal wiretap was discovered in April, on "what was supposed to be an absolute secure line" being used by examiners at Lincoln.

The tampering "allowed many of the employees of Lincoln to eavesdrop on the most confidential calls," he said.

William Crawford, chairman of the California Department of Savings and Loan, testified that discovery of the bug helped explain why Lincoln officials seemed to have an unusual amount of inside information.

"They seemed to know what we were thinking," Crawford said. "When we would bring something up they would have the answer ready. We wondered how they were able to provide the answer sometimes."

Crawford's chief deputy, William Davis, said examiners eventually were ordered to "leave the premises and call us on the pay phone" before revealing any confidential information.

"We had felt for some time that there was special intelligence that Lincoln Savings seemed to have," Davis said.

Federal officials had similar experiences, according to William Black, acting district counsel for the federal Office of Thrift Supervision.

"Lincoln appears to have had superb intelligence," Black said.

"It was extraordinary and it was repeated . . . and the leaks were extremely harmful," he said. "Was there a mole in the Federal Home Loan Bank Board? Is there still? We don't know."

The testimony came during a dramatic 8½-hour hearing that painted a dizzying picture of widespread violations in the operations and supervision of Lincoln Savings.

Black and OTS regional supervisor Michael Patriarca said they tried to close down the institution in 1987 but were blocked because of the extraordinary political influence of Arizona millionaire Charles H. Keating Jr., director of Lincoln's parent company, American Continental Corp.

Keating spent millions of dollars in loans, campaign contributions and other payments to influence an array of bank auditors, politicians and government officials, the two regulators said.

"Individuals, firms and officials who should have known better fell all over themselves to sell their reputations in furtherance of the Lincoln cause," Patriarca said.

Keating's political network included five senators who together received more than $1.3 million in contributions and other money through Keating, and who met with regulators on his behalf in April 1987.

"I think this meeting was the result of some extraordinary political influence, the like of which I have never seen," Patriarca said.

The five are Sens. Alan Cranston, D-Calif.; Dennis DeConcini, D-Ariz.; John McCain, R-Ariz.; John Glenn, D-Ohio; and Donald W.

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Riegle Jr., D-Mich.

All five senators have said they urged regulators only to conclude their investigation of Lincoln one way or the other, and did not try to influence its outcome.

But in an unprecedented move after the meeting, supervision of Lincoln was transferred from San Francisco — where Patriarca and Black had recommended closure of the institution — and moved to agency headquarters in Washington.

Lincoln was finally closed last April, when the government seized the institution after its parent company filed for bankruptcy protection.

M. Danny Wall, director of the Office of Thrift Supervision in Washington, is the official who decided to delay action against Lincoln, and he was singled out for repeated criticism at Thursday's hearing.

"Faced with the fact that Mr. Keating didn't like his examiners ... Wall had an easy answer — banish them to Siberia," said Gonzalez, who called on Wall to step down until the hearings are completed.

Wall is scheduled to testify before the committee on Nov. 4, and Keating has also been summoned to appear that day.

Rep. Toby Roth, R-Wis., said after Thursday's hearing that he would introduce a House resolution asking the senators to appear before the committee and explain their actions.

"In my 12 years in Congress I have never heard such an extraordinary day of testimony," Roth said.

The four regulators who testified Thursday said a variety of schemes were used to build Keating's political clout. They said Keating and other Lincoln officials:

- Inflated the salaries of company employees, then directed them to contribute the extra money to political candidates.
- Gave high-paying jobs to auditors after they completed favorable reviews of the company's books.
- Hired a large number of attorneys who were associated with government officials in attempts to exert influence.
- Made loans to government officials and their close associates.
- Commissioned favorable reports from economists Alan Greenspan, who later became chairman of the Federal Reserve Board, and George Benston, who later became a strong contender for appointment to the Federal Home Loan Bank Board.
- Bankrolled trade associations that lobbied for Lincoln's positions.
- Conducted secret meetings and negotiated secret agreements with ranking federal regulators of savings and loans.



William Crawford, left, of the state Department of Savings and Loan, talks Thursday with federal regulator Michael Patriarca.

)-350 (Rev 5-8-81)

(Mount Clipping in Space Below)

Top Regulator Blocked S&L Seizure, Panel Told

Hearings: Pair say the delay let Lincoln Savings run up huge debts. The firm may have bugged state auditors.

By WILLIAM J. EATON
TIMES STAFF WRITER

WASHINGTON—Two federal officials from California charged Thursday that M. Danny Wall, the nation's chief savings and loan regulator, "shot them in the back" and blocked a timely takeover of Lincoln Savings & Loan that could have saved taxpayers much of the estimated $2 billion in cleanup costs.

In separate testimony, state officials disclosed that an electronic listening device was discovered in Lincoln's offices in Irvine that could have been used to monitor conversations of state examiners as they called superiors about their audit of the troubled S&L.

The two federal regulators, who had raised red flags about Lincoln two years before the government finally acted, told the House Banking, Finance and Urban Affairs Committee that a similar financial disaster could occur again "because the same folks are still in charge of regulating thrifts."

Committee Chairman Henry B. Gonzalez (D-Tex.) immediately suggested that Wall step down or take temporary leave from his position as director of the Office of Thrift Supervision until the hearings into the Lincoln case are concluded.

After the hearing, Wall's agency issued a statement saying that Thursday's session presented a one-sided story because two witnesses from its Washington office did not get a chance to testify.

"Therefore, it is inappropriate for members of the committee to request . . . Wall to step aside permanently or until the hearings are completed," the statement said.

Leonard Bickwit, a Washington lawyer for Lincoln's parent company, American Continental Corp., said that the panel's hearings were "riddled from the start with factual inaccuracies." But Bickwit provided no specific denials to the allegations presented Thursday.

The testimony of Michael Pa-

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triarca, director of the Office of Thrift Supervision's district office in San Francisco, and William K. Black, the district counsel, provided additional evidence that regional regulators had been stymied in their efforts to call attention to Lincoln's financial problems.

Lincoln was seized by federal regulators on April 14, 1989, the day after its parent company filed for bankruptcy. The cost of cleaning up the institution has been put at as high as $2 billion, making it the most expensive thrift failure in history.

In addition to the losses to the government's thrift deposit insurance fund, which ultimately will be absorbed by taxpayers, an estimated 22,000 individuals are expected to lose more than $200 million that they had invested in bonds issued by Lincoln's parent company.

Wall, who was chairman of the Federal Home Loan Bank Board before it was replaced by the Office of Thrift Supervision, and Charles H. Keating Jr., the flamboyant owner of Lincoln's parent company, have been subpoenaed to appear Nov. 7 before the House committee.

The committee is investigating the two-year delay that preceded the government's seizure of Lincoln and the actions of five U.S. senators, including Alan Cranston (D-Calif.), who intervened with federal regulators on behalf of the institution.

Wall rejected a recommendation by the regional regulators that the government seize Lincoln in 1987, and he stripped the San Francisco office of its supervisory responsibility for the savings and loan.

The allegations made by Patriarca and Black, the San Francisco regulators, were underscored at Thursday's hearing by H. Joe Selby, former director of regulatory affairs at the bank board's Dallas office.

"The problems [at Lincoln] were loud and clear as early as 1986," Selby testified. "Supervisory control should have been in place by late 1987."

Black and Patriarca said that Lincoln used political influence with the five senators and got Wall's agency to make a series of "inexplicable" concessions that staved off appointment of a receiver to safeguard Lincoln's assets until last April.

Wall, who has acknowledged having a series of meetings with Keating while the investigation was under way, had previously challenged the competence and objectivity of his agency's San Francisco office.

In their first public reply, Black and Patriarca accused Wall and others in the bank board's Washington office of undercutting enforcement actions despite strong evidence of Lincoln's misconduct and unusually risky investments.

"Chairman Wall's instructions . . . to achieve a 'peaceful' resolution with Lincoln assured the outcome," Black said. "All that remained was to negotiate the terms of the bank board's surrender."

Black said that Lincoln was given effective veto power over which government official would be named to negotiate with the savings and loan, which government accountants would audit its books and which officials would supervise its day-to-day activities.

A May 20, 1988, "memorandum of understanding" between the bank board and Lincoln was drafted by Lincoln's attorneys in cooperation with Rosemary Stewart, head of the bank board's enforcement office in Washington, Black said.

It was ridiculed by regional regulators as "Rosemary's Baby" because it allowed Lincoln to increase its high-risk investments and violate other thrift regulations during the year before the firm finally was seized, Black contended.

In addition, Stewart signed a secret letter to Lincoln stating that the bank board would not refer anything found during its investigation to other government agen-

cies for possible prosecution or enforcement actions.

Wall demoted William Robertson, a career bank board official who had recommended that the government place Lincoln in receivership in July, 1987, and blocked a field examination of Lincoln by the San Francisco office in September, 1987, the California regulators said.

Patriarca charged that Keating tried to pack the bank board with his hand-picked agents. He said that Keating was able to obtain a temporary appointment for Lee Henkel, who had borrowed $60 million from Lincoln.

Shortly after he was named to the bank board in November, 1986, with the support of Sen. John McCain (R-Ariz.) and then-White House Chief of Staff Donald T. Regan, Henkel proposed a rule that would have directly benefited Lincoln, Patriarca said.

Henkel resigned after the Office of Government Ethics referred the entire matter to the Justice Department for investigation, the committee was told.

The discovery of the listening device at Lincoln's offices in Irvine was disclosed to the committee by California Savings and Loan Commissioner William J. Crawford and his deputy, William Davis.

The state regulators reported that the device was found after the government seized control of the institution in April. They said they did not know for certain if it was used to monitor telephone conversations by state examiners who were poring over Lincoln's records.

Long before the device was discovered, the regulators said, they had suspected that Lincoln was gathering intelligence on the audit, and they had cautioned their examiners to use a pay telephone if they had any confidential material to discuss.

Bickwit, the American Continental attorney, said that the company never authorized or took part in any bugging activity. "There's no reason to suspect any involvement of American Continental or its executives," he said.

Staff writer James S. Granelli in Orange County contributed to this story.

FD-350 (Rev .-81)

(Mount Clipping in Space Below)

Keating's influence called wide, deep

By MARK BARNHILL
Daily News Washington Bureau

WASHINGTON — The "extraordinary" political reach of Arizona financier Charles H. Keating Jr. was as broad as his pockets were deep, according to regulators who tried to close his Lincoln Savings and Loan in 1987.

Keating spent millions of dollars in salaries, loans, campaign contributions and other payments to deter enforcement action against the Irvine institution, the regulators told members of the House Banking Committee.

William Crawford, head of the California Savings and Loan Commission, even told the committee Keating knew of his appointment almost as soon as he did.

"Mr. Keating told me that he was the second guy to know I was commissioner," Crawford said, shaking his head. "He told me, 'Remember that painter who was painting your office when the governor called?'

"What happened was, this guy left and took his break and called (to pass along the news)," Crawford said.

Whether or not Keating was just twitting Crawford with a story about his inside knowledge, the incident illustrated an emerging picture of the banker's connections, both large and small.

Crawford and other state and federal regulators testified that last week on the second day of hearings into Lincoln's collapse that the beneficiaries of Keating's largesses included dozens of accountants, auditors, lawyers, high-ranking government officials and influential politicians — reaching right into the Reagan cabinet.

"Individuals, firms and officials who should have known better fell all over themselves to sell their reputations in furtherance of the Lincoln cause," said Michael Patriarca, the U.S. Office of Thrift Supervision regional head in San Francisco who tried to close Lincoln in 1987.

Patriarca and his office's district counsel William Black were among the witnesses at dramatic 8½-hour hearing into the Lincoln collapse, which could cost the federal government $2.5 billion to bail out.

In extraordinary detail, they described a pattern of special treatment, secret agreements, favoritism and "fawning" by top Washington officials that deterred enforcement action against Lincoln.

"Clearly, we were shot in the back while trying to protect the taxpayers," Black said, claiming that Keating's unprecedented political influence made him "untouchable" by regulators who sought to close the thrift.

Patriarca said the influence extended to "all three branches of government," and also included lawyers, accounts, consultants and auditors who gave Lincoln favorable reviews.

House Banking Committee Chairman Henry Gonzalez, D-Texas, laid the blame on M. Danny Wall, chairman of the Office of Thrift Supervision, and repeated a call for Wall to resign.

Wall responded with a statement saying such a step would be "inappropriate" and describing the testimony as one-sided because Washington officials have not yet had a chance to appear.

"An important side of the regulatory story has not been heard yet," Wall said.

Last week's testimony was seized on by some congressman to raise questions about the costliest savings and loan failure in history.

"So many people got co-opted in this whole process," said Rep. Floyd H. Flake, D-N.Y., a member of the banking committee.

"It appears as if (Keating) infiltrated the system to the point where he could buy regulators, could buy politicians . . . and bring pressure against anyone who got in his way," Flake said.

Keating's political network included Sen. Alan Cranston, D-Calif. and four other senators who together received more than $1.3 million in contributions and other money from Keating, and who met with regulators on his behalf in 1987. Besides Cranston, they are Dennis DeConcini, D-Ariz.; John McCain, R-Arizona; Donald Riegle Jr., D-Mich., and John Glenn, D-Ohio.

All five senators have said they urged regulators only to conclude their investigation of Lincoln one way or the other, and did not try to influence its outcome.

But in an unprecedented move after the meeting, supervision of Lincoln was transferred from San Francisco — where Patriarca and Black had recommended closure of the institution — and moved to agency headquarters in Washington.

"I think this meeting was the result of some extraordinary political influence, the like of which I've never seen," Patriarca said.

Black, Patriarca and two California regulators — Crawford and his chief deputy, William Davis — said Keating exerted influence in a variety of other ways as well.

They claimed he tried to influence the California regulators by making several trips to Sacramento to meet with members of Gov. George Deukmejian's cabinet. He was accompanied by Deukmejian's chief fund-raiser, Karl Samuelian, who he had hired as legal counsel, they said.

Crawford said no one in the Deukmejian administration tried to sway him, and Black said there is no proof that Samuelian's presence led to any special benefits for Lincoln.

"But my view is people tend to hire folks because they think they will have an effect," Black said. "It

(Indicate page, name of newspaper, city and state.)
Daily News
Los Angeles, CA
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sets up a question in the mind of the person you are dealing with."

Crawford said attempts to influence regulators continued as late as this spring. Just before Lincoln was seized, Keating was trying to sell the institution with support from Wall, Crawford said.

DeConcini and an aide to Cranston, Carolyn Jordan, made calls in support of the sale to California officials, whose approval was necessary for the deal to proceed, Crawford said.

Other examples of Keating's clout cited in testimony included the hiring of Federal Reserve Board Chairman Alan Greenspan, then a private economist, as a consultant to defend the thrift's financial condition.

In 1984 and 1985, when Keating was fighting a bank board effort to restrict direct commercial and real estate investments by thrifts, he enlisted the help of Greenspan, who in a letter distributed to members of Congress described Lincoln as a strong institution, Black said.

Black said Keating also succeeded through McCain and then-Treasury Secretary Donald Regan in getting Lee Henkel appointed to the three-member Federal Home Loan Bank Board. Henkel, according to Black, had received large loans from Lincoln and resigned shortly after taking office in 1987.

Patriarca said Keating even tried to hire his wife when Patriarca took over supervision of the Irvine thrift. He said his wife, Laura Patriarca, was shocked and gave the offer "an absolutely cold reception."

The hearings resume Tuesday, with testimony from representatives of the Washington thrift office and some of the 20,000 investors who lost money when Lincoln failed. The hearings are scheduled to conclude Nov. 7, when Wall and Keating — who have both been subpoenaed — are supposed to appear before the committee.

Keating has not said whether he will answer questions from the committee or assert his Fifth Amendment right to maintain silence.



Charles H. Keating Jr.
Had "deep pockets"

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ORANGE COUNTY REGISTER
Pg A1

(Mount Clipping in Space Below)

Date: 11/7/89

GOP's Nolan pressured regulators to drop plans to rein in Lincoln

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By Chris Knap,
Jonathan Lansner
and Jeff Weir
The Register

■ **KEATING:** House panel delays his testimony for two weeks/**10**

State regulators, facing political opposition from Assemblyman Pat Nolan and lobbyists for Lincoln Savings and Loan, in 1985 dropped a proposed rule that would have prohibited Irvine-based Lincoln from making many of the investments that caused its collapse.

Backed by the state's industry trade group, California Savings and Loan Commissioner William Crawford had proposed in fall 1985 that savings and loans be forced to put at least 80 percent of their money into mortgage loans.

But Crawford said he dropped the proposed change before the year was out — even though it did not require the Legislature's approval — after he was pressured by Nolan, R-Glendale, and other political allies of Charles H. Keating Jr.

It is the only major rule that Crawford has abandoned during his four years in office.

Nolan confirmed that he talked with Crawford and fought the 80 percent rule, but said he did so "out of concern that such an arbitrary regulation would hurt well-run associations as well as the problem ones."

The collapse of Lincoln Savings, formerly controlled by Keating's American Continental Corp. in Phoenix, is the subject of hearings before the House Banking Committee in Congress, a $1.1 billion suit by the federal government and criminal investigations by the US Attorney's Office and the FBI.

Please see **LINCOLN/10**

Covering Lincoln's deposits is expected to cost US taxpayers $2 billion, which would make it the costliest savings-and-loan bailout so far.

During the past month, federal regulators have disclosed numerous occasions in which Keating, whose companies have donated hundreds of thousands of dollars to politicians, used political connections to thwart attempts to crack down on Lincoln's investment practices.

Keating, who could not be reached for comment, has defended his political sway in the past. At a news conference in April, Keating made no bones about whether his political contributions had bought him influence: "I want to say in the most forceful way I can: I certainly hope so."

He has denied any wrongdoing regarding American Continental's management of Lincoln.

"This guy (Keating) was a master of politics," Crawford said. "He knew who to go see to get what he had to have done. He was pretty smart, but I think he was too greedy."

Crawford, the primary advocate of the 80 percent proposal, said he was urged to drop the rule change in late 1985 by Nolan, who then was the Assembly's minority leader, and Lawrence Taggart, a former savings and loan commissioner who was employed by a company partly owned by Lincoln.

Nolan was the author of the 1982 law that let savings and loans invest up to 100 percent of their assets in ventures such as stocks, junk bonds and undeveloped land.

Nolan was a beneficiary of Keating's political budget: He received a $9,000 contribution from Lincoln Savings in December 1985 and an additional $11,000 from Lincoln and American Continental in 1988. Nolan said the contributions and his actions were unrelated.

Crawford said he was contacted by Nolan shortly after he proposed his restrictions on non-mortgage investments.

"Nolan called me," Crawford said in a recent interview. "He was upset. He said, 'Why are you doing this?' He said Lincoln had 40 percent of their assets in this category, and we were cutting that in half."

After five days of declining interview requests, Nolan on Monday read a statement about his involvement in the 1985 proposal. But he refused to answer questions and broke off a telephone interview when a reporter persisted.

He said all his actions were based on his desire to keep the savings-and-loan industry healthy.

"At all times, I've tried to protect the citizens of California and do what's in their best interest," Nolan said. "At no time have campaign contributions in any way affected my decisions or actions as a legislator."

Taggart, who enthusiastically endorsed deregulation of the savings-and-loan industry while he was commissioner, left state employment in January 1985 to join a San Diego company, TCS Financial.

FBI/DOJ

(Indicate page, name of newspaper, city and state.)

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Three weeks later, Lincoln bought nearly 20 percent of TCS Financial's stock for $2.9 million. Taggart, in a letter to Crawford, demanded public hearings on Crawford's proposal.

"He was taking his instructions from Keating, even if the check went from Keating to TCS to Taggart," Crawford said.

Taggart, who is scheduled to testify before the House Banking Committee today, did not return telephone calls Friday and Monday.

After those lobbying contacts, Crawford dropped the idea of limiting investment powers. He said Monday that it was clear that Keating had enough clout to stop the proposal.

"I bet on the numbers all the time," he said. "If you can get something done, do it. If you can't, why waste your time? I believe you don't go out and shoot yourself in the foot if you don't have to."

The state's deregulation of thrifts now is being blamed by lawmakers and regulators as a major cause of the nationwide crisis.

In California, the shift from mortgage lending to riskier investments — such Wendy's franchises and windmill farms — has contributed to the collapse of 51 state-chartered savings and loans since 1985. In Orange County, 14 locally based savings and loans have failed or been bailed out, costing taxpayers $7 billion.

"In hindsight, it was a bad thing that the (Nolan) law was passed in the first place," said Jerry Barrone, former chairman of the California League of Savings Institutions. "Even though the whole industry was clamoring for deregulation, 97 percent of the deregulation hurt the industry."

Leonard Shane, chairman of Mercury Savings in Huntington Beach, agreed.

"Pat Nolan and Larry Taggart did more to destroy the savings-and-loan system than any two other people," he said.

No California institution took greater advantage of deregulation than Lincoln Savings.

American Continental Corp. bought Lincoln for $51 million in 1984. Under Keating's control, Lincoln used depositors' money to build a $300 million resort in Arizona with restaurants named after him and his wife, invested $100 million with Ivan Boesky, and spent $135 million on roads, sewers and lakes for an as yet unbuilt housing development in the Arizona desert.

At the same time, Lincoln abandoned making mortgage loans.

"If you took all the worst essence of the savings-and-loan crisis, you could distill it all in Lincoln," said Rep. Charles Schumer, D-NY, at a recent House hearing on Lincoln's collapse.

Concerned about the sagging fortunes of many savings and loans in California, Texas and Florida, federal regulators started clamping down on the industry's investment practices in late 1984.

The Federal Home Loan Bank Board, then the industry's chief governor, limited speculative investments to 10 percent of a savings and loan's assets.

However, under a grandfather clause, savings and loans with more than 10 percent of their assets in direct investments would not have to meet the new limit, but would not be allowed to raise their percentages, either.

At that time, Lincoln had $1 billion invested in such ventures, or about 40 percent of its assets.

The bank board's rule soon came under fire in Congress from backers of deregulation.

With the federal restriction in doubt, the League of California Savings Institutions asked Crawford in fall 1985 to impose a similar limit on California institutions. The proposal Crawford put forward would have put a 20 percent cap on direct investments and contained no grandfather clause.

Nolan soon voiced his opposition.

League officials, fully aware of Nolan's power as the GOP leader in the Assembly, asked him for a meeting to discuss the rule change.

But when the league's two top officers, Barrone and Dean Cannon, showed up at Nolan's Glendale office Nov. 27, 1985, for a supposedly private talk, they said, they encountered a roomful of people, including several lawyers who worked for Lincoln or Keating.

In addition to Nolan and his top aide, Bob Haueter, the group included Taggart.

In interviews last week, Barrone and Cannon said they felt "bushwhacked."

"It was quite evident, rather quickly, that we and the commissioner were going to have a tough time getting this (rule) enacted," Cannon said.

In his statement, Nolan confirmed that he met with representatives of the league and Taggart on Nov. 27, 1985.

That meeting, Barrone and Cannon said, persuaded the league to abandon its support of the proposed restrictions. Crawford reached the same conclusion in mid-December, according to department records.

Despite a clause in the 1982 deregulation law allowing the commissioner to promulgate rules "for safety and soundness," Nolan told Shirley Thayer, the department attorney who handled the rule, that the department would be exceeding its authority by enacting it, Thayer said.

She said the department was taken off the hook when the league asked in mid-December 1985 that the proposed rule be dropped.

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FBI — LOS ANGELES

Accountant pleads 5th Amendment before panel probing Lincoln S&L

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ORANGE COUNTY REGISTER Pg A1

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By Jonathan Lansner
The Register

WASHINGTON — An Arizona accountant who is one of the key figures in the Lincoln Savings and Loan case refused to testify before the House Banking Committee on Tuesday, citing his constitutional right against possible self-incrimination.

Jack Atchison's work in auditing Lincoln's books and his subsequent hiring by Lincoln's parent company, Phoenix-based American Continental Corp., play a key role in the regulatory and political whodunit surrounding the collapse of the Irvine-based Lincoln.

■ **TAGGART:** Panel ridicules former state S&L commissioner/**C1**

Lincoln was taken over by the government in April, after American Continental filed for Bankruptcy Court reorganization. It is expected to become the nation's most expensive savings-and-loan failure, with a $2 billion price tag to US taxpayers.

Tuesday's hearing was the fourth in the House committee's investigation into how American Continental kept Lincoln for two years after regulators first said the government should take it over.

"Your testimony could be quite helpful," Rep. Henry Gonzalez, D-Texas, the committee's chairman, told Atchison.

Gonzalez cited letters written by Atchison that might have persuaded five US senators to lobby regulators on behalf of Lincoln in 1987.

Edwin Gray, the former top US savings-and-loan regulator, told the committee Tuesday that four of those senators, including California Democrat Alan Cranston, improperly asked him at that meeting to drop an industry rule that was hurting Lincoln.

But in the culmination of 11 hours

Please see **LINCOLN/23**

of other testimony Tuesday evening, Atchison first asked for television cameras and radio microphones to be turned off.

Atchison, who was subpoenaed by the committee, then invoked his Fifth Amendment right against possible self-incrimination.

"I invoke my right not to bear witness against myself," Atchison said. "I respectfully decline to answer questions."

While he was Lincoln's outside auditor as partner in the firm of Arthur Young & Co., Atchison wrote letters to lawmakers telling them of Lincoln's financial health and of regulators' unfair scrutiny of the institution.

"The duration of this examination appears to be clearly outside normal standards," Atchison wrote to the senators in March 1987, according to copies of the letters given to the committee Tuesday. "Lincoln's strategies are not that different from other successful thrifts in the West."

About 6 p.m. on April 2, 1987, said Gray, who was then chairman of the Federal Home Loan Bank Board, he was called into the office of Sen. Dennis DeConcini, D-Ariz.

Gray said Tuesday that he was surprised to find three other senators there: Cranston; John Glenn, D-Ohio; and John McCain, R-Ariz. Gray said he was first told of the senators' interest to meet with him by Sen. Donald Riegle, D-Mich., who did not attend the meeting.

It was unusual for four senators to meet with him, all without members of their staffs, Gray said.

Gray told the committee that he believed that the senators, each of whom had received large campaign contributions from American Continental and its officials, were influenced by Lincoln's attempt to paint its regulatory problems as his own vendetta against the institution.

The senators fell for the scheme, Gray said: "When enough money flows, it's apparently easier to be gullible."

The five senators have denied any wrongdoing, saying they were only asking questions on behalf of a constituent and that Gray is twisting their intentions.

Gonzalez said Tuesday that the senators will be given a chance to appear before the committee.

"The meeting was a stupid mistake; the circumstances looked suspicious but nothing wrong was done," said Murray Flander, Cranston's spokesman. "Everything since has been distorted."

But Gray told the House committee that the meeting was "highly unusual" in content and style.

"Someone is not telling the truth," Gray said.

At the meeting, DeConcini, in particular, pressed him to drop a rule that limited the amount savings and loans could invest outside their traditional mortgage-making business, Gray recalled.

"I was shocked," he said.

Committee member Jim Leach, R-Iowa, criticized the senators and said the rule they were protesting

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was too weak as it was.

"Philosophically, it was egregious to argue the other side," Leach said.

Lincoln was a heavy investor in unorthodox ventures, which regulators now claim led to its downfall.

DeConcini, Gray charged, suggested that Lincoln would concentrate on mortgage lending if Gray agreed to drop the rule.

Gray said he did not give the senators what they wanted and advised them to meet with federal regulators from San Francisco about their concerns regarding Lincoln.

Gray did not attend that subsequent meeting on April 9, 1987, which included the four senators and Riegle.

A month later, the San Francisco regulators called for the government to take Lincoln away from American Continental.

Gray said his agency did not have enough time to prepare that recommendation for formal consideration before he left office in July.

His successor, M. Danny Wall, has been widely criticized for overruling the San Francisco examiners and giving Lincoln a new examination in 1988. Wall has said previously that Arthur Young's audit was a key element in his decision.

But Gray's story did not sit well with many committee members, who accused him of trying to push off his own problems as a regulator on the senators. Some lawmakers suggested that Gray might have been lying or coloring his testimony to fit his own needs.

"If these senators were here today, they would be saying, 'Who do you believe — us or this man, Ed Gray,'" said Rep. Carroll Hubbard, D-Ky. "Your testimony may be flawed."

Others committee members said they believe that Gray was making too much of the meeting.

"What's the significance of this? Why blame the senators?" said Rep. Richard Neal, D-Mass.

"A lot of this seems to be your editorializing," said Rep. Mary Rose Oakar, D-Ohio.

Under questioning, Gray backed off from some of his allegations in his opening statement before the committee.

Among other things, he acknowledged that the senators' actions did not influence any regulatory action while he was in office. He also provided no evidence that the Lincoln campaign donations actually got Keating more than a meeting.

"When you say there were payoffs being made, you should be able to back it up," Gray said.

Gray and his former top assistant, Shannon Fairbanks, told the committee about what they contend were other attempts by Keating to influence the bank board. Keating was supposed to testify Tuesday, but got a two-week reprieve from the committee on Monday.

Gray complained that the Reagan White House, most notably Chief of Staff Donald Regan, repeatedly gave him a hard time about his attempts to clean up the troubled industry.

And Fairbanks recounted how Keating told her Nov. 22, 1985, of his interest in hiring Gray away from the bank board to "help get our corporate initiatives past the existing regulatory roadblocks."

Gray rejected the job offer.

Fairbanks said she also was approached by a friend, Barbara Thomas, who was a former member of the Securities and Exchange Commission, for confidential information about Lincoln. Fairbanks refused the request.

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Cranston pressured him, ex-official says

By MARK BARNHILL
Daily News Washington Bureau

WASHINGTON — The nation's former top savings regulator claimed Tuesday that Sen. Alan Cranston and three other lawmakers pressured him in 1987 to ease investment restrictions on the troubled Lincoln Savings and Loan Association.

Edwin J. Gray, former chairman of the Federal Home Loan Bank Board, said the pressure was exerted in a closed-door meeting with Cranston and Sens. Dennis DeConcini, D-Ariz; John McCain, R-Ariz; and John Glenn, D-Ohio.

The lawmakers have denied Gray's account of the meeting, but in testimony Tuesday before the House Banking Committee, Gray said their denial "is simply not credible."

"They cannot bear to tell the truth about it now," Gray said. "The fact that this meeting became public knowledge has deeply embarrassed these senators.

"They did not believe this signal effort to subvert the regulatory process for their wealthy friend and contributor would ever come to light," he said.

Cranston, DeConcini, McCain and Glenn all received substantial political contributions from Arizona financier Charles H. Keating Jr., the chairman of Lincoln's parent American Continental Corp.

Along with Sen. Donald W. Riegle, D-Mich, who attended a later meeting with regulators, they received a combined $1.3 million from Keating and his associates in campaign and other contributions.

Gray said the contributions were part of a scheme by Keating to make it appear that Lincoln was being treated unfairly by savings and loan regulators.

"Senators Cranston, DeConcini, Glenn and McCain had evidently bought off on the scheme when they met with me on April 2, 1987," he said.

"The receipt of very substantial gifts from Charles Keating and his associates had long since put them in the right frame of mind to ... embrace the notion that there was somehow a vendetta against Lincoln.

"When enough money flows, it's apparently easier to be gullible," Gray said.

His testimony drew a blistering rebuke from several members of the Banking Committee, including Rep. Carroll Hubbard Jr., D-Ky.

Hubbard criticized Gray for "impugning the integrity of four U.S. senators," who he described as close friends. Citing news reports that Gray had taken dozens of overseas trips at taxpayer expense, he accused Gray of being a "flawed" witness.

"I am not known for lying," Gray responded, "and I have absolutely nothing to gain by not telling the truth."

Later, California's former savings and loan chief told the congressional investigators that Lincoln Savings and Loan was indeed the innocent victim of overzealous regulators who "fabricated" a crisis in the nation's thrift industry.

"It's a shame that what was once a small skirmish between the regulators and Lincoln evolved into a major confrontation," former California Savings and Loan Commissioner Larry Taggart told a House committee investigating the $2 billion collapse of Lincoln Savings and Loan.

Taggart acknowledged that he had extensive business dealings with Lincoln after leaving government and other institutions he had regulated, but he denied conflict-of-interest allegations.

Taggart was Gov. George Deukmejian's appointee as chief regulator of savings and loans during 1983 and 1984, a period of explosive deregulation that he enthusiastically supported.

Murray Flander, Cranston's spokesman, described Gray's testimony as "a rambling, 10,000-word document of political paranoia."

Flander said Cranston attended the meeting only to urge the bank board to wrap up its investigation of Lincoln, and made no attempt to influence Gray's actions against the thrift.

He said Cranston now realizes, however, that it was "a stupid mistake" to attend the meeting in the first place.

"Four senators meeting alone with Mr. Gray is three senators too many, and Alan Cranston has admitted that it was a mistake," Flander said.

"The problem is, everything has been warped through the prism of that first mistake, including Mr. Gray's perception of what went on," he said.

Tuesday's testimony came on the fourth day of hearings by the House Banking Committee into the $2.5 billion collapse of the Irvine-based Lincoln Savings and Loan.

Federal regulators seized the institution in April, the day after its parent company filed for bankruptcy protection. Government officials have described the Lincoln failure as the costliest in U.S. history.

The banking panel is trying to determine why regulators did not act sooner to seize the failing thrift, which officials knew was spiraling toward insolvency more than two years ago.

Field examiners in San Francisco recommended in May 1987 that Lincoln be taken over because it was operating in an unsafe and unsound manner, but their recommendation was rejected.

Federal regulators have filed a $1.1 billion civil racketeering and fraud suit against Keating, claiming he and his family looted Lincoln Savings assets for their personal use, including large political contributions.

He is also the target of a criminal probe, and the Senate Ethics Committee is considering an inquiry into his ties with the senators who intervened on his be-

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DAILY NEWS
SAN FERNANDO, CA

Date: WED., NOV. 8, 1989
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Title: CRANSTON PRESSURED HIM, EX-OFFICIAL SAYS

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LOS ANGELES

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Several lawmakers have suggested the senators should appear before the House Banking Committee to explain their actions, but Flander said Cranston had no plans to do so.

The Ethics Committee has asked each senator to explain his actions on Keating's behalf, and Flander said Cranston's response has not been completed.

"He will not testify anywhere until the Senate Ethics Committee has concluded its business," Flander said. "We believe we'll get cleared by the Ethics Committee and that will do it."

Gray said that he was "ordered to come alone" to the April 2, 1987, meeting.

The absence of staff members, he claimed, was a purposeful attempt by the lawmakers to preserve "deniability" about what was discussed in the meeting.

"I felt a tenseness in the air, an awkwardness that was overwhelming," Gray said.

DeConcini did most of the talking, Gray said, and asked him to rescind a rule that limited Lincoln's use of federally insured assets for potentially risky investments.

He said the other three senators "raised no objection whatsoever" when DeConcini proposed "that I withdraw a duly adopted regulation on behalf of their 'friend' and their contributor."

As chairman of the bank board, Gray had proposed regulations to drastically cut the savings and loan's ability to invest directly in risky investments using federally insured deposits.

Just two months before the meeting, Lincoln had sued the bank board over the proposed regulation, which was finally enacted this summer as part of a $157 billion taxpayer bailout of the savings and loan industry.

Gray said DeConcini told him that "he and the other senators were there on behalf of their friend at Lincoln Savings."

"He said that if I withdrew the regulation . . . they would get their friend to make more home loans," he testified, adding that "it sounded like a quid pro quo and it was a quid pro quo."

DeConcini denied through a spokesman Tuesday that any such deal was proposed.

The San Francisco Chronicle contributed to this story.

CRANSTON AND KEATING

The following is a chronology of key events linking Sen. Alan Cranston and Arizona financier Charles H. Keating Jr.

■ **1986:** Sen. Alan Cranston accepts $47,000 in campaign contributions from Charles H. Keating Jr., the Phoenix, Ariz., businessman and chairman of American Continental Corp., and Keating affiliates for his 1986 re-election campaign. Keating associates also contribute $85,000 to the Democratic State Central Committee of California.

■ **April 2, 1987:** Cranston and three other senators — Dennis Deconcini, D-Ariz, John McCain, R-Ariz, and John Glenn, D-Ohio, — meet with Edwin Gray, then-chairman of the Federal Home Loan Bank Board. A week later, Sen. Donald Riegle Jr., D-Mich, attends a meeting with the senators and federal regulators. Together the senators received more than $1.3 million in contributions and other money from Keating, his associates and businesses, including Lincoln Savings and Loan of Irvine.

■ **May 1988:** In an unusual move, federal regulatory authority for Lincoln is transferred from the San Francisco district office to Washington, D.C.

■ **February, 1989:** American Continental contributes $400,000 to a voter registration group organized by Cranston's son, Kim, after Sen. Cranston asks Keating for the contribution. Kim Cranston said he stepped down from secretary-treasurer to become board member about the time the contribution was made.

■ **Early April, 1989:** Cranston urges regulators to let Keating sell Lincoln to a group headed by John Rousselot, former congressman from San Gabriel, saying the sale would benefit California bond holders. A Cranston aide, Carolyn Jordan, made calls to California officials in support of the sale, as did DeConcini, regulators said.

■ **April 14, 1989:** Bank board officials seize Lincoln, one day after its parent company American Continental Corp. files for bankruptcy protection. Lincoln's losses are estimated by the bank board to exceed $2.5 billion, the costliest bailout in the nation.

■ **May 30, 1989:** Gray writes a letter to McCain, and characterizes the April 1987 meetings, calling a proposal by DeConcini to aid Lincoln an abuse of senatorial authority.

■ **June 7, 1989:** Cranston writes to Gray and disputes his version of the April 1987 meeting, denying there was any impropriety. Cranston describes his position on Lincoln Savings and Loan of Irvine: "What I said to you about Lincoln Savings when you were chairman of the FHLBB was clear and simple: Do something to end the inordinate delay in the examination of Lincoln," Cranston wrote. "If Lincoln was violating regulations, take appropriate action against it. If Charles Keating had broken any laws, bring charges. But, if a case could not be made against Lincoln, then bring a halt to what appeared to be the harassment to which Lincoln was being subjected by your regulators. Don't keep (Charles) Keating twisting in the limbo of your bureaucrats' malicious indecision."

■ **June 22, 1989:** Cranston asks U.S. Controller General Charles Bowsher to investigate whether California regulators improperly approved the sale of American Continental Corp. junk bonds through Lincoln branch offices. About 23,000 bondholders are suing to recover their losses, because the bonds were not federally insured.

■ **July 16, 1989:** The Daily News discloses Cranston asked Keating for financial help 17 months earlier on behalf of his son's voter registration group. Cranston told the Daily News, "If you adopt a rule that you'll never do anything for anyone (who has made a contribution), then it would be unethical to ever take a campaign contribution."

■ **July 17, 1989:** Cranston, in a prepared statement, says he solicited $850,000 for three non-profit voter registration drives from Keating, including his son's. Cranston says he did "a pretty stupid thing, politically" but denies asking regulators to go easy on Keating in exchange for political or charitable contributions.

■ **July 26, 1989:** The Daily News reports another Kim Cranston voter registration group, The Organizing Institute of Pacific Grove, was the $549,586 beneficiary of the Forum Institute, a Washington, D.C., non-profit organization that received $325,000 from Keating in 1987 and 1988. Records also show the senator took 23 paid trips from two of the voter registration groups, including Center for Participation in Democracy in 1987 and 1988. He defended them as legitimate expenses incurred on behalf of the groups.

■ **Sept. 20, 1989:** DeConcini says he will return $55,000 in contributions raised by Keating after the federal government filed a $1.1 billion civil suit against Keating, his company, family and associates alleging Lincoln money was funneled into their personal, political and charitable causes. Cranston and Glenn say they won't give the money back, because it would be an admission of improper behavior.

■ **Nov. 7, 1989:** In testimony before the House Banking Committee, Gray says Cranston "is the untruthful one in this matter" and contends that Cranston did not tell regulators in 1987 to bring charges against Keating if it could be shown that Keating had done anything criminal. Gray added that Cranston has changed his account of the meeting with regulators, and rejected a claim by Cranston and DeConcini that he had fabricated the story, saying it was "simply not credible." Said Gray: "On the other hand, the fact that this meeting became public knowledge has deeply embarrassed these senators. They have every reason in the world to deny what Sen. DeConcini offered me in that meeting because he was evidently speaking on their behalf."

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LOS ANGELES TIMES
LOS ANGELES, CA

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Edition: DAILY PGS. A1 & A14

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Ex-Official Says Cranston Lied About Bid to Aid S&L

By SARA FRITZ
TIMES STAFF WRITER

WASHINGTON—Edwin J. Gray, former chairman of the Federal Home Loan Bank Board, accused Sen. Alan Cranston (D-Calif.) Tuesday of lying about a 1987 meeting in which four senators allegedly sought to interfere with federal oversight of Lincoln Savings & Loan of Irvine, Calif.

Gray, who headed the bank board until June, 1987, told the House Banking Committee also that the actions of Cranston and the three other senators were "more egregious" than anything former Speaker Jim Wright (D-Tex.) had done on behalf of failing savings and loan institutions in Texas. Wright was forced to resign this year as a result of his alleged unethical behavior, although he was cleared of charges involving his efforts to aid Texas thrifts.

Much of Gray's six hours of testimony focused on an April 2, 1987, meeting in which Cranston and Sens. Dennis DeConcini (D-Ariz.), John McCain (R-Ariz.) and John Glenn (D-Ohio) allegedly asked Gray to withdraw a regulation opposed by Lincoln owner Charles H. Keating Jr. All four senators had previously received big campaign donations from Keating.

At the time of the meeting, Lincoln was under investigation by federal regulators. Gray and other critics contend that the pressure Keating brought to bear on the government during that period caused the bank board to delay federal seizure of Lincoln until last April. During that two-year period, they maintain, Lincoln was able to squander as much as $2 billion in federally insured deposits.

Gray's anger at Cranston apparently stemmed from the senator's statement on Sept. 28 that the former bank board chairman had "either fabricated or misunderstood what occurred in that room, and I don't know which it is."

"Sen. Alan Cranston said I was either lying or had a bad memory," said Gray in his lengthy prepared testimony. "But, unfortunately, he is the untruthful one in this matter."

Cranston was not available to comment on Gray's accusation, but his press secretary, Murray Flander, denied that the senator had lied. He noted that Cranston has already acknowledged that he did "a pretty stupid thing, politically," by attending the April 2 meeting.

Prior to the meeting, Keating, a prominent Republican, had raised $47,000 in campaign contributions for Cranston. The senator had also persuaded the Arizona businessman to contribute $850,000 to voter registration organizations he had founded and $85,000 to the California Democratic Party.

Cranston has said that he told Gray during the April 2 meeting that the government either should indict Keating for wrongdoing or drop the investigation of Lincoln.

But Gray specifically challenged that statement by Cranston. "This is untruthful," he said. "Cranston said nothing of the kind."

The former bank board chairman cited a series of other quotations from Cranston since last May that, taken together, suggest that the senator over the last six months may have altered his version of what happened at the April 2 meeting.

Originally, Cranston had said he was "astonished" by Gray's contention that DeConcini had asked the bank board chief to withdraw a regulation opposed by Keating. But, more recently, Cranston has said that there "may well have" been some discussion of whether the board should withdraw the regulation restricting direct investments by thrifts in real estate projects.

"Sen. Alan Cranston has changed his story about his attempt to intervene on behalf of Lincoln Savings & Loan," Gray said. After noting that DeConcini also has disagreed with Gray's characterization of the meeting, he added: ". . . . Someone is not telling the truth here."

Cranston has said that he does not recall exactly what DeConcini said during the meeting, according to Flander. But the press secretary acknowledged that Cranston's statements changed slightly after he recently read a transcript of a subsequent meeting on April 9, 1987, in which the four senators, joined by Sen. Donald W. Riegle Jr. (D-Mich.), met with bank board regulators from San Francisco who were investigating Lincoln.

DeConcini asked for the regulation to be withdrawn at the April 9 meeting, according to the transcript.

Neither Cranston nor any of the other senators who attended the April 2 meeting disagreed with DeConcini's statements, according to Gray. And, although Cranston did not sit through the second meeting, he appeared briefly. The transcript shows that he said: "I just want to say that I share the concerns of the other senators on the subject."

Gray acknowledged that Cranston let his colleagues do most of the talking during the first meeting as well. "Cranston didn't say very much," he said. "Most of his time was spent listening."

House Democrats, who still are nursing painful memories of the ouster of Wright earlier this year, were clearly stunned by Gray's comparison of the senators to the former Speaker. Although Wright departed after the House Ethics Committee found evidence that he had violated certain rules, he actually was cleared of charges stemming from his intervention with the bank board on behalf of Texas thrifts.

"I consider this to be more egregious than the interventions with me by former House Speaker Jim Wright," Gray declared. "No member of Congress ever asked me to withdraw an adopted regulation until that April 2 meeting in Sen. DeConcini's office. Worse yet, it was requested by four U.S. senators in private, behind closed doors, according to plan.

"They did not believe this single effort to subvert the regulatory process for their wealthy friend and contributor would ever come to light. They cannot bear to tell the truth about it . . . ."

Flander characterized Gray's prepared testimony as a "rambling 10,000-word document of political paranoia" that reflects the former chairman's "feeling that he was the only righteous man that walked on earth" and that Keating was out to get him.

Indeed, Gray acknowledged that he felt uneasy about attending the April 2 meeting. Not only had he been asked to come to DeConcini's office without any staff members, but Lincoln had sued the bank board only two weeks earlier and Keating had tried to "buy" him with a job offer, he said. He said he has since learned that Keating was prepared to pay him $300,000.

Gray said it was clear to him that the four senators had already "bought off" on a scheme devised by Keating to convince people that regulators were carrying out a "vendetta" against Lincoln because of its reputation as a high-flying thrift with risky investments.

He charged that the money these senators received from Keating "had long since put them in the right frame of mind" to accept the

FBI/DOJ

idea that the board was carrying out a vendetta against Lincoln.

Cranston has denied that he intervened because of the donations he had received from Keating.

Gray said DeConcini was so indebted to Keating that he even pledged to the Ronald Reagan Administration to vote in favor of assistance to the Nicaraguan rebels in 1986 in exchange for getting a Lincoln stockholder, Lee H. Hinkel, appointed to the bank board.

Gray offered as additional evidence of Keating's efforts to buy influence in Washington the claim that former SEC Commissioner Barbara Thomas had approached his top aide at the bank board in 1987 seeking to learn what evidence federal investigators had against Lincoln.

According to Gray's aide, Shannon Fairbanks, the approach took place at a time when Thomas was being offered a position by Keating on the board of American Continental Corp., the parent company of Lincoln.

Fairbanks said she told Thomas nothing because it would have been illegal to divulge the information, and Gray said he dismissed it as just another improper act by Keating.

Keating has been subpoenaed to testify before the committee later this month, but Chairman Henry B. Gonzalez (D-Tex.) has said he does not intend to take testimony from the senators unless they volunteer to appear. So far, none of the senators have offered to testify.

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Congressman to return $26,000 donation from Lincoln parent

By Jonathan Lansner
The Register

Rep. Chip Pashayan, R-Fresno, will return $26,000 in political donations made by people affiliated with Lincoln Savings and Loan's former owner.

Irvine-based Lincoln was taken from American Continental Corp. by federal regulators in April amid charges of widespread mismanagement. The House Banking Committee is looking into whether political influence affected the way Lincoln was handled by regulators.

Pashayan was a supporter of such causes as liberal investment rules for savings and loans and anti-pornography legislation, two favorite topics of American Continental Chairman Charles Keating.

Keating, his family and business associates gave Pashayan $26,000 for a 1986 campaign.

Pashayan's spokesman said Wednesday that the congressman would be returning the funds shortly.

> "My election campaigns have never been tainted by improper or illegal donations."
>
> **Rep. Chip Pashayan, R-Fresno**

"My election campaigns have never been tainted by improper or illegal donations," Pashayan said in a statement. "And while nothing has been proven against Lincoln yet, I am determined to avoid any appearance of impropriety on my part."

Two other Keating-linked politicians have already returned substantial campaign donations: Sens. Donald Riegle, D-Mich. ($76,000), and Dennis DeConcini, D-Ariz. ($40,000).

Sen. Alan Cranston, D-Calif., who also lobbied regulators, has not decided whether to return $35,000 in Keating-linked donations he received in 1986.

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FD-350 (Rev. 5-8-81)

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FBI Probing Senators' Role In Aiding S&L

By Jim McGee
and Charles R. Babcock
Washington Post Staff Writers

The FBI last week began an investigation of the role five senators played in intervening with regulators in 1987 on behalf of controversial Arizona financial executive Charles H. Keating Jr., according to sources who were questioned.

FBI agents interviewed Edwin Gray, former head of the Federal Home Loan Bank Board, and several of his top aides, these sources said, providing the first indication that the Justice Department is inquiring about the conduct of the five senators. An FBI spokesman declined to comment yesterday.

The senators are Dennis DeConcini and John McCain of Arizona, Alan Cranston of California, John Glenn of Ohio and Donald W. Riegle Jr. of Michigan. McCain is a Republican; the others are Democrats.

The Senate ethics committee has asked the senators to respond to complaints that their intervention was "prompted" by $1.3 million in campaign contributions and corporate funds Keating raised for them and their causes. The senators have said there was nothing improper about their actions.

Four of the senators on April 2, 1987, met alone with Gray, then the government's top savings and loan regulator, to question his agency's treatment of Keating's Lincoln Savings and Loan of Irvine, Calif. Riegle, who did not attend that meeting, joined the other four at a second meeting a week later with Gray's subordinates.

The Justice Department's decision to pursue an inquiry is unusual in that it touches on a gray ethical area, the actions members of Congress take on behalf of contributors. The question is just how far these actions can go.

For example, in the ethics investigation earlier this year of then House Speaker Jim Wright (D-Tex.), special counsel Richard J. Phelan recommended that Wright's intervention with regulators on behalf of Texas thrifts amounted to a violation of House rules. But the House ethics committee declined to include that count in the charges that led to Wright's resignation, saying that his actions were permissible as constituent service.

The focus of the FBI questioning last week, the sources said, was the first meeting on April 2, 1987. Gray testified to a congressional committee last week that DeConcini asked him at that meeting to ease regulatory pressure on Lincoln and in return Lincoln would modify its lending practices, which regulators considered far too risky. Gray declined to comment yesterday.

Lincoln was declared insolvent and seized by the government in April. Regulators estimate that the failure of the thrift will cost taxpayers up to $2.5 billion.

DeConcini and the other senators dispute Gray's statement that they sought to negotiate favorable treatment for Lincoln at the April 2, 1987, meeting. DeConcini said its thrust was to express the senators' concerns that an examination of Lincoln's books was taking too long and to "get off their [Lincoln's] backs" if the thrift hadn't violated the law.

The initial questioning that occurred last week is typically used by prosecutors to determine whether there are grounds to present evidence to a grand jury.

One source interviewed by the FBI said that agents referred to certain Federal Election Commission campaign contribution reports filed by some of the senators involved. Another source said, "They [the FBI agents] seemed to be most interested in the senators. Keating and the senators. More questions about meeting with the senators. They seemed to have an extraordinary interest in what the senators were doing."

One source said that several FBI agents who conducted the interviews also attended the recent House Banking Committee hearings on Lincoln.

Spokesmen for Cranston, DeConcini and McCain said yesterday that the FBI hadn't contacted their offices. Cranston and McCain have volunteered to meet with the FBI. Glenn [illegible] could not be reached.

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FBI — LOS ANGELES

Murray S. Fleader, Cranston's spokesman said: "Once again, everything is emanating from the regulators. They are the accusers. ... How do we know what they're telling us is correct?"

Keating, the subject of a $1 billion civil fraud and racketeering suit by the government over Lincoln's collapse, has bragged about his political connections. At a press conference in April, Keating said: "One question, among the many raised in recent weeks, had to do with whether my financial support in any way influenced several political figures to take up my cause. I want to say in the most forceful way I can: I certainly hope so."

At the same time the Common Cause organization filed a complaint with the ethics committee, it sent a letter to Gerald E. McDowell, chief of the public integrity section at the Justice Department, asking him to open an investigation of whether Keating's efforts "to influence" the senators violated federal election law or other statutes.

McDowell responded in an Oct. 24 letter that he had received the letter on Keating "and the circumstances under which five Senators received corporate donations, gifts, and/or campaign contributions from Mr. Keating and his associates. Thank you for referring this information to us and be assured that we will review this information thoroughly."

The central dispute over the April 2, 1987, meeting was whether DeConcini was trying to negotiate a "quid pro quo" for Lincoln, as Gray testified to Congress last week. Two of Gray's former assistants, Mary Ellen Taylor and William Black, said in recent interviews that after the meeting Gray told them a deal to benefit Lincoln had been proposed.

Robert Maynes, DeConcini's spokesman, said yesterday that there was "no quid pro quo offered" to Lincoln at the first meeting. "Nobody offered a deal."

Bradley Boland, a spokesman for Keating, challenged Gray's credibility and blamed his policies for the Lincoln Savings failure. "I agree with a statement I read the other day that Gray should be charged with perjury because he's been sitting out there lying in front of the committee, to the FBI and everyone else."

FD-350 (Rev. 5-8-81)

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SEC Chief Says S&L Regulators Undercut Probe

By Jerry Knight
Washington Post Staff Writer

The chairman of the Securities and Exchange Commission said yesterday that federal savings and loan regulators undercut the SEC's investigation of the owner of Lincoln Savings and Loan, the California thrift whose collapse is expected to cost taxpayers more than $2.5 billion.

SEC Chairman Richard C. Breeden also accused the accounting firm of Arthur Young & Co. of hampering the SEC investigation of Lincoln's owner, American Continental Corp., by withholding records the agency sought and by marking up other documents with rubber stamps so they were illegible.

And in testimony before the House Banking Committee, Breeden also disclosed that a former SEC commissioner, Barbara Thomas, made a personal appeal to SEC officials last year on behalf of American Continental founder Charles H. Keating Jr.

Thomas received a $250,000 unsecured personal loan from Lincoln that had "unusual repayment terms," said Banking Committee Chairman Henry B. Gonzalez (D-Tex.), who is conducting a far-reaching investigation of the Lincoln failure. He did not explain the loan terms or say when it was made. Thomas, who left the SEC in 1983, could not be reached for comment yesterday.

Breeden was the latest in a parade of witnesses to tell Gonzalez's committee how Keating and Lincoln frustrated regulators who were trying to crack down on the thrift and how highly placed friends of Keating repeatedly sought to use their influence on his behalf.

See LINCOLN, A10, Col. 1

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Besides Thomas, those who have been identified in testimony as aiding Keating include former White House chief of staff Donald T. Regan, now-Federal Reserve Board Chairman Alan Greenspan and five U.S. senators whose ties with Keating are the subject of a preliminary inquiry by the Senate ethics committee and an investigation by the FBI.

The American Banker, an industry newspaper, reported yesterday that Senate Banking Committee Chairman Donald T. Riegle Jr. (D-Mich.) and his top aide, Kevin Gottlieb, met with Keating at his Phoenix headquarters in March 1987 and took a helicopter tour of American Continental projects. That meeting took place two weeks before Keating sponsored a fund-raising event that netted $76,000 for Riegle and a month before Riegle and four other senators met with regulators to discuss Lincoln's problems. In describing his contacts with Keating, Riegle has not mentioned the visit to American Continental headquarters.

Breeden yesterday became the first SEC official to confirm that the agency, which ordinarily keeps its probes secret, is investigating American Continental and Keating. Breeden, who was the White House point man on the savings and loan crisis before he became SEC chairman a month ago, said that since he arrived at the agency he has "doubled the staff assigned to the case and will double it again if needed."

The agency launched its investigation in January 1987 at the request of the Federal Home Loan Bank Board, which said its examiners had found evidence that real estate transactions on which Lincoln reported $135 million in profits were phony and were being used to falsely inflate the profits of its parent company, American Continental.

The SEC was well into its investigation of what Breeden called "possible accounting fraud" in May 1988, when the bank board unexpectedly signed a "memorandum of understanding" with Lincoln that settled its investigation of Lincoln by absolving the thrift of any accounting improprieties. That action, Breeden said, "made it much more difficult for us to prove the financials [financial reports] were inaccurate."

Breeden said SEC investigators had been expecting the bank board to demand that Lincoln restate its earnings and throw out the dubious transactions, but instead the thrift agency dropped the whole matter. The bank board action "did not physically interrupt our investigation," said Breeden, but "it did cause us to reassess" whether to proceed.

After that reassessment, Breeden added, the SEC decided to continue its investigation of the accuracy of American Continental's report to shareholders. The SEC has yet to take any action against American Continental, but Lincoln was accused of using phony transactions to inflate its profits in a civil lawsuit filed this summer by the Resolution Trust Corp., the new government agency created to clean up the S&L industry.

Bank board officials yesterday disputed Breeden's description of their May 1988 agreement with Lincoln and said it "in no way interfered with the SEC's investigation."

Two weeks ago, officials of the Federal Home Loan Bank of San Francisco complained to the Banking Committee that the same memorandum included a pledge that regulators were not planning to take disciplinary action against Lincoln, which the San Francisco officials said amounted to an unprecedented pledge of immunity for the S&L. The memorandum was described yesterday by Rep. Jim Leach (R-Iowa) as "one of the most egregious documents ever to come out of the federal government."

Leach and Rep. Chalmers Wylie (R-Ohio), the two top Republicans on the panel, also expressed astonishment yesterday at Breeden's disclosure that when the SEC subpoenaed documents from American Continental the papers arrived marred with a stamped 90-word message from the company's accountants, Arthur Young. The stamp made it impossible to read crucial parts of documents, he said, and the papers came with a claim that they were copyrighted and could not be copied by the SEC for use in its investigation.

Disputes with the auditors held up the investigation for several months, said Breeden, who reminded the panel that the SEC has the authority to take disciplinary action against accounting firms that provide services to public companies.

Officials of Arthur Young, now known as Ernst & Young, denied any effort to slow with the SEC inquiry. "We did not stonewall the SEC," said William Gladstone, a co-chief executive. The SEC asked for thousands of documents and "a very, very small number might have had a stamp put in the wrong place," Gladstone said.

Jack D. Atchison, the Arthur Young partner who handled the Lincoln account and later took a $1 million a year job at American Continental, exercised his Fifth Amendment rights against self-incrimination last week when he was called before the Banking Committee.

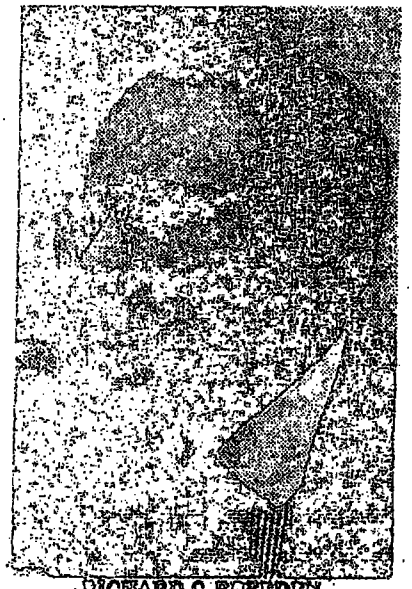
Breeden also surprised the committee by disclosing that former commissioner Thomas called SEC enforcement director Gary Lynch in 1988 to ask about the investigation of Lincoln and volunteered "a favorable character reference" for Keating.

Now an official of Bankers Trust Corp. in New York, Thomas served on the SEC from 1980 to 1983. Before that she was a partner in the law firm of Kaye, Scholer, Fierman, Hayes & Handler, which represents Lincoln.

Thomas also tried to get confidential information about the bank board's investigation of Lincoln from Shannon Fairbanks when she was executive director of the board, Fairbanks testified last week.

Breeden provided few new details of the SEC investigation, but confirmed that the probe is looking into possible securities fraud in the sale of $250 million in American Continental notes that were sold in the branches of Lincoln and are now worthless.

Four California women—Connie Wicksman, her daughter Frances Rose, Shirley Lampel and Ramona Jacobs—who lost more than $100,000 on the notes, told the committee yesterday they believed they were investing in federally insured deposits. Lincoln employees steered them into buying the notes, they said.



RICHARD C. BREEDEN
. . . says he has doubled staff on case



—BY JAMES K. W. ATHERTON—THE WASHINGTON POST

Connie Wheelman testifies as Shirley Lampel and Ramona Jacobs listen during House committee hearing yesterday.

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Title: CRANSTON, 4 SENATORS INCLUDED IN FBI INVESTIGATION OF KEATING

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Indexing:

Cranston, 4 senators included in FBI investigation of Keating

By NATHANIEL C. NASH
New York Times News Service

WASHINGTON — The FBI inquiry into possible criminal charges against Charles H. Keating Jr., former head of Lincoln Savings and Loan Association of Irvine, has been expanded to include Keating's dealings with Alan Cranston and four other U.S. senators, government officials said Sunday.

Though the primary focus of the investigation has been in Southern California and Phoenix, headquarters of Lincoln and its parent holding company, American Continental Corp., the FBI has begun making inquiries into Keating's associations in Washington.

Cranston spokesman Murray Flander told the Associated Press that he was unaware of an FBI investigation and agents had not contacted the senator.

The officials, confirming a report that appeared Sunday in the Washington Post, said that last week Edwin J. Gray, former chairman of the Federal Home Loan Bank Board, was interviewed by FBI agents about his meetings with senators who knew Keating and had received campaign contributions from him.

The officials also disclosed Sunday that the FBI agents interviewed two former top aides of Gray, Shannon Fairbanks, former bank board chief of staff, and Mary Ellen Taylor, former executive assistant to Gray.

One official said Gray had been interviewed by FBI agents from Washington and a lawyer from the Justice Department.

Gray testified before the House Banking Committee last week that in a meeting with four senators on April 2, 1987, he had been offered a deal.

The four senators are Cranston, D-Calif.; John McCain, R-Ariz.; Dennis DeConcini, D-Ariz.; and John Glenn, D-Ohio. The senators have denied offering any such deal.

Gray also disclosed last week that a fifth Senator, Donald W. Riegle Jr., D-Mich., had initially spoken to him in March 1987, saying that some of his fellow senators were concerned about the bank board's treatment of Lincoln and asking Gray to meet with them.

In exchange for the bank board's not imposing tough restrictions on Lincoln's high-risk investments in commercial real estates projects, the savings and loan would agree to move into safer investments, such as single-family mortgages.

All five senators subsequently met with top bank board examiners from San Francisco.

Gray could not be reached by phone, and Mrs. Fairbanks declined to discuss the matter.

It was not clear how seriously the FBI plans to investigate the actions of the senators. Some government officials who asked not to be named said the FBI inquiry into the senators' actions was a predictable de-

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velopment and would have to be part of any thorough investigation.

Keating faces inquiries on many fronts and could be confronted with an array of both civil and criminal charges.

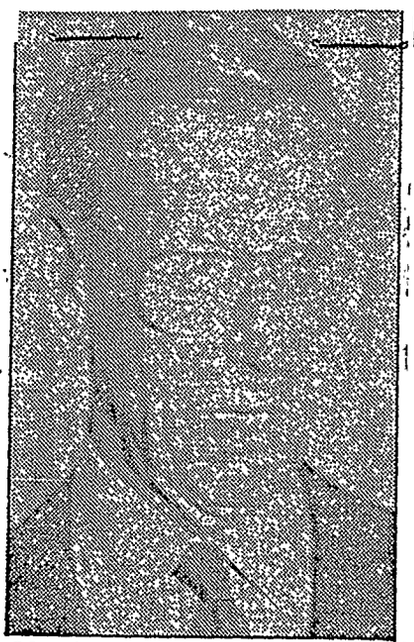
Bank board officials have said that in 1987 they referred Lincoln actions to the Justice Department with accusations that the savings and loan association was back-dating files to make certain transactions seem to have taken place earlier then they actually did.

The agency also accused Lincoln of file stuffing, in which accountants would include fabricated underwriting documents in loan files months and even years after the original loans were made, making it appear that proper underwriting had been done at the time of the transaction.

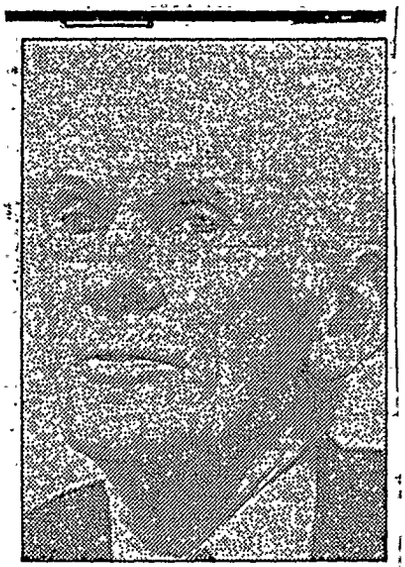
The U.S. attorney in Los Angeles is also involved in the case with a criminal investigation, and the Securities and Exchange Commission and the Internal Revenue Service are conducting inquiries.

Moreover, Resolution Trust Corp., an agency created in the federal bailout of savings and loans to take over and sell insolvent institutions, has filed a $1.1 billion civil racketeering suit against Lincoln and Keating.

Keating, through his lawyers, has denied all wrongdoing, and the senators have said that their actions constituted representation of constituents.



Charles H. Keating Jr.
Dealings with senators probed



Alan Cranston
Aide denies FBI contact

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~~ORANGE COUNTY REGISTER~~

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Wall Rejects Pressure to Quit as Top S&L Regulator

By ROBERT A. ROSENBLATT
TIMES STAFF WRITER

WASHINGTON—Embattled savings and loan regulator M. Danny Wall refused to resign Monday and said President Bush "wants to hear the other side of the story."

Bush said in an interview published Saturday that he is considering whether to dismiss Wall, who is under fire for his handling of the investigation of Lincoln Savings & Loan in Irvine.

But Wall, after testifying at a congressional hearing Monday, said the President "knows that one is innocent until proven guilty." He said he had acted properly in handling the case of Lincoln, which suffered a financial collapse that may ultimately cost the taxpayers $2 billion, making it the biggest single thrift failure.

"We knew far less than people think we did," said Wall, who rejected a recommendation by federal regulators in San Francisco in 1987 that the Federal Home Loan Bank Board seize Lincoln then. Instead, the bank board seized Lincoln in April of this year, after its losses had mounted substantially.

"We had insufficient basis to take the actions" sought by the San Francisco regulators, Wall said. He was chairman of the bank board then and is now chairman of its successor agency, the Office of Thrift Supervision.

The Lincoln issue has become politically explosive because of efforts by five senators, including Alan Cranston (D-Calif.), to intervene with federal officials on Lincoln's behalf.

Wall said Monday that Cranston's calls to him in 1987 and 1989 were "perfectly appropriate." In 1987, Wall said, Cranston urged a prompt decision on a pending regulatory review of Lincoln, and in 1989 Cranston asked for a rapid decision on whether the government would permit the sale of Lincoln to outside investors.

Senate Majority Leader George J. Mitchell (D-Me.) said Monday that the Senate Ethics Committee is conducting a serious inquiry into the actions of the five senators: Cranston, Donald W. Riegle Jr. (D-Mich.), John Glenn (D-Ohio), Dennis DeConcini (D-Ariz.) and John McCain (R-Ariz.).

All five senators received significant campaign contributions from Lincoln's owner, Charles H. Keating Jr., the Arizona financier who controlled Lincoln's parent firm, American Continental Corp. of Phoenix. The inquiry is designed to determine if the panel should conduct a full investigation of the five senators with the help of an outside counsel.

"The matter is being investigated," said Mitchell. "The fact that the Ethics Committee does not put out press releases does not mean that it is not investigating the matter very seriously."

All five senators have been asked by the committee to respond to the charges that they improperly influenced the federal regulators' dealings with Lincoln.

House Banking Committee Chairman Henry B. Gonzalez (D-Tex.), who has been holding hearings into the Lincoln debacle, has said Wall systematically misled the committee about the extent of the nation's failing S&L problem and mishandled his regulatory duties. He has asked the President to fire Wall.

Wall responded Monday that the committee has not yet given him a chance to provide his version of events. "Many questions should be asked and answered in a timely fashion," he said.

Wall is now scheduled to testify to the House Banking Committee next Tuesday. The hearings resume today with the testimony of Securities and Exchange Commission Chairman Richard C. Breeden, who will discuss his agency's inquiries into the activities of Lincoln and American Continental.

Wall's comments Monday followed an appearance before a special House Banking Committee task force that is monitoring the S&L bailout. The hearing dealt with the Resolution Trust Corp., the new agency created to shut down insolvent S&Ls and dispose of their assets such as real estate acquired when borrowers were unable to repay their loans.

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Senators Face Justice Dept. Probe of Lincoln Ties

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By RONALD J. OSTROW
and JAMES S. GRANELLI
TIMES STAFF WRITERS

WASHINGTON—The Justice Department is weighing whether it should open a preliminary inquiry to determine if five U.S. senators violated federal law by intervening with regulators on behalf of Lincoln Savings & Loan of Irvine, government sources said Tuesday.

The department's public integrity section, a unit of its criminal division, is examining the conduct of the senators in light of federal laws prohibiting bribery and obstructing proceedings before a federal regulatory agency, according to knowledgeable sources.

Department officials traditionally are cautious about even opening a preliminary criminal inquiry involving public officials. Knowledge of such investigations—even if no wrongdoing is eventually established—can be damaging to elected officeholders.

The five senators—Alan Cranston (D-Calif.), Dennis DeConcini (D-Ariz.), John McCain (R-Ariz.), John Glenn (D-Ohio) and Donald W. Riegle Jr. (D-Mich.)—have been accused by Edwin J. Gray, former chairman of the Federal Home Loan Bank Board, of trying to cut a deal on behalf of Lincoln in 1987.

The alleged intervention occurred two years before regulators seized the troubled thrift, and critics have claimed their involvement may have contributed to the delay. It will cost the government an estimated $2 billion to bail out Lincoln, making it the biggest thrift failure ever.

The senators accepted large political contributions from Charles H. Keating Jr., chairman of Lincoln's parent company, before meeting with savings and loan regulators. All five senators have denied trying to make a favorable deal for Keating.

Gray was questioned recently by FBI agents in a session that lasted most of a day, and his allegations constitute the major information under review in the Justice Department.

The former top thrift regulator has said that at one of the 1987 meetings, DeConcini asked him to withdraw a regulation that was hampering Lincoln's non-traditional business investments.

In return, according to information Gray provided the FBI, DeConcini signaled Keating's willingness to put more Lincoln money into traditional home loans.

The public integrity section's interest in the senators came to light as FBI agents from field offices in Los Angeles, Phoenix and Washington questioned current and former regulators about wide-ranging aspects of Lincoln's activities, according to some of those interviewed.

Mary Ellen Taylor, a former congressional relations director for the bank board, said FBI agents who questioned her last week were "interested in a lot of things, including the senators." She declined to be more specific.

Government sources said a decision to proceed with a preliminary inquiry, which would stop short of taking grand jury testimony, should not be interpreted as an indication that charges are likely to follow.

They noted, for example, the difficulty of distinguishing between providing of "normal constituent services" and illegally obstructing a proceeding before a U.S. agency.

At the same time, the sources said, a preliminary inquiry is likely because the failure to go that far could be seen as not fully examining suspicious activity by lawmakers. "This is receiving very, very heavy scrutiny," one source familiar with the matter said.

Please see SENATORS, D6

The FBI's inquiry also involves actions by Keating and Lincoln unrelated to the senators.

Agents have questioned William J. Crawford, commissioner of the California Department of Savings and Loan, about allegations that Keating paid some of his executives exorbitant salaries with the understanding that they would contribute a portion of their pay to political campaigns favored by Keating.

An American Continental spokesman said FBI agents had interviewed more than two dozen former corporate executives to see if they had been expected to contribute to politicians or if they had been subjected to any pressure to make such contributions.

None of the former employees acknowledged being pressured, the spokesman said, citing interviews the company conducted with those who talked to agents.

Rev. 5 8 81

Over Half of Lincoln S&L Reported Net Since '84 Said to Be From 'Sham' Deals

By Paulette Thomas
Staff Reporter of The Wall Street Journal

WASHINGTON—More than half of the profits reported by Lincoln Savings & Loan Association since it was acquired by Phoenix, Ariz., financier Charles Keating in 1984 were the result of "sham" transactions that were approved by the accounting firm of Arthur Young & Co., an independent accounting firm said.

Furthermore, Richard Breeden, chairman of the Securities and Exchange Commission, said Arthur Young auditors were "very unhelpful, very unforthcoming and very uncooperative in any shape, way or form" during an SEC investigation of alleged securities violations at Lincoln.

Details on Riegle's Role
New disclosures of Sen. Donald Riegle's involvement with Lincoln Savings clash with his claim that he was a bystander in the affair. Story on page A28.

The disclosures occurred during the House Banking Committee's fifth day of hearings on the spectacular demise of Lincoln, the costliest thrift failure ever. The S&L was seized by federal regulators in August, and it is expected to cost taxpayers $2.5 billion to protect depositors. The hearings have focused on why federal thrift regulators were so slow to seize the thrift and whether five U.S. senators who received substantial campaign contributions from Mr. Keating pressured regulators to go easy on the thrift.

At the hearing, officials of Arthur Young said the firm's audits of Lincoln, covering 1986 and 1987, were "responsibly and professionally done," and they said the firm and Lincoln had agreed to end their relationship. The officials added that they were restricted by Arizona law from releasing some information requested by the SEC.

A representative of Kenneth Leventhal & Co., Newport Beach, Calif., said Lincoln recognized $135 million in gains from 15 transactions that had been approved by Arthur Young, which has merged with Ernst & Whinney and is now called Ernst & Young. Lincoln's pretax profit since 1984 totaled $238.6 million.

"The transactions we analyzed were accounting-driven 'deals' created for the appearance of profits," said Roger Johnson, a partner in the firm, which has been retained by the federal agencies involved in the conservatorship of Lincoln.

Although the firm didn't analyze all of Lincoln's financial statements, the 15 transactions examined by Kenneth Leventhal all involved Lincoln's sales of real estate and related transactions to finance the sales. The deals, mostly involving empty desert in Arizona, were for amounts far above the appraised value of the land, he said, and provided Lincoln with paper profits that were passed up to its parent company, American Continental Corp.

As previously reported, Arthur Young's primary auditor of Lincoln, Jack Atchison, left the accounting firm to work for Mr. Keating at a salary of more than $900,000 a year. Before leaving Arthur Young, he sent three senators letters saying that Lincoln was a sound institution and that federal regulators were harassing Lincoln executives.

Executives of the accouting firm defended their performance and Mr. Atchison. "Even in view of subsequent events, we have no reason to believe that Mr. Atchison committed any impropriety while he was a partner at Arthur Young," said William Gladstone, co-chief executive officer.

Janice Vincent, regional director for Ernst & Young, said accounting firms aren't auditing to determine the safety and soundness of the firm, as a government examination would. "We audited the statements to see if they complied with generally accepted accounting principles." She said that all of them did.

Several committee members were appalled that the accounting principles appeared to be adhered to in form only. "I am stunned as I look at these transactions," said Rep. Jim Leach, (R., Iowa).

"I am no accountant, but you would have to bend over backward to say that these deals were okay," said Rep. Charles Schumer (D., N.Y.).

Other allegations of influence-peddling by Mr. Keating emerged in the hearing. Mr. Breeden said Barbara Thomas, a former SEC commissioner appointed by President Carter, had called the SEC to act as a "character witness" for Mr. Keating during the SEC's investigation. Henry Gonzalez, chairman of the banking committee, said his staff's investigation showed that Ms. Thomas has received a $250,000 loan from Mr. Keating with "unusal payback provisos," including delayed payment of interest. Ms. Thomas couldn't be reached for comment.

Mr. Breeden also said he is doubling the commission's staff investigating possible securities fraud at Lincoln, based in Irvine, Calif., and American Continental based in Phoenix. He declined to disclose the status of the inquiry or how many members had been assigned to it.

Also during the hearing, the committee heard from four investors who acquired subordinated debt of American Continental at Lincoln's offices. All said they were under the impression—and testified of being told explicitly—that they were purchasing federally insured certificates of deposit. Roughly $300 million of the bonds were sold, and all have been relegated to the unsecured creditors in American Continental's bankruptcy-law case. The company filed for bankruptcy-law protection from creditors in August.

"We were targeted, and we fell for it," said Shirley Lampel, a retired widow. More than half of the holders of the bonds were over age 60.

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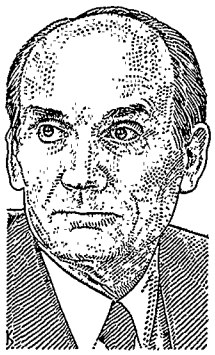
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At Garn Institute, S&L Executives Get To Rub Shoulders With U.S. Regulators

By PAULETTE THOMAS
Staff Reporter of THE WALL STREET JOURNAL

KEY LARGO, Fla.—While the ethics spotlight is glaring on five U.S. senators caught up in the burgeoning Lincoln Savings & Loan Association scandal, Sen. Jake Garn of Utah is quietly taking part in a subtle form of influence peddling.

The Garn Institute of Finance, established as a think tank, has also become a magnet for S&L money and schmoozing—not to mention a political power base and rare memorial to a sitting U.S. senator. Founded at the University of Utah three years ago, it has amassed more than $2.5 million from the industry, all the while giving industry executives access to congressmen, Capitol Hill staff members and regulators.


Sen. Jake Garn

The Garn Institute's activities, for the most part, are conducted in the open. No one suggests that Sen. Garn or the institute has tried to protect contributors from regulators, as the five other senators are alleged to have done in connection with Lincoln and with its chairman, Charles Keating Jr.

Mr. Garn, the ranking Republican on the Senate Banking Committee, says he doesn't even know who contributes the money, even though the contributors are listed on the institute's official literature. "I don't sit down and read that stuff," he says. He adds that the extent of his involvement is fund-raising in a "general way" in the course of giving speeches on behalf of the institute. He doesn't profit from it, he says.

The institute makes little secret of its matchmaker roles between regulators and the regulated. Contributors to the institute are entitled to "take part in one-on-one discussions with government policy-makers and other leaders," according to the institute's official literature.

That up-close-and-personal access to leading government officials was evident during a recent three-day conference in the sun and surf here. Thrift owners, managers and lawyers, all paying their own way, hobnobbed in conference rooms, bars and on golf courses with government officials, many flown in, housed and fed as "fellows" on the institute's tab.

In the outside world, confusion is rampant over the kinds of bailouts and asset sales the government will be conducting. But alumni of the Garn weekend got more than two hours of briefings from William Roelle, for instance, who is presiding over billions of dollars in sales of sick thrifts as an official of the newly created Resolution Trust Corp. Better still, industry brokers and lobbyists from Washington to Wall Street got the chance to state views on policies that will vitally affect their clients.

For a briefing called "Mortgage Markets in the 1990s," what could be better than listening to the top officials of Freddie Mac (the Federal Home Loan Mortgage Corp.) and Fannie Mae (the Federal National Mortgage Association), the leading mortgage underwriters in the U.S.

Some presentations are strictly for paying attendees. Press coverage is far from encouraged; some sessions are specifically proclaimed to be "off the record," for the benefit of paying guests only.

Last March, the institute threw a $500 a plate fund-raising dinner, attended by Richard Breeden, now the Securities and Exchange Commission chairman, who was then the White House point man on the S&L bailout. Also attending was Kevin Gottlieb, the influential chief of staff of the Senate Banking Committee. Dozens of industry officials and lobbyists bought plates, happily getting the ears of the officials determining the course of the landmark S&L law, the biggest financial overhaul since the 1930s.

Participation in Garn Institute functions is open to contributors, of which the institute has many from the thrift industry. They include Thomas Spiegel, chief executive officer of junk-bond thrift Columbia Savings of Beverly Hills, Calif., who has contributed $100,000 and who sits on the institute's board of trustees. There's also David Paul, chairman of Centrust Savings Bank of Miami, which was recently forced by Florida banking regulators to sell its $28 million Old Masters art collection.

Thomas Vartanian, a former counsel to the Federal Home Loan Bank Board who has earned millions getting transactions approved by the regulators, is vice chairman of the institute's board; his firm—Fried, Frank Harris, Shriver & Jacobson—has also contributed more than $100,000. Drexel Burnham Lambert Inc., which recently pleaded guilty to violating securities laws, is another $100,000 donor.

Mr. Keating, who presided over the costliest thrift failure ever, has contributed at least $25,000. Unlike most industry executives, he openly acknowledges that he contributes to such causes because he wants to exert influence.

None of this means that contributors get what they want. Indeed, far from being influenced by Mr. Keating's donation to the institute, Sen. Garn opposed a candidate to the Bank Board Mr. Keating backed and instead saw to it that his own former staff director, Danny Wall, was appointed.

Even this year's gathering at the Ocean Reef club here was far more somber than a year ago, when participants were consumed with the then-pending S&L bailout bill. At the final session last year, Mr. Vartanian, the industry attorney, wound up the conference entreating members for greater financial support. This year, by contrast, Richard Pratt, a former thrift regulator who is now chairman of Merrill Lynch Mortgage Capital Inc., closed the proceedings by asking attendees only for their "intellectual support."

"I think we are, perhaps properly, in a period of maximum anger and frustration within the industry, within Congress, within the administration," Mr. Pratt said. "I thought it was more appropriate to ask for moral support and intellectual support at this moment."

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New Disclosures of Riegle's Lincoln Role Suggest He Was More Than a Bystander

By Brooks Jackson
Staff Reporter of The Wall Street Journal

WASHINGTON—New details of Senate Banking Committee Chairman Donald Riegle's involvement with Lincoln Savings & Loan Association emerged, clashing with his claim that he was a bystander in the affair.

The latest disclosure is that the Michigan Democrat took a helicopter tour of the highflying thrift's Arizona real-estate empire in 1987—remarking, "I like what I see here"—around the time he was getting a briefing on Lincoln's grievances and discussing the case with regulators. It also has come to light that the senator last month denied to the Senate Ethics Committee that he initiated any contact with federal regulators, a statement that seems to conflict with recent testimony.

Both the Senate Ethics Committee and the Justice Department are looking into complaints that Sen. Riegle and four other senators may have acted improperly in 1987 by pressing Lincoln's case with regulators who were trying to rein in what they viewed as Lincoln's wild speculation.

Lincoln stayed open for two more years but ultimately collapsed in what may be the most expensive S&L failure to date, with losses estimated as high as $2.5 billion. Its principal owner, Charles Keating, arranged $1.4 million in political donations for the five senators. That included $76,100 for Sen. Riegle's 1988 re-election campaign, money he returned last year after it drew unfavorable publicity.

Sen. Riegle has portrayed himself as a bit player in the Lincoln affair, claiming that the other four senators invited him to a single meeting with thrift examiners because of his banking expertise. Indeed, he wrote to the Ethics Committee on Oct. 18, saying, "At no time did I ever initiate any contact with the regulators concerning Lincoln."

But Sen. Riegle had discussed Lincoln with Edwin Gray, then chairman of the Federal Home Loan Bank Board, on March 6, 1987, just before the senator's visit to Phoenix. Mr. Riegle last week issued a statement conceding the fact of the meeting after Mr. Gray testified in House Banking Committee hearings that Sen. Riegle was the first to contact him about Lincoln.

Yesterday, Mr. Riegle's office refused to furnish a copy of the letter to the Ethics Committee, but the Detroit News supplied a copy that the senator had provided. A Riegle aide declined to comment when asked to explain the apparent conflict between Mr. Gray's testimony and the denial in the senator's letter.

The senator issued a statement confirming his 1987 visit to the Phoenix headquarters of Lincoln's parent, **American Continental** Corp. The incident was disclosed by the American Banker, which also portrayed the senator as expressing an intent to deal with Mr. Gray about Lincoln's controversial real-estate holdings. Quoting an unnamed Lincoln official, the newspaper said Sen. Riegle remarked, "I like what I see here. I can reason with Ed Gray." At the time, thrift examiners were disputing the valuation of some of the properties by Lincoln, based in Irvine, Calif.

A Riegle aide wouldn't confirm or deny that he had made the remark, but a spokesman for American Continental gave at least partial confirmation: "It's my understanding that Riegle's comments went like this: 'I have a background as an economist. I understand what I see, and I like what I see here.' " The spokesman, Bradley Boland, said he couldn't confirm that Sen. Riegle spoke of reasoning with Mr. Gray, but said, "I bet he did."

Sen. Riegle now confirms that he met on Feb. 26, 1987, with an American Continental official and with Lincoln's outside auditor, Jack Atchison, then with the Arthur Young accounting firm, to discuss the S&L's bitter dispute with federal regulators. Mr. Gray testified that on March 6 the senator told him that "the senators out in Arizona were quite concerned about the Bank Board's regulation of Lincoln Savings. He said he thought it would be a good idea for me to go and talk with them."

On April 2, Mr. Gray met alone with the four other senators, Dennis DeConcini (D., Ariz.), John McCain (R., Ariz.), Alan Cranston (D., Calif.) and John Glenn (D., Ohio). And on April 9, the five senators met with examiners from San Francisco, who told them that Lincoln was "a ticking time bomb" and that the examiners had asked the FBI to investigate indications that documents had been fabricated. Sen. Riegle says that after that he didn't have any further contact with regulators about Lincoln.

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Justice Dept. Weighs Probing Senators' Lincoln S&L Ties

By RONALD J. OSTROW and JAMES S. GRANELLI
TIMES STAFF WRITERS

WASHINGTON—The Justice Department is weighing whether it should open a preliminary inquiry to determine if five U.S. senators violated federal law by intervening with regulators on behalf of Lincoln Savings & Loan of Irvine, government sources said Tuesday.

The department's public integrity section, a unit of its criminal division, is examining the conduct of the senators in light of federal laws prohibiting bribery and obstructing proceedings before a federal regulatory agency, according to knowledgeable sources.

Department officials traditionally are cautious about even opening a preliminary criminal inquiry involving public officials. Knowledge of such investigations—even if no wrongdoing is eventually established—can be damaging to elected officeholders.

The five senators—Alan Cranston (D-Calif.), Dennis DeConcini (D-Ariz.), John McCain (R-Ariz.), John Glenn (D-Ohio) and Donald W. Riegle Jr. (D-Mich.)—have been accused by Edwin J. Gray, former chairman of the Federal Home Loan Bank Board, of trying to cut a deal on behalf of Lincoln in 1987.

The alleged intervention occurred two years before regulators seized the troubled thrift, and critics have claimed their involvement may have contributed to the delay. It will cost the government an estimated $2 billion to bail out Lincoln, making it the biggest thrift failure ever.

The senators accepted large political contributions from Charles H. Keating Jr., chairman of Lincoln's parent company, before meeting with savings and loan regulators. All five senators have denied trying to make a favorable deal for Keating.

Gray was questioned recently by FBI agents in a session that lasted most of a day, and his allegations constitute the major information under review in the Justice Department.

The former top thrift regulator has said that at one of the 1987 meetings, DeConcini asked him to withdraw a regulation that was hampering Lincoln's non-traditional business investments.

In return, according to information Gray provided the FBI, DeConcini signaled Keating's willingness to put more Lincoln money into traditional home loans.

The public integrity section's interest in the senators came to light as FBI agents from field offices in Los Angeles, Phoenix and Washington questioned current and former regulators about wide-ranging aspects of Lincoln's activities, according to some of those interviewed.

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Government sources said a decision to proceed with a preliminary inquiry, which would stop short of taking grand jury testimony, should not be interpreted as an indication that charges are likely to follow.

They noted, for example, the difficulty of distinguishing between providing of "normal constituent services" and illegally obstructing a proceeding before a U.S. agency.

At the same time, the sources said, a preliminary inquiry is likely because the failure to go that far could be seen as not fully examining suspicious activity by lawmakers. "This is receiving very, very heavy scrutiny," one source familiar with the matter said.

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State Legislature's role in S&L scandal needs examination

State legislative committees are conducting their usual quota of "interim hearings" while the Legislature is in recess, mostly dealing with relative trivia.

There is, however, a need for legislative examination of one urgent issue:

The role that state officials played in the collapse of Lincoln Savings and Loan, the biggest U.S. thrift failure and one fraught with official malfeasance.

The House Banking Committee is doing an admirable job of delving into the Lincoln mess in a series of Washington hearings.

But, understandably, those hearings concentrate on federal regulators and influence from a quartet of U.S. senators, including Alan Cranston, D-Calif.

California legislative banking committees have dipped into the Lincoln mess only cautiously.

They should move more boldly into the affair while memories are fresh and witnesses are willing, exploring what state savings-and-loan and corporate regulators did and didn't do during the critical months preceding Lincoln's collapse.

Lincoln's owner, Charles Keating, contributed heavily to state Republican Party treasuries and the campaign fund of George Deukmejian, governor of California.

His interests were being represented before state regulators by Karl Samuelian, who was Deukmejian's friend, political adviser and chief political fund-raiser.

Specifically, legislative committees should examine these areas:

— Passage in 1982 of Lincoln-sponsored legislation that loosened investment authority on state-chartered institutions.

The legislation was carried by Assemblyman Patrick Nolan, R-Glendale.

— The successful effort by Nolan and others in 1985 to block state regulators' plans to curtail risky lending practices that had been authorized by Nolan's bill.

Nolan has received heavy campaign contributions from Lincoln and its parent company, American Continental Corp.

— Actions by Lawrence Taggert, Deukmejian's former savings and loan commissioner.

Taggert has testified that in 1984 he gave Lincoln permission to shift $800 million in assets to subsidiary firms, three days before a federal regulation would have barred such a move.

At the time he made that decision, Taggert had already accepted a job with TCS Financial, a San Diego investment firm that subsequently received an infusion of nearly $3 million cash from Lincoln.

Corporate records say Taggert was already a director of TCS when he made the decision favorable to Lincoln.

The firm, which was undergoing financial difficulties when it received the Lincoln money, is headed by Thomas Stickel, a prominent Republican fund-raiser.

— The role that Samuelian played in inhibiting state regulation of Lincoln and its subsidiary operations.

Samuelian personally represented Keating and American Continental in March 1988 as they sought state Department of Corporations approval for selling unsecured, uninsured junk bonds through Lincoln.

Those bonds became worthless when the firms declared bankruptcy.

Samuelian made his pitch for approval of the bonds — which were cleared — to Christine Bender, the California state corporations commissioner, who had been a member of the Samuelian law firm.

She had succeeded Franklin Tom, who had returned to a position with the Samuelian firm and who also represented Keating's interests before Bender.

In approving the bonds, Bender ignored a staff warning about their financial viability.

— What occurred two years ago when Samuelian interceded with the state Department of Savings and Loan as the agency was planning to impose a strict limit on Lincoln's high-flying real estate investments.

S&L Commissioner William Crawford says he withdrew the investment-restriction order after the firm, through Samuelian, promised to voluntary cut back on the risky investments — a promise it failed to keep. Had the order been issued, the scale of Lincoln's losses would have been much smaller.

Samuelian and a Lincoln executive met with Crawford in late 1987 to temper the order.

A 1988 Federal Home Loan Bank Board memo, outlining Lincoln's failure to comply with its promise, noted that Lincoln's legal counsel was a top political adviser to Deukmejian and said that before Crawford's order was withdrawn in favor of the promise, "Lincoln attempted to get the commissioner and his top aide fired."

The Lincoln business stinks, and the California state Legislature has an obligation to get to the bottom of it.

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Keating Pressured State Officials to Lay Off, Memo Says

By PAUL JACOBS
and RALPH FRAMMOLINO
TIMES STAFF WRITERS

SACRAMENTO—Complaining that California regulators were being too tough, Charles H. Keating Jr. personally met several times from 1985 to 1988 with top Deukmejian Administration regulators in an attempt to get them to ease up on his faltering thrift, Lincoln Savings & Loan.

The meetings were part of a campaign by Keating and his associates to exert pressure on state officials at a time when state regulators were trying to clamp down on Lincoln's high-risk investments and federal officials were taking the first tentative steps toward an eventual takeover of the savings and loan.

When Keating failed to get his way in Sacramento, Lincoln tried to get the state savings and loan commissioner and his top deputy fired, according to a February, 1988, memo prepared by the Federal Home Loan Bank Board's San Francisco office.

"We just felt the heat at the back of our necks," state Savings and Loan Commissioner William J. Crawford said on Thursday, referring to his meetings with Keating. But Crawford said he had no knowledge of attempts to fire him.

Keating also sent the governor's top fund-raiser, Los Angeles attorney Karl Samuelian, to meet with Crawford in early 1987 "to lobby on behalf of Lincoln," according to the memo. Samuelian was hired to represent both Lincoln and and its parent company, American Continental Corp. The meeting occurred shortly after Deukmejian's successful 1986 reelection campaign, to which Keating and his associates contributed nearly $200,000.

The governor has previously said that he met Keating only once, at a luncheon during the campaign. Deukmejian said he had no knowledge of what Keating was seeking from state regulators.

Deukmejian's press secretary, Kevin Brett, said Thursday that neither Keating nor Samuelian met with the governor's personal staff to discuss Lincoln's difficulties. Brett said he was not aware of any effort by Lincoln officials to have Crawford fired. "If there were, it was obviously unsuccessful, because Bill Crawford is on the job."

ce Belo

Keating, a blunt-talking Arizona business executive, was chairman of Lincoln's parent company, American Continental, which declared bankruptcy in April of this year. The day after the collapse of American Continental, federal regulators took control of Lincoln—an action that may cost the nation's taxpayers more than $2 billion, the largest bailout ever of a savings and loan.

Despite the objections of Crawford and his staff, the State Department of Corporations approved the sale of more than $200 million in high-risk bonds by American Continental. The bonds were sold through Lincoln branches to about 22,000 individuals, many of them retirees who now stand to lose all their investments.

In addition to the sale of bonds, Crawford said on Thursday that he was concerned with Lincoln's heavy reliance on land purchases and other risky investments almost from his first day in office. Within months of taking over the post in February, 1985, Crawford said he had his first of three or four meetings with the Arizona-based financier.

In those meetings, Keating argued against plans by Crawford and his top deputy, William D. Davis, to limit the thrift's reliance on shaky investments, the regulators said. The state officials, who are based in Los Angeles, eventually began to question the value and profitability of many of Lincoln's holdings.

"Keating knew what our attitude was and started appealing to Sacramento," Davis said.

In February and March of 1988, Keating met with Crawford's boss—state Business, Transportation and Housing Secretary John K. Geoghegan.

"Keating was complaining about overzealous regulators," Geoghegan said in an interview. "Crawford was pushing him back. Keating was asking us to approve all his future deals. . . . He wasn't a guy who belonged in a regulated industry, because he didn't like people telling him what to do."

Geoghegan said he did nothing to interfere with the regulators. "First, we don't have the power to do anything about a decision [by the regulators] and secondly, it's my philosophy not to interfere."

The meetings with Geoghegan followed an October, 1987, Crawford directive ordering Lincoln to "refrain from future investments in land and land loans and . . . refrain from future construction loans in excess of $500,000," according to the Federal Home Loan Bank Board memo.

After Lincoln formally agreed to comply with the restrictions, Crawford said, the directive was withdrawn, Crawford said.

Crawford's attempts to harness Lincoln angered the thrift's officials. "After the California Commissioner [Crawford] imposed a directive on Lincoln, Lincoln attempted to get the Commissioner and his top aide fired," the federal memo said.

The federal official who drafted the memo, the bank board's San Francisco supervisory agent, J.M. Cirona, refused to elaborate on the allegation Thursday.

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Keating, associates fired from Phoenix jobs

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By Lisa Morrell and Andy Hall
Arizona Republic

PHOENIX — Before dawn Thursday, more than 50 federal thrift managers, FBI agents and private security guards ousted Charles H. Keating Jr.'s regime from their "haven of peace" at The Phoenician resort and the Crescent Hotel.

The action by the Federal Deposit Insurance Corp. broke Keating's last hold on his Lincoln Savings and Loan, which regulators seized in April. A Lincoln subsidiary owns a majority stake in the hotels.

In other action:

■ It was reported that Sen. Alan Cranston's top banking-affairs aide took a trip partly paid for by Keating within a week after Cranston first interceded with federal regulators on behalf of Lincoln.

■ The federal savings-and-loan regulators accused of delaying Lincoln's takeover for two years struck back at the nation's top securities regulator, who criticized their handling of the collapse.

Keating and 23 employees were fired from their jobs at The Phoenician resort, a 605-room golf, tennis and spa complex sunk into Camelback Mountain in Phoenix, and from the 344-room Crescent Hotel in north Phoenix. The hotels employ about 1,500 people.

The fired employees included Keating's wife, Mary Elaine Keating, two daughters and two sons-in-law.

Keating drew no salary as manager of the Phoenician, but he continues to receive a $500,000-a-year salary as chairman of American Continental Corp. of Phoenix, Lincoln's former owner. He is scheduled to testify Tuesday before the House Banking Committee in its investigation of the $2 billion collapse of Lincoln.

After Keating's Kuwaiti partners in the hotels agreed to the management coup, about a dozen federal officials and more than 40 support personnel entered The Phoenician at 1:30 a.m. Thursday.

They sealed off "sensitive" areas, such as the control room for computer operations and the executive offices, said Herbert Chin, a government official who is overseeing the management change. Locks were changed on the office doors, including those of fired employees.

Messengers delivered letters to the homes of the fired employees at about 2 a.m. Thursday, telling them they no longer had jobs. The employees were Keating family members or transplanted American Continental workers who "are not professional hotel people," Chin said.

A. Melvin McDonald, an attorney for American Continental, said Keating spent many of his days at The Phoenician, working on business matters. He said the loss of the hotels would hurt Keating.

"There's no question that was his life," McDonald said. "He loved that resort. That was to he and his family a haven of peace. It was a culmination of a dream. Every feature, every touch there, embodied their creativity."

McDonald lambasted the federal officials' tactics. "Rather than go like gentlemen in the middle of the day, they went like storm troopers in the middle of the night.

"It was literally a coup d'etat."

Mark Randall, managing agent for the FDIC which oversees Lincoln, said the timing was chosen because "both hotels are full and our primary concern in doing this was to minimize disruption to the patrons of the hotel."

Meanwhile, Knight-Ridder Newspapers reported that Cranston aide Carolyn D. Jordan took a trip partly paid for by Keating within a week after the senator first contacted federal regulators in 1987 on Lincoln's behalf.

In March, Jordan said urged California Savings and Loan Commissioner William Crawford to support Keating's last-ditch proposal to sell Lincoln, according to state officials.

The Senate ethics committee and the Justice Department are reportedly ready to open a formal investigation of the actions of Cranston and four other senators who met with regulators on Keating's behalf. Keating generated about $1.4 million in contributions to the senators and their favorite causes.

The other senators involved are Dennis DeConcini, D-Ariz.; Donald Riegle, D-Mich.; John McCain, R-Ariz.; and John Glenn, D-Ohio.

Jordan's 1987 trip from Washington to Phoenix was taken with Cranston's approval, the senator said through a spokesman.

The timing of the trip followed almost immediately the beginning of what became a two-year campaign of lobbying federal regulators by Cranston on Keating's behalf.

Jordan said her trip was arranged by James Grogan, a former aide to Glenn, who has served as Keating's top lobbyist on Capitol Hill. It was Grogan who delivered $200,000 from Keating's corporation to a campaign fund controlled by Glenn.

Records filed by Jordan last year with the Senate ethics committee show the lodging for her eight-day trip was paid by Keating's American Continental Corp. — the parent firm of his S&L.

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FBI (Rev. 5-8-81)

Ethics Panel to Conduct Cranston Investigation

...le counsel to be appointed over ...fluence peddling by senators.

By SARA FRITZ
TIMES STAFF WRITER

WASHINGTON—The Senate Ethics Committee will appoint an outside counsel to investigate allegations of influence peddling against Sen. Alan Cranston (D-Calif.) and four other senators who ...ilators ...ngs & Loan after receiving campaign donations from the owner of the Irvine thrift, sources said Thursday.

The panel is believed to have settled on Robert S. Bennett, a Washington attorney who specializes in white-collar crime, to head the investigation of charges filed against the five senators by Common Cause, the citizens' lobby.

The other four senators are Dennis DeConcini (D-Ariz.), John McCain (R-Ariz.), John Glenn (D-Ohio) and Donald W. Riegle Jr. (D-Mich.).

Bennett, 50, is expected to meet with the committee members today to make final plans for the inquiry. He has served as special counsel in two previous investigations of senators—the 1981 probe of then-Sen. Harrison H. Williams (D-N.J.) and a pending inquiry into the book-publishing activities of Sen. Dave Durenberger (D-Minn.). He is the older brother of William J. Bennett, director of the White House Office of Drug Control Policy.

■ **KEATING OUSTED**
Regulators ousted Charles H. Keating Jr. from the management of two Arizona hotels. D5

Born in Brooklyn, N.Y., Bennett received a law degree from Georgetown University and a master's degree in law from Harvard. He represented Boeing Co. earlier this week when it pleaded guilty to two felony charges of trafficking in secret Pentagon planning documents.

The Senate Ethics Committee's decision to conduct a full-blown investigation headed by an outside counsel is a major setback for Cranston, who had hoped that the charges against him would simply be dismissed on the basis of the legal defense that he had filed with the committee Thursday.

Cranston, who is assistant majority leader of the Senate and has served in the chamber 21 years, is accused of intervening improperly in 1987 along with the four other senators in an investigation by federal regulators of Lincoln. The Irvine thrift is owned by Charles H. Keating Jr., who had contributed about $1.3 million to campaigns and other causes supported by the senators.

On Thursday, Cranston's aides acknowledged for the first time that the senator's top adviser on banking matters, Carolyn D. Jordan, took a trip paid for partly by Lincoln a week after the senator first intervened for the thrift. Jordan also lobbied California Savings and Loan Commissioner William J. Crawford on behalf of Lincoln.

But in a letter and a 16-page legal brief filed with the Ethics Committee, Cranston insisted that he did nothing illegal or improper when he, along with the four other senators, contacted federal regulators on behalf of Keating.

He also denied that his actions were in any way responsible for an estimated $2 billion in losses to the federal government caused by the collapse of Lincoln or for the personal financial losses suffered by 24,000 people—many of them elderly Californians—who invested in uninsured junk bonds sold at Lincoln branch offices. The bonds are now worthless.

"I am not responsible for loss of taxpayer funds through a delay in shutting down Lincoln or the losses of innocent California bond investors," Cranston said.

He said that his efforts on Lincoln's behalf never exceeded what a member of Congress can legally do for a constituent who is at odds with the government. Nor, he said, did Keating have any reason to believe that the senator was paying off a debt to him for his campaign donations.

Cranston noted that he never benefitted personally from Keating's largess, which would have violated the law.

Although Cranston was responding officially to charges of influence peddling pending before the Senate committee, the 16-page document written by his attorney, William W. Taylor III, focused heavily on allegations that have arisen in recent House Banking, Finance and Urban Affairs Committee hearings into the Lincoln affair.

In fact, he devoted 3½ pages of his legal brief to disputing a charge by Edwin J. Gray, former chairman of the Federal Home Loan Bank Board, that Cranston's efforts on behalf of Keating were "worse than anything Jim Wright did." Former Speaker Wright was forced to resign from Congress earlier this year after a year-long investigation in which he was found to have violated House ethics rules.

One of the charges against Wright was that he intervened improperly with the bank board, which supervised savings and loans, on behalf of the owners of several Texas thrifts. Wright eventually was cleared of any ethics violations involving the thrifts.

Even so, Gray said that Wright's

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alleged intervention was comparable to Gray's meeting in April, 1987, with Cranston and three others senators who were seeking better treatment by the regulators for Keating.

"Sen. Cranston's alleged 'intervention' with Chairman Gray is not even remotely comparable to that for which the committee exonerated the Speaker," Taylor wrote.

He noted that Wright had been accused of seeking "specific regulatory results" from the bank board, of trying to get rid of a regulator on grounds he was homosexual, of trying to arrange special deals for constituents and of trying to delay the seizure of an insolvent savings and loan.

Although the charges against Wright were much more serious than those against Cranston, he added, they were dismissed by the House Ethics Committee on grounds that a member of Congress has a right to intervene in such matters.

Indeed, Cranston's attorney cited the decision in the Wright case as proof that his client did nothing illegal or improper by asking the bank board to expedite the investigation of Lincoln, which claimed that it was being harassed by the regulators. He said that Cranston would still be innocent even if he had specifically asked the bank board to go easy on Lincoln.

He cited a Supreme Court decision saying that it is within the rightful duties of a senator to "cajole and exhort" the executive branch regarding the enforcement of laws.

To underscore this point, Cranston listed three occasions on which he had intervened with federal agencies on matters involving immigration, the Legal Services Corp. and the semiconductor industry. In only one of the three cases did he receive campaign contributions from the interested parties, he said.

"The fact that a constituent who requests a senator's help is subsequently accused or indeed convicted of violations of the law does not suggest that a senator acted improperly," he wrote.

Cranston's legal brief also disputed the testimony of three elderly California women before the House Banking Committee earlier this week. The three had said that they held Cranston personally responsible for the loss of their life savings as a result of investments in bonds issued by Lincoln's parent company, American Continental Corp.

He noted that even Gray, whom he called a "discredited former bureaucrat," acknowledged in testimony before the House committee that the actions of the five senators did nothing to deter him from investigating Lincoln.

Although Cranston received $35,000 in campaign contributions raised by Keating and solicited an additional $850,000 from him for voter registration organizations, there is no evidence that he pocketed any money.

"When it is all said and done," Taylor's brief concluded, "the critical and undisputed fact is that Sen. Cranston received no personal gain from Charles Keating or any organization he owned or controlled."

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LOS ANGELES

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KEATING

The man behind Lincoln Savings

By Nathaniel C. Nash and Philip Shenon
THE NEW YORK TIMES

WASHINGTON — To his critics, Charles H. Keating Jr., the Phoenix financier who built and lost the Lincoln Savings and Loan Association, represents all that is wrong with a political system in which wealth grants access and influence.

To his defenders, Keating is simply a hard-driving entrepreneur who is being made the fall guy for the savings industry's plight.

But there is no dispute that Keating has become the central figure in the savings and loan crisis, a breakdown stemming from lax regulation and speculative excess.

The federal bailout of the industry will cost taxpayers more than $100 billion over the next decade.

Lincoln's collapse alone will cost at least $2 billion.

Keating has never minced words about using political influence in defense of his financial interests.

"One question, among many raised in recent weeks, had to do with whether my financial support in any way influenced several political figures to take up my cause," he told reporters in April.

He spoke after federal regulators had taken over Lincoln, with its $6 billion in insured deposits, almost $4 billion of which went to speculative investments in real estate and junk bonds.

"I want to say in the most forceful way I can: I certainly hope so."

Keating has become the central figure in an unfolding Capitol Hill drama in which he stands accused of fraud and making illegal loans.

And members of Congress, many of whom have been the recipients of his largess, are left deeply embarrassed.

From inquiries by the committee and by federal and state regulators into Keating's dealings, from an interview last summer with Keating (he declined, through a lawyer, to be interviewed for this story) and from the accounts of both friend and foe, an intricate picture emerges of the man and his

For his part, Keating proclaims his innocence, denying any wrongdoing, saying that if you do not have money, your chances of being heard are greatly reduced.

Influence is the way the political system works, and he intends to use it, he says.

Yes, he agrees, enormous losses are imbedded in Lincoln.

But if regulators had permitted him to continue to operate the savings and loan, he could have earned his way out of the hole, he says.

By all accounts, he was a frenetic and effective advocate for his business interests — here distributing campaign funds, there offering a former chairman of the Federal Home Loan Bank Board a job or pushing the Reagan administration to appoint one of his business associates to the bank board.

Keating was over a period of years almost a ubiquitous presence in Washington and at the state and local level.

Regulators maintain that the contributions came almost entirely from the federally insured deposits of Lincoln Savings.

They have accused him of literally looting Lincoln for his own personal gain and have referred the case to the Justice Department for a possible criminal investigation.

Separate inquiries

The Securities and Exchange Commission, the Internal Revenue Service and the FBI are also conducting inquiries.

And though in the end the

whom Keating had contributed $1.3 million did not halt the government takeover of Lincoln Savings on the morning of April 14, his contributions were successful in delaying the process almost two years, driving up the ultimate cost of the failure.

Friends and employees call Keating, 66, shy, moral and devout.

Many in Phoenix, where he still runs the lavish Phoenician Hotel, remain faithful.

In a surprisingly candid statement, Keating said he found out in early April that regulators were going to move in and commandeer Lincoln.

In an effort to shield as many of Lincoln's assets as possible from the government, he put American Continental Co., Lincoln's parent company, and almost a dozen Lincoln subsidiaries into bankruptcy, where they are protected by the courts from the reach of regulators.

Ongoing battle

But the crisis at Lincoln and his ongoing battle with regulators has beaten him down, he said.

"It's ruined me and my family," he said last summer.

The regulators "have taken everything that I have, my family has."

He said: "If Lincoln and American go down, there is nothing left for me. I have every nickel I have tied up in this thing."

A thin 6-foot 5-inch former Olympic swimmer, Keating has his roots in a prominent Cincinnati family.

A lawyer by training, and with good Republican connections, Keating came to national attention in September 1970, when as President Richard Nixon's sole appointee to the Federal Commission on Obscenity and Pornography he successfully sued to block publication of its report until he had finished a dissenting report.

The commission's report said pornography was probably not harmful to society, and any laws passed to limit its use were

Going to court

Taking his causes to court became a Keating hallmark. That same month, he sued to block the performance in a Cincinnati theater of the erotic play "Oh, Calcutta."

Later, Keating was one founder of Citizens for Decency Through Law. He continues to contribute heavily to antipornography groups.

It was also in the 1970s that Keating became right-hand man to Carl H. Lindner, the Cincinnati takeover artist.

As Lindner was amassing vast holdings, Keating rose to become executive vice president of Lindner's American Financial Corp.

It was at American Financial that Keating had his first major run-in with regulators.

Both men charged

In 1979, after a three-year investigation, the Securities and Exchange Commission charged Lindner and Keating with using company funds for their personal benefit, including making large preferential loans to Keating's family and others.

Both men, without admitting or denying guilt, agreed to a consent order not to violate securities laws.

They had already parted ways. By that time, Keating had bought Lindner's struggling real estate development company in Phoenix for $300,000, which became the basis for American Continental.

As American Continental was becoming a major real estate developer, Keating began seeking to buy a saving and loan association — primarily, he said in the July interview, to take advantage of the Reagan-era deregulatory environment.

With federal regulations rolled back, states loosened their regimes even more. In California a savings and loan owner could take all insured deposits and channel them into investments far riskier than home mortgages.

'Junk bonds'

In 1984, Keating bought Lincoln Savings for $51 million and began using Lincoln deposits to buy high-risk "junk bonds" to finance the development projects of American Continental, one of which was the $250 million Phoenician Hotel.

(Federal regulators Thursday fired Keating as manager of the Phoenician, a 605-room golf, tennis and spa complex carved from the Arizona desert near Scottsdale, as well as from posts at the 344-room Crescent Hotel in Phoenix. Keating's continuation as manager of the Phoenician had particularly galled members of the House Banking Committee.)

"We looked around and saw that California had deregulated the S&L industry in a way we felt was the salvation of the industry, so we bought Lincoln," Keating said.

"We declared from the beginning our intention to operate Lincoln in a non-traditional manner."

But almost immediately Keating ran into problems with Edwin J. Gray, then chairman of the Federal Home Loan Bank Board, who had begun a big push to limit the direct investments by the savings industry in real estate projects to only 10 percent of an institution's assets, arguing that a rash of such investments had left scores of institutions insolvent.

High gear

Keating went into high gear, hiring, among others, Alan Greenspan, then a private economist and now chairman of the Federal Reserve Board, to do a study that concluded that direct investments were not jeopardizing industry stability.

Greenspan wrote the Federal Home Loan Bank of San Francisco in February 1985, supporting an application by Keating for an exemption for Lincoln to the 10 percent rule, saying, "I believe Lincoln Savings and Loan has demonstrated that it has the adequate capitalization, sound business plan,

managerial expertise and proper diversification" to merit an exemption.

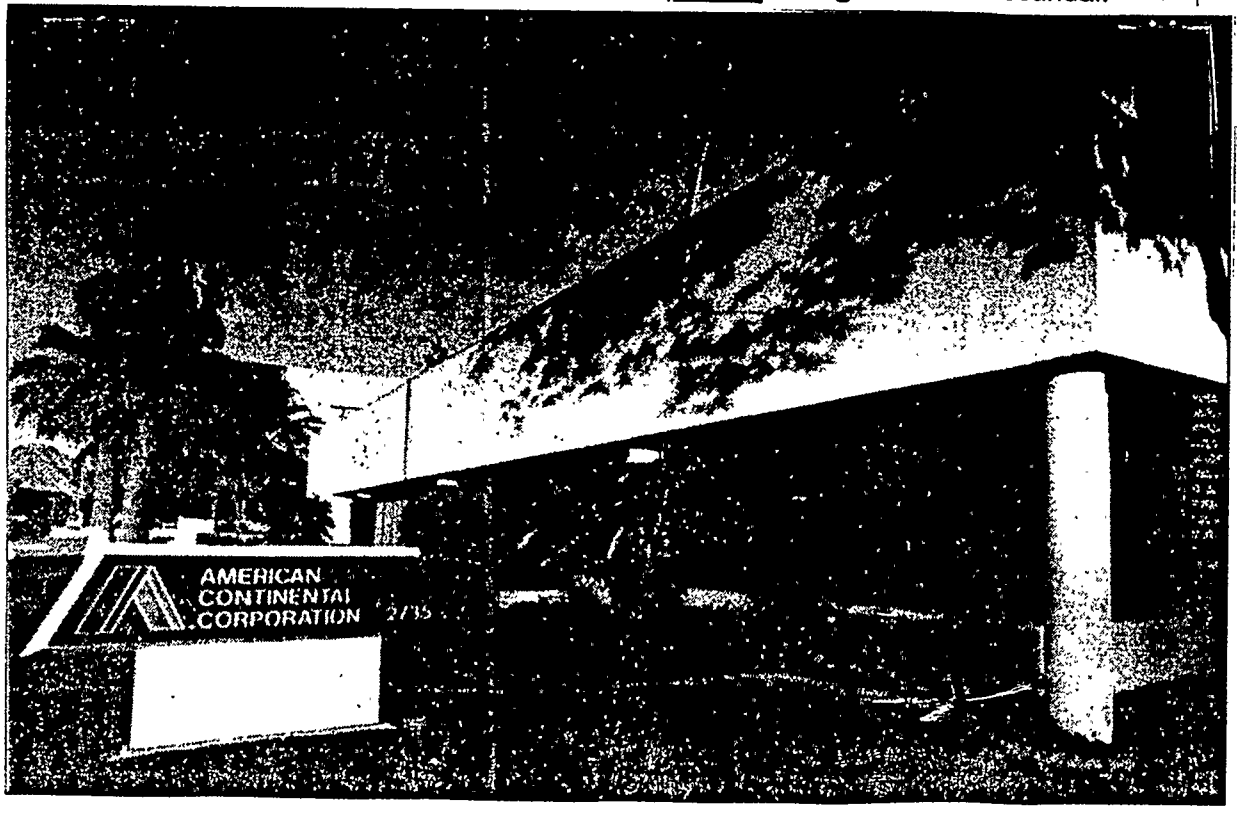
But an exemption for Lincoln was never granted, and the Gray-Keating conflict grew.

How much he gave in all may never be known. Keating is said to have claimed he spent $11 million alone on his attempt to get rid of Gray.



THE ASSOCIATED PRESS

Charles H. Keating Jr. of Phoenix has emerged as the central figure in the growing savings and loan scandal.



THE ASSOCIATED PRESS

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DAILY NEWS
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Cranston's hopes for '92 clouded

GOP planning to pound senator with S&L disclosures

By JAMES W. SWEENEY
and RICK ORLOV
Daily News Staff Writers

After years of carefully cultivating an image of a politician who, above all else, could be trusted, Sen. Alan Cranston now faces an ethics probe that even Democrats acknowledge could badly damage his hopes for a fifth term.

Months of news coverage on the Lincoln Savings and Loan collapse — the largest in U.S. history — and the role played by Cranston with banking regulators have raised questions about whether the California Democrat will survive the political crisis and whether he could win re-election in 1992 if he does.

"Cranston's potential opponents are just salivating," said Mervin Field, whose California Poll is widely published in the state. "They're taking a look at the coverage on TV and in the newspapers and are saying, 'We don't have to do a thing.'"

The Senate Ethics Committee hired an independent counsel Friday to review the conduct of the 75-year-old Californian and four other senators who met with regulators on behalf of former Lincoln Savings head Charles H. Keating Jr. The five senators received $1.3 million in political contributions from Keating.

Cranston has denied wrongdoing and has said he has not altered his plans to seek re-election.

"I am not responsible for loss of taxpayer funds through a delay in shutting down Lincoln or the losses of innocent California bond investors," Cranston declared in a written statement.

Few in state politics, however, doubt that disclosures about Cranston's role in the Lincoln Savings affair will have serious repercussions.

Victims of the $2.5 billion collapse of Lincoln told their stories during a nationally televised hearing of the House Banking Committee. Several bitterly blamed Cranston for allowing their life savings to be lost.

"In my opinion he failed us completely," said Connie Wicksman, a 78-year-old West Hills woman who along with her husband lost $25,000 when Lincoln defaulted on its bonds.

"I gave Sen. Cranston something much more precious than money," said Shirley Lampel, a Tustin widow who lost $30,000. "I gave him my vote and my trust, and he let me down."

Statements like those — all of them caught on videotape — have Republican leaders chuckling over the devastating 30-second television commercials they can aim at Cranston if he seeks re-election in 1992.

Republican political consultant Otto Bos, who is running the gubernatorial campaign for Sen. Pete Wilson, and other political activists believe that the Lincoln affair would put Cranston on the defensive from day one of his re-election effort.

"Here you have an average Californian — not a politician, not a pollster, not a consultant — saying on national television, 'I was betrayed.' I don't care if you are a Democrat, a Republican or an independent, that really hurts," Bos said.

FBI/DOJ

Cranston, who received $850,000 from Keating for voter registration efforts, has denied any wrongdoing, saying only that it was "stupid" to attend the meetings with then Federal Home Loan Bank Board chairman Edwin Gray.

Kam Kuwata, a Cranston spokesman and longtime adviser who plans to manage his 1992 re-election effort, said Cranston welcomes the independent counsel's probe and any other inquiry into the case.

"The more complete the inquiry is, once they find that nothing illegal or unethical took place, it will be difficult for Republicans to make political hay out of this," Kuwata said.

Cranston supporters point to the latest Field poll, in which 44 percent of those questioned said Cranston was doing a good or excellent job — about the same as ratings for Wilson and Gov. George Deukmejian.

But that survey was conducted before the House Banking Committee hearings shed an embarrassing spotlight on Cranston.

"When disclosures of Cranston's involvement with Keating first developed, the only people interested were political insiders who were confident the case would blow over," Field said. "The calls I get now are from people taking it seriously and asking if he'll last out this term."

Unless the disclosures continue and the new material is damning, Field and other observers believe that Cranston will finish his term.

"If he runs again, he will have a real problem," Field said.

If Cranston were to drop out, several names have already surfaced as possible Democratic successors. They are: former San Francisco Mayor Dianne Feinstein, who currently is running for governor; her successor, Art Agnos; Rep. Mel Levine of Santa Monica; former Gov. Edmund G. Brown Jr. (now state party chairman); and Controller Gray Davis.

Cranston spokesman Murray Flander said the senator plans to begin fund-raising efforts after the Senate recess, but some top money people in California politics are unsure if checkbooks will be open.

"Whether he'll be able to get the monies he has in the past is an interesting question that nobody can answer," said economist Stanley Sheinbaum, a key fund-raising contact for California Democrats.

Sheinbaum said it was Cranston's tenacious fund raising that got him into trouble, soliciting $850,000 in contributions from Keating for a pair of non-profit voter registration efforts.

"When it comes to getting the dollars, he's a tiger," Sheinbaum said. "And he let it get the best of him."

Getting the dollars could be extremely important to Cranston in 1992. He spent $11 million on his 1986 re-election effort with no scandal and narrowly defeated former Rep. Ed Zschau, who plans to run again next time.

Still, no one in either party is ready to write off Cranston — who returned to the top after losing his bid for a third term as state controller in 1966 and again after a disastrous presidential bid in 1984.

"It's like the old saying: 'The reports of my death are premature,' " Los Angeles attorney Mickey Kantor said. "It's still so early that no one knows the dimensions of all this."

Regardless of the political outcome, however, Kantor warned that Cranston and his staff are likely to be overwhelmed with preparing his defense and may find less time for Senate duties and the campaign.

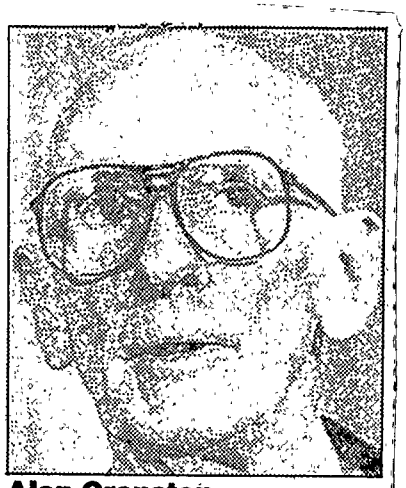
Cranston could be helped if Wilson is elected governor next year, according to pollster Steve Teichner. Under that scenario, there would be two U.S. Senate races in California in 1992.

"If there is a second seat to debate on, not all the attention will be focused on him," Teichner said.

Perhaps no one is watching more closely than Zschau, who has been preparing for a rematch since 1986 when Cranston narrowly defeated him with a campaign that raised questions about Zschau's integrity.

"The bloom is off the rose," said Zschau, who called the Lincoln affair a "dirt pile."

This story was reported by James W. Sweeney in Sacramento and Rick Orlov in Los Angeles.



Alan Cranston
Foes "are salivating"

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COLUMN ONE

Lincoln's Risky Road to Disaster

■ How an Irvine savings and loan fueled a real estate empire—and became one of history's biggest financial fiascoes.

By JAMES S. GRANELLI
TIMES STAFF WRITER

WASHINGTON—In late 1985, Shirley Lampel was a woman in anguish. Her husband had just died, and years of suffering from diabetes had left her without sight in one eye and only limited vision in the other.

The one ray of hope was financial. Her doting husband, Sy, an auto mechanic, had left a $30,000 life insurance policy. Prudently invested, it would help support her modest but comfortable life in Santa Maria, Calif.

But Lampel reckoned without Irvine-based Lincoln Savings & Loan and Arizona home builder Charles H. Keating Jr., who had acquired the thrift the year before. As a result of what she thought was a rock-solid investment with Lincoln, her savings were devoured in what was to become one of the great financial fiascoes of American history—one that could eventually cost taxpayers about $2 billion.

"Lincoln gives a whole new definition to bank robbery," a bitter Lampel said recently. "It used to be that a person puts on a mask and goes in with a gun and robs a bank. Now we go into the bank and we get mugged. When did the bank become the crook?"

That's not how Keating and his subordinates see it. But what they did was use Lincoln's millions of dollars in federally insured deposits as new money for his cash-hungry real estate and financial empire. Shunning traditional home mortgages, they channeled the S&L's funds into huge tracts of raw land in Arizona, luxurious hotel projects, a portfolio of junk bonds and other speculative ventures, according to federal regulators.

Now, federal and state investigators, regulators and lawmakers are poring over the details of Keating's activities. Already, regulators have filed a civil racketeering lawsuit accusing Keating and other Lincoln executives of squandering $1.1 billion in federally insured deposits through a series of "illegal, fraudulent and imprudent acts." The suit and other documents allege that Keating and his associates sought to evade regulatory restrictions on such investments by making bogus loans to "straw" property buyers.

They also devised a tax plan that let them divert $95 million to Lincoln's parent company by creating "phantom" profits through sham land swaps and loans, the regulators allege, and used accounting gimmicks, legal maneuvering and political string-pulling to further their operations and slow down investigators.

The Senate Ethics Committee decided last week to appoint an outside counsel to investigate Sen. Alan Cranston (D-Calif.) and four other senators who accepted large campaign contributions from Keating and then intervened with regulators on his behalf.

Compounding the ultimate cost to others, Keating and his associates sold about $200 million in now-worthless debt securities to unwary customers such as Mrs. Lampel at Lincoln's branch offices. Many of the purchasers were elderly Southern Californians who thought the securities—issued by Lincoln's parent company—were federally insured.

Keating has repeatedly denied the government's charges. He has accused regulators of seeking revenge against him, harassing his employees and failing to understand real estate development. That, not his own actions, drove Lincoln to ruin, he says.

As a longtime home builder and mortgage lender, he said, his operation always has concentrated on single-family housing. He simply turned Lincoln, an institution whose financial health was questionable when he bought it, from a mortgage lender into a company that prepared raw land for residential construction, and he had a number of projects successfully built, he maintained.

Whatever the various government investigations ultimately disclose, it is already clear that Lincoln is one of the worst disasters in the nationwide savings and loan debacle.

Began as Lawyer

Keating, a collegiate gold medal swimmer in the Pan American Games and a Navy fighter pilot in World War II, began his business career as a lawyer in Cincinnati. In a conservative business community that traced its antecedents to the days when the Ohio River was the key to settling the American heartland, Keating stood out as an aggressive risk-taker and a stubborn competitor.

He was once described by his brother, William, as an "impatient" person who never worried about the popularity of his positions.

Also, he showed an early taste for combining business with politics. In the political arena, he became a vociferous opponent of pornography, aiding prosecutions, lobbying elected officials. He was even appointed to a federal commission that studied pornography.

And he managed his brother's successful congressional campaigns in 1970 and 1972.

At the same time, Keating pursued a career in real estate development that eventually made him a top executive in a firm owned by wealthy Cincinnati financier Carl H. Lindner, who specialized in making aggressive takeover bids for other companies. The close association they developed continued long after Keating left Cincinnati in 1976 to take over a founding Lindner real estate development firm in Phoenix.

A few years after moving West, Keating had his first serious brush with federal regulators. In 1979, Lindner and Keating consented to a Securities and Exchange Commission order prohibiting them from fraudulently diverting corporate assets to their personal use.

By the early 1980s, Keating—riding the tide of explosive growth in the Sun Belt—had built the former Lindner construction firm, renamed American Continental Corp., into one of the nation's 10 biggest home builders.

Moreover, he—like others—had noticed a new opportunity: Congress, trying to rescue a savings and loan industry saddled with traditional low-rate, long-term home mortgage loans in an era of soaring interest rates, was dismantling the web of federal regulations that had always circumscribed the industry.

Under deregulation, banks and S&Ls were allowed to place a part of their assets in direct investments such as ownership interests in real estate projects and other ventures, instead of just making loans on which they would collect interest. They were also allowed to place customer funds in high-yield, high-risk "junk" bonds and other non-traditional investments.

Real estate developers saw the thrifts as ideal sources of cash for their own ventures. They liked savings and loans better than banks because they had broader investment powers and were cheaper to acquire. In addition, the

rules required thrift owners to put up only $3 of their own cash for every $100 in S&L investments. The capital requirement for banks was twice as high: $6 for every $100 in assets.

California was an especially tempting target for such takeovers. In an effort to prevent state-chartered savings and loans from converting to federal institutions, California had enacted an even more liberal deregulation law than the federal government. In 1983, the state allowed thrifts to put 100% of their money into direct investments.

From his headquarters in Phoenix, Keating spotted a California thrift that seemed ideal for his expanding purposes.

Lincoln Savings & Loan was an Orange County thrift that had experienced losses in the early 1980s, but it had returned to profitability by the end of 1983. Keating bought it in February, 1984, for $51 million. At the time, regulators say, they were assured that Lincoln's previous management and lending policies would be retained.

Instead, Keating transformed the traditional mortgage lender into a post-deregulation dynamo. Indeed, he said he bought Lincoln to take full advantage of California's deregulation law.

Keating ousted the old executives, turned away from the S&L's traditional areas of business and began seeking bigger profits from riskier strategies:

—He used Lincoln's deposits to buy huge tracts of undeveloped Arizona desert in an effort to create shining new communities from dust. The most ambitious of those projects was Estrella, a 20,000-acre planned community 20 miles southwest of Phoenix that was to include 50,000 homes for 200,000 residents as well as retail, industrial and office space.

—He assembled parcels of land in the affluent Phoenix suburb of Scottsdale to build a $296-million luxury resort hotel called the Phoenician Resort. He also bought the Hotel Pontchartrain, a troubled hotel in downtown Detroit, and initiated elaborate renovations.

—He used Lincoln funds to buy junk bonds and dabble in foreign currency trading. He bought big blocks of stock in other companies, prompting speculation that he might be a budding corporate raider.

He even sold the home-building unit of American Continental as he created a complex organization with 55 subsidiaries primarily devoted to real estate investment and development.

Efficacy in Doubt

In Washington, meanwhile, some were beginning to question the efficacy of the government's prescription for the ailing thrift industry. Edwin J. Gray, whose position as chairman of the Federal Home Loan Bank Board made him the nation's top savings and loan regulator, was one of them.

Across the country, S&Ls were using their customers' money to acquire stakes in windmill farms, restaurants and a host of other businesses they knew little about. Such investments, far from returning the industry to health, were bringing new losses so huge they threatened the solvency of the federal deposit insurance fund.

Gray began speaking out. What's more, he proposed a rule to require all federally insured thrifts, including state-chartered S&Ls such as Lincoln, to limit direct investments to 10% of their assets.

Keating for one was furious. As he describes it, he had barely gotten into the S&L game and already the rules were changing. Arguing that Gray's proposed restriction would destroy the industry, Keating began lobbying hard against it.

He hired Alan Greenspan, a respected economist who had served as a senior official in the Richard M. Nixon and Gerald R. Ford administrations and now heads the Federal Reserve Board, to analyze the proposed rule. Greenspan produced a report opposing it.

Although executives at other savings and loans also lobbied against the direct investment rule, Keating was perhaps the most prominent and persistent opponent.

Keating arranged for a congressional resolution that called on Gray to delay implementing the investment restriction for six months. Although 225 House members signed the resolution, it failed to sway the regulators.

Unable to stop the restriction, Keating found a way to blunt its impact on Lincoln.

The Gray rule would be adopted in early 1985, Keating learned, but would be applied retroactively to Dec. 10, 1984; any direct investments made before that date would be permitted to stand, even if they exceeded the 10% limit.

Three days before the expected deadline, Lincoln won approval from the California Department of Savings and Loan to move an additional $800 million into direct investments. That increased Lincoln's direct investments to about 40% of its $2.2 billion in assets.

Customers Targeted

In 1986, Keating and his executives came up with an innovative way to raise unrestricted funds for American Continental. They would sell debt securities similar to the bonds issued by most of America's major corporations. But, instead of selling them through Wall Street brokerages and other investment firms, they would peddle the securities to Lincoln customers.

The California Department of Corporations routinely approved American Continental's first request to sell the debt securities, called subordinated debentures. About the same time, the state Department of Savings and Loan allowed American Continental to set up desks in the lobbies of Lincoln's 29 branches to sell the securities.

Although the securities were, in effect, junk bonds, Keating said he would have recommended them to anyone, even to the Roman Catholic charities he supported heavily with donations. In fact, the Sisters of Charity in Cincinnati bought $444,000 of the securities.

In early 1988, American Continental sought approval for a second debenture offering. The California Department of Corporations approved the sales, even though the agency's own staff and the state's top savings and loan regulators expressed concern about the company's financial condition and ability to repay the debt.

In little more than two years, American Continental sold about $200 million worth of debt securities to nearly 22,000 investors. About two-thirds of them were elderly Southern Californians who bought them at Lincoln branch offices.

Some of them have said in lawsuits and congressional testimony that they were persuaded to buy the securities instead of certificates of deposit by American Continental sales representatives, who assured them that the securities were safe.

Some have said they thought that the debentures were backed by federal deposit insurance—a costly mistake, as things turned out.

By 1986, federal regulators in the regional office in San Francisco were becoming distinctly unsympathetic to Keating's operations. They began a detailed audit of Lincoln's books that stretched over a full year—far longer than such examinations normally take. They concluded that Keating was handling Lincoln in an unsafe and unsound manner.

In particular, examiners reported that Lincoln had made a substantial number of loans without proper appraisals, without verification of borrowers' credit and even, in some cases, without a loan application.

To a large extent, the examiners said in their reports, it appeared that Lincoln was making bogus loans in an effort to get around the new restrictions on direct investments in real estate and to record profits that it had not really earned.

Many major loans were made to "straw" buyers: people who bought properties with Lincoln funds on favorable terms and who never intended to repay the loans, thus leaving the savings and loan in control of the properties, the regulatory reports allege.

The examiners said that, after making the loans, Lincoln claimed as profits the up-front fees and interest such loans normally generate. However, in many cases Lincoln had also provided the money for the fees and interest in addition to financing the entire purchase price.

In May, 1987, the examiners recommended to their superiors in Washington that the government seize the institution or at least impose a restrictive order to curtail its high-flying operations.

Lincoln executives defended their practices, saying government regulators did not understand the S&L's development-oriented business. Regulators insisted, for instance, on using standards that applied to single-family loans to evaluate Lincoln's commercial loans. The thrift had obtained audited financial statements from the borrowers, and those documents provided a better picture of possible risks than a consumer credit report, they said.

They contended also that regulators made simple mathematical errors in computing such items as how much Lincoln should set aside in reserves to protect against possible losses.

The big loans were made to borrowers who came up with 25% down payments, company executives said. Lincoln did not finance 100% of the purchase price, they said, and any other loans that the buyers obtained were not for the purpose of providing the down payments. Lincoln, they said, was entitled to record the profits on the loans.

The recommendations of the regional regulators were not adopted by Gray or M. Danny Wall, who replaced Gray as head of the Federal Home Loan Bank Board in July, 1987. Wall, a former staff aide to the Senate Banking Committee, said that there was insufficient evidence to justify the extreme

action proposed by the San Francisco overseers.

If the rebuff angered the regional examiners, what came next stunned them. A year later, Wall stripped them of their supervisory responsibility for Lincoln and transferred jurisdiction to Washington.

Wall said an internal investigation had determined that substantial animosity had developed between Lincoln and the San Francisco regulators and that leaks of confidential financial information had damaged the savings and loan. Wall ordered a new examination directed by Washington-based regulators.

Instead of absolving Lincoln, however, the new audit reached even more damaging conclusions. Among other things, it called into question the tax-sharing plan Lincoln and its accountants had devised in 1986.

As a subsidiary of American Continental, Lincoln did not deal directly with the Internal Revenue Service on taxes. Instead, American Continental collected money from all its subsidiaries, then filed a consolidated tax return and made tax payments to the IRS on their behalf.

Over a period of a little more than two years, Lincoln made $95 million in tax-sharing payments to its parent company, ostensibly to cover taxes on profits it had earned.

But the government alleges in its racketeering lawsuit and other documents that Lincoln did not owe $95 million in taxes at the time and that American Continental never paid any of that money to the IRS.

Keating and his subordinates engaged in a series of sham transactions designed to create the appearance of higher profits, and thus higher tax obligations, as a device for siphoning money out of Lincoln and moving it to American Continental, which kept the extra funds, according to federal investigators.

Higher profits also boosted American Continental's stock price. That in turn helped Keating and his family collect $34 million over five years from salaries, gains on stock sales and other benefits, regulatory records state. The stock sales were made to American Continental's employee stock ownership plan, which obtained loans, guaranteed by Lincoln to acquire the shares.

Lincoln executives said they did not misuse the tax-sharing arrangement.

The executives contend the transactions that generated the profits were legitimate and that Lincoln owed taxes, although they acknowledged that the taxes might not have been due immediately.

And, although Lincoln owed the taxes as a separate entity, they said, American Continental could use $250 million in tax credits it had accumulated itself to offset any profits on a consolidated basis that it or its subsidiaries made. Meantime, executives argued, the parent company could invest Lincoln's tax payments any way it chose.

The tax plan was reviewed and approved by regulators, they pointed out.

They sold stock to the employee stock ownership plan, the executives said, because the plan, by its very nature, required the purchase of American Continental stock.

Because the stock was thinly traded, the plan could not acquire the big blocks of stock it needed except through sales by insiders. They said also that the price the insiders received for their stock was slightly below prevailing market prices.

And any allegations of boosting stock prices to get money out of the employee stock ownership plan through the sales, they said, fall flat because most of such stock purchases occurred in 1985, long before the allegedly fraudulent transactions occurred.

Example Cited

One example of how Lincoln conducted its business, according to government regulators, is a loan it made to Ernest C. Garcia, a Phoenix-area developer.

Early in 1987, Garcia approached Lincoln to see if he could borrow money to buy the remaining stock in a company in which he already held a 20% interest. Lincoln executives agreed to make the loan, regulators allege, but there was a condition.

According to the government's racketeering lawsuit, the following events occurred:

As a condition of lending him the money he wanted, Lincoln asked Garcia to buy 1,000 acres of land owned by a Lincoln subsidiary for $14 million. The 1,000 acres were part of an 8,500-acre tract called Hidden Valley Ranch.

Garcia told Lincoln that he could not make the purchase himself, so he arranged for a firm called Westcontinental Mortgage & Investment Corp. to buy the 1,000 acres instead. Lincoln agreed to the arrangement and lent Westcon $10.5 million, or 75% of the purchase price.

At the same time, Lincoln lent Garcia $20.2 million, and Garcia lent $3.5 million of that amount to Westcon. The $3.5 million was used by Westcon to make the 25% cash down payment on the land purchase.

Lincoln recorded an $11-million profit on the transaction, even though the only cash it received was $3.5 million that had come out of its own coffers, the suit contends. Westcon has never made a payment on its $10.5-million loan.

In a May, 1988, letter, Westcon acknowledged that it had acted as Garcia's nominee and asked him to "arrange for the transfer of this property to its rightful owner as soon as possible."

That transaction was the first of 10 involving Hidden Valley Ranch property. The government alleges that, altogether, Lincoln claimed "phantom profits" of $82 million from the 10 deals. Those profits resulted in Lincoln's making $31 million in tax-sharing payments to its parent company.

American Continental executives rejected the government's characterization of the Hidden Valley loans. They said that Garcia, for instance, obtained a $30-million line of credit and that the $20.2 million he borrowed on the line was wired directly to the Tucson Electric Power Co., which owned 80% of the company Garcia had founded in 1981.

The Hidden Valley deal, they said, was not a condition for obtaining the line of credit, and Garcia, a major developer, used his own funds to lend Westcon the down payment.

Senators Intervene

It was during this period that one of the most controversial episodes in the Lincoln case occurred. In his struggle against the regulators, Keating enlisted the aid of five U.S. senators, who intervened on his behalf in two now-controversial meetings with thrift regulators in April, 1987.

The five senators—Cranston, Dennis DeConcini (D-Ariz.), John McCain (R-Ariz.), John Glenn (D-Ohio) and Donald W. Riegle Jr. (D-Mich.)—had received more than $300,000 in campaign contributions from Keating, his family and his business associates.

In addition, Cranston solicited $850,000 from Keating for three voter registration groups that signed up primarily Democrats or the people who [illegible]

Glenn solicited $200,000 for a political organization he controlled. And McCain's wife and her father invested nearly $360,000 in a 1986 Keating partnership that put up a Phoenix shopping center.

The first meeting, on April 2, 1987, involved bank board Chairman Gray and Sens. DeConcini, Glenn, McCain and Cranston. Gray later stated publicly that the four senators tried to make a deal for Keating by promising to get Lincoln to make more traditional home mortgages again if Gray would rescind the 10% limit on Lincoln's direct investments.

Their effort, Gray declared, was an "abuse of senatorial authority" and "tantamount to an attempt to subvert" the regulatory process.

The senators heatedly deny proposing any such deal. They say they met with Gray to discuss the unusually lengthy audit of Lincoln by the San Francisco regional office; their only message, the four senators say, was that the regulators should charge Keating with something or get off his back.

The second meeting occurred a week later. Riegle joined the other four in a session with regional regulators who were conducting the protracted examination of Lincoln. Minutes of the meeting show that DeConcini mentioned the direct investment rule, but there was no subsequent discussion of the issue. The minutes indicate also that the session ended abruptly when the regulators said they intended to refer the Lincoln case to the Justice Department for criminal prosecution. That investigation is now under way.

Regardless of whether a deal over the 10% rule was ever discussed, critics of the senators' actions suggest that their involvement may have delayed the ultimate seizure of Lincoln by two years, adding at least $1 billion to the taxpayers' bill for bailing out the thrift.

Last Thursday, the Senate Ethics Committee decided to appoint an outside counsel to investigate whether the five senators violated ethics rules by going to bat for Keating.

Cranston, meanwhile, filed a formal response to the committee contending that he had done nothing illegal or improper in connection with Keating. He said his efforts on Lincoln's behalf never went beyond what a member of Congress can legally do for a constituent who is experiencing problems with the government.

Cranston denied that his actions were in any way responsible for the losses facing the government

American Continental debt securities.

And what of Keating's enormous bets on the future of Arizona real estate?

In brochures for Estrella, his big planned community southwest of Phoenix, Keating boasted that Phoenix would soon become the 12th-largest metropolitan area in the country. Employment was rising at an annual rate of nearly 4% as new residents flocked to the Grand Canyon state, and the future seemed as bright as the desert sun.

A Lincoln subsidiary put in miles of sidewalks, created two lakes and made other improvements at Estrella. Some businesses began to move in.

Meanwhile, Keating poured a total of $296 million into the Phoenician Resort in Scottsdale, which was designed to attract the affluent tourists who had been streaming into the state in increasing numbers every winter.

Then things went bad. The influx of new residents and businesses to Arizona began to slow, but developers kept right on developing. Before long, the state was vastly overbuilt. The residential real estate market went flat. The commercial market fell through the floor. Even the tourist trade dropped off.

Today, Estrella bears little resemblance to Keating's predictions; much of the land is still largely undeveloped. The Phoenician opened in late 1988, and, although it is generating tremendous income—$4.3 million last month alone—it is not generating enough to pay off its construction debt, regulators claim.

"Lincoln never was a viable institution under Keating," said Bert Ely, an Alexandria, Va.-based consultant to the savings and loan industry.

Last week, government regulators seized control of the Phoenician and another Lincoln property, the Crescent Hotel in Phoenix, ousting Keating and as many as 30 of his associates from management of the lodges.

Seizure Occurs

The government finally seized Lincoln on April 14, 1989, declaring that it was being operated in an unsafe and unsound manner and that Keating and his executives were dissipating its assets.

The day before Lincoln was seized, American Continental filed for protection from creditors in U.S. Bankruptcy Court in Phoenix. The bankruptcy case prevented regulators from assuming full control of some of Lincoln's assets.

Also, it created an unusual group of victims. Lincoln's regular depositors would be made whole by taxpayers through the federal deposit insurance program, but the 22,000 investors who had bought the American Continental debt securities were left holding worthless paper. There was no federal insurance for them.

One of those investors was Shirley Lampel.

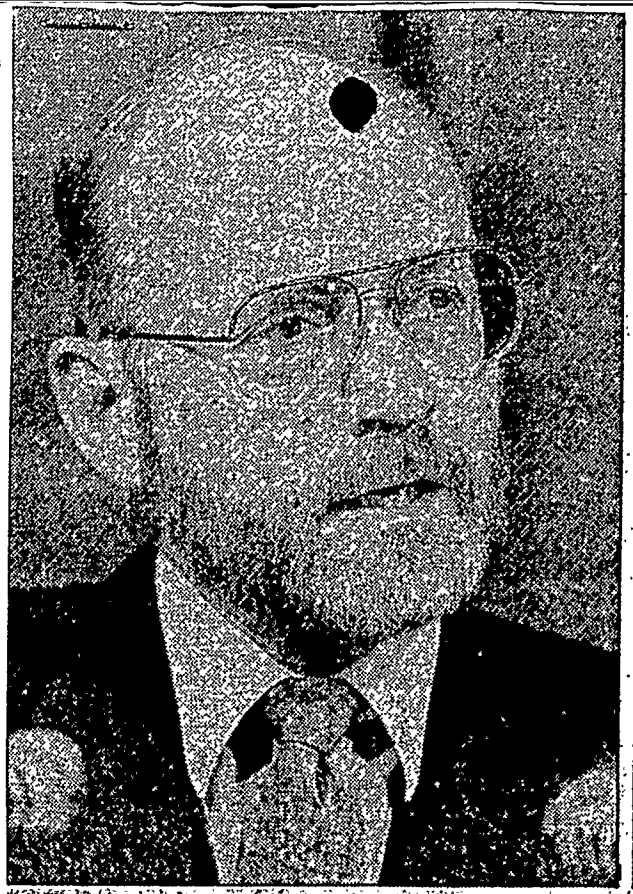
In 1985, Lampel's husband had died of a heart attack at the age of 58. Despite her inability to work because of the diabetes that had left her all but blind, Lampel sought no pity. With Social Security payments and the monthly income from her husband's $30,000 life insurance proceeds, she would make it.

One day, after moving from Santa Maria to Tustin, she had noticed a large newspaper advertisement about an investment opportunity being offered at a Lincoln office near her condominium. She took her life insurance proceeds and "practically beat down the door" at the Lincoln branch to buy American Continental debt securities.

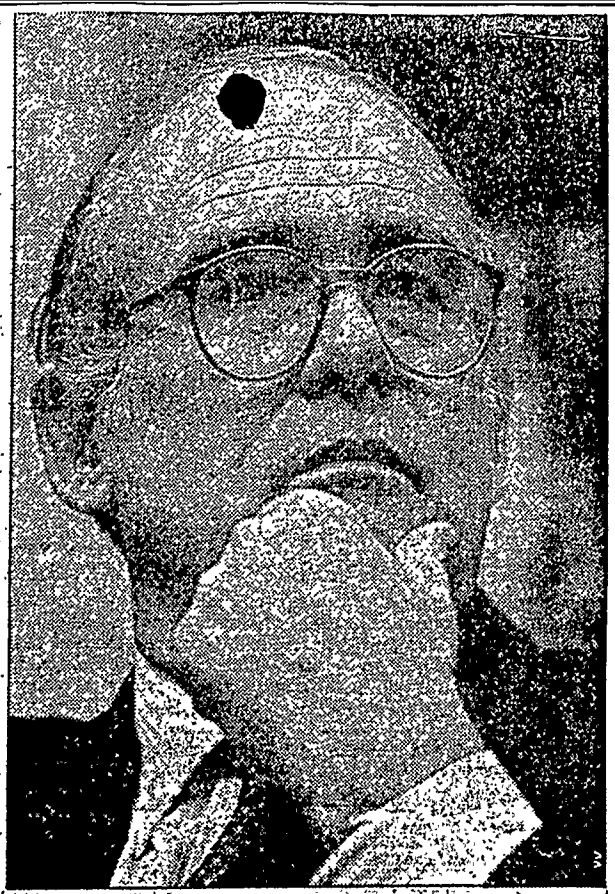
After being assured that Lincoln was safe and sound, she had signed two pieces of paper and handed over a $30,000 cashier's check. She could not read the fine print, and she said no one ever read the documents to her.

"I thought I was buying something similar to a certificate of deposit," she said. "I didn't know what debentures were. You have home insurance and car insurance, but do most of us really understand all that stuff? No. We trust."

Examiners reported that Lincoln had made a substantial number of loans without proper appraisals, without verification of borrowers' credit and even, in some cases, without a loan application.



Los Angeles Times



Associated Press

Both M. Danny Wall, chairman of the Federal Home Loan Bank Board, left, and his predecessor, Edwin J. Gray, at one point rejected a recommended seizure or extreme restrictions on Lincoln Savings.





GARY AMBROSE / Los Angeles Times

Shirley Lampel, above, lost the $30,000 she had planned to live on by investing it in American Continental Corp. securities. The firm's head, Charles H. Keating Jr., left, is under investigation.

FD-353 (Rev. 5-8-81)

(Mount Clipping in Space Below)

Cranston: My action did not violate laws, Senate ethics rules

ALAN CRANSTON

Dear Senators (Howell) Heflin and (Warren) Rudman:

I have engaged counsel to advise me whether any of my conduct in connection with the Lincoln Savings matter violated laws, ethical standards, or rules of the Senate . . .

Counsel demonstrates that my actions did not violate laws, standards or rules of the U.S. Senate. Beyond the legal question, however, I want to say again here, as I have said elsewhere, that my inquiries to the FHLBB (Federal Home Loan Bank Board) concerning Lincoln Savings were totally consistent with inquiries I have made for other constituents with credible complaints about their treatment by a federal agency.

When I went to the meeting with Mr. (Edwin J.) Gray (former FHLBB chairman) in Senator (Dennis) DeConcini's office, I knew the following:

a. Lincoln Savings employed 740 people in California and had 140,000 depositors.

b. The FHLBB had been conducting an examination of Lincoln for what seemed like an unreasonable, and perhaps unprecedented, length of time.

c. The examination was having a damaging effect on the institution.

d. There had been unusually rancorous relationships between some examiners and some Lincoln officers and employees.

e. There had been an unusual number of leaks of sensitive information concerning Lincoln.

f. Mr. (Charles) Keating held the opinion that Lincoln was the subject of unfair treatment by FHLBB staff.

g. Responsible people and institutions with nationwide reputations, including Alan Greenspan and the Big Eight accounting firm of Arthur Young & Co., were publicly attesting to the soundness of Lincoln Savings as a lending institution.

The problem, as conveyed to me at the time not only by Mr. Keating but also by Mr. Greenspan and Arthur Young & Co., was that federal examiners bore substantial responsibility for creating a most destructive and irrational state of limbo for this institution, and that the FHLBB needed to act promptly.

There was nothing unethical or improper in my raising concerns with Mr. Gray or others that his agency act promptly and responsibly . . .

It was certainly my consistent message to FHLBB officials that regulated entities, as well as the general public, are entitled to

(Indicate page, name of newspaper, city and state.)

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Front Section, Page 13

Title: CRANSTON: MY ACTION DID NOT VIOLATE LAWS, SENATE ETHICS RULES

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prompt and fair action. I have conveyed this same message to heads of agencies, indeed to cabinet officers ... on behalf of constituents who have helped raise campaign funds and for those who have not ... (and) on behalf of constituents who support non-partisan voter registration projects in which I am deeply interested, and those who do not.

I would also like to correct some misimpressions, fostered in the press and elsewhere. I am not responsible for loss of taxpayer funds through a delay in shutting down Lincoln or the losses of innocent California bond investors. I never attempted to derail any investigation of wrongdoing at Lincoln, nor did I ever suggest to Chairman Gray ... or any other official that an investigation be delayed. Even Mr. Gray's recent testimony before the House Banking Committee expressly denies that my actions or those of any other senator were the cause of any delay regarding Lincoln. Quite to the contrary, I urged that the FHLBB act promptly, in fairness to Lincoln's employees and depositors as well as its owners ... When my conduct is fairly evaluated based upon what I knew at that time, I believe you will conclude that I was not attempting to help Mr. Keating or his companies evade the requirements of the law.

Finally, I must emphasize that at no time did I seek or receive personal benefits from Mr. Keating or anyone associated with him. Mr. Keating, like countless other individuals and groups, assisted with some political fund-raising for my 1986 re-election campaign. In addition, in 1987 and 1988, following my re-election, Mr. Keating arranged contributions to non-partisan voter registration groups that I actively support. I had no reason to believe that the contributions were not lawful under federal and state law or that there was anything improper about them. Most important, Mr. Keating never received from me any reason to believe that those contributions were in exchange for my help with the FHLBB, or with anybody else.

I do not know what the ultimate verdict on Mr. Keating's operation of Lincoln Savings will be. I understand there are allegations of serious wrongdoing by him and others. The fact that a constituent who requests a senator's help is subsequently accused or indeed convicted, of violations of the law does not suggest that a senator acted improperly. I assure you that I did not.

Sincerely,
Alan Cranston

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Keating to Take 5th Amendment at S&L Hearings

■ Thrifts: The former owner of Lincoln Savings says the House is not 'the best forum' for answering allegations.

By SARA FRITZ
TIMES STAFF WRITER

WASHINGTON—Former Lincoln Savings & Loan owner Charles H. Keating Jr., citing the Fifth Amendment, will refuse to testify today when he is called before a House committee to answer allegations that his fraudulent business practices caused the $2.5-billion collapse of the Irvine-based thrift, according to his attorney.

Attorney John J. Quinn of Los Angeles told The Times that Keating has decided that the House Banking, Finance and Urban Affairs Committee hearing would not be "the best forum" to answer the many charges leveled against him since Lincoln was seized by the federal government last April.

Over the last two months, numerous witnesses have accused Keating of improperly using the thrift's deposits to make risky investments, buy political influence in Washington and enrich himself and his family. One witness testified that Keating and his family received $34 million in salaries and other payments in the three years before Lincoln went bust.

Quinn, who persuaded the committee to delay Keating's testimony when it was scheduled for Nov. 7, indicated that his client would prefer to tell his side of the story during an upcoming federal court hearing on Keating's suit charging that federal regulators illegally seized control of Lincoln. Just two weeks ago, U.S. District Judge Stanley Sporkin ruled that Keating could have a court hearing in early December on part of his suit.

At the time, Robert K. Huffman, a Washington lawyer for American Continental Corp., Lincoln's parent company, described it as "a chance for a fair hearing."

"It's no secret that the company thinks the Gonzalez hearings are not fair," he

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added, referring to committee Chairman Henry B. Gonzalez (D-Tex.).

Witnesses who refuse to testify before a congressional hearing are sometimes permitted to read a prepared statement in their defense, but Quinn indicated that Keating would make no such statement. In fact, he said, Keating had been discouraged by the committee from making any opening statement if he intended to rely on the Fifth Amendment to avoid answering questions put to him by the panel.

The committee apparently was unaware of Keating's plans to invoke the Fifth Amendment. Julie Black, spokeswoman for the panel, said the committee still is assuming that Keating will testify and that he had obtained the earlier delay so that he could prepare testimony for his appearance today.

Although Keating's business practices have figured prominently in the testimony, the hearings so far have focused much more attention on the failure of federal regulators to control the thrift and on the intervention of five senators—Alan Cranston (D-Calif.), Dennis DeConcini (D-Ariz.), John Glenn (D-Ohio), John McCain (R-Ariz.) and Donald W. Riegle Jr. (D-Mich.)—on behalf of Lincoln. Keating helped raise $1.4 million for the senators' campaigns and favorite causes.

Meanwhile, a federal judge in Los Angeles on Monday delayed a hearing on a request to freeze Keating's assets worldwide.

Small investors in Lincoln's parent, American Continental Corp. in Phoenix, filed a racketeering suit Monday—one of many filed in state and federal courts—and sought to put a hold on what they say is more than $100 million that Keating has in foreign investments and bank accounts.

U.S. District Judge Stephen V. Wilson scheduled a Dec. 4 hearing on the investors' request for a temporary order freezing those assets. Keating and other defendants have until Nov. 29 to file any written response with the court.

The investors include nearly 22,000 people who bought almost $200 million in American Continental debt securities at Lincoln's

NEXT STEP

■ The subpoena of Charles H. Keating Jr., former head of Lincoln Savings & Loan, to appear before the House Banking, Finance and Urban Affairs Committee today is just the first of many appearances that the beleaguered Arizona businessman will be forced to make as he defends his stewardship of the bankrupt Irvine thrift. The case also is being investigated by the Justice Department, the Securities and Exchange Commission and the California Legislature. In addition, Keating has been sued by the Federal Deposit Insurance Corp. and a group of investors who purchased worthless bonds in Keating's American Continental Corp.

(Rev. 5-8-81)

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Date:
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Classification:
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29 Southern California branches. The named plaintiff in Monday's filing is the First Baptist Church of Santa Ana, which invested $35,000.

Scheduled to testify immediately before Keating is M. Danny Wall, director of the Office of Thrift Supervision, who frequently has been blamed by Gonzalez for failing to act more swiftly against Lincoln. He will be accompanied by two of his top employees, Rosemary Stewart and Darrel W. Dochow.

Dochow assumed responsibility for regulating Lincoln in 1987 after Wall took the unusual step of stripping the Federal Home Loan Bank Board's San Francisco office of its usual role of overseeing savings and loans in California. The San Francisco office had recommended that the federal government seize Lincoln in 1987.

Stewart is the author of a 1988 side letter to a memorandum of understanding between the bank board and Lincoln assuring the thrift that no information about its activities would be referred to criminal authorities.

In numerous interviews, Wall has criticized Gonzalez for not allowing him to answer the charges against him earlier. He admits that he met privately at least three times with Keating while his agency was investigating Lincoln but insists that his decision not to seize the Irvine thrift in 1987 was made solely on the basis of sound legal judgment.

Keating will be the final witness called this year as part of the House committee's inquiry into the demise of Lincoln, the most expensive single thrift collapse in history.

Black said the committee staff has been instructed to prepare a report to be released early next year summing up the results of its inquiry so far into the Lincoln collapse. She said the panel has not yet decided whether it will hear more testimony related to the Lincoln affair after Congress reconvenes next January.

Unless the committee resumes the hearings next year, it will not take testimony from any of the four associates of Gov. George Deukmejian who were slated to be called about their alleged actions on behalf of Lincoln. Gonzalez had said last week that he wanted to subpoena "at least some of them, maybe all four."

He identified the four as Franklin Tom, former commissioner of the California Department of Corporations; Christine Bender, Tom's successor; Thomas C. Stickel, a longtime Deukmejian fund-raiser, and Karl Samuelian, the governor's chief fund-raiser.

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5-8-81

House Panel Assails Wall's Policy to 'Trust Keating'

By SARA FRITZ
TIMES STAFF WRITER

WASHINGTON—Only days before Lincoln Savings & Loan was seized in April, M. Danny Wall, the nation's chief savings and loan regulator, was expressing confidence in the owner of the Irvine thrift and advocating alternatives to a federal takeover, according to documents released Tuesday.

The previously confidential material was made public by Rep. Henry B. Gonzales (D-Tex.), chairman of the House Banking, Finance and Urban Affairs Committee, who cited it as evidence that Wall—who testified before the committee Tuesday—and other regulators never fully grasped the magnitude of the alleged fraud and

Please see KEATING, A12



Associated Press

Charles H. Keating Jr. as he was sworn in before House panel.

Continued from A1

mismanagement carried out by Lincoln owner Charles H. Keating Jr. before the federal seizure on April 14.

Keating, meanwhile, refused to answer questions put to him under subpoena by the committee Tuesday, invoking the Fifth Amendment's protection against self-incrimination. His brief appearance provided a theatrical climax to the committee's six-week investigation of what is expected to be the biggest savings and loan failure in U.S. history.

Gonzalez made it clear that he blames Wall and other federal regulators for failing to recognize that Keating and other officers of American Continental Corp., Lincoln's parent company, allegedly were looting the savings and loan on a systematic basis—turning it into what Gonzalez called their own personal "cash machine."

■ **BOND SALES PROBED**
California opened a criminal investigation into allegations that unlicensed salesmen sold bonds at Lincoln Savings. **D1**

Handwritten notes made by Federal Home Loan Bank Board member Roger Martin during a board meeting last April 5 indicate that Wall was still pursuing what Gonzalez characterized as a "trust Keating" strategy only nine days before the government seized Lincoln.

The notes show that Wall said a seizure of Lincoln was "not the only alternative" open to federal regulators. He added that Keating was "skilled enough" to find someone to purchase the thrift so that a federal takeover could be avoided, the notes state.

Even so, however, Wall did nothing to stop the board from proceeding with the legal efforts that ultimately culminated with the April 14 seizure.

Gonzalez said that Martin's notes, among others obtained by the committee during its investigation of the Lincoln affair, constitute "evidence that the Washington regulators didn't truly sense who they were dealing with in Charlie Keating."

Rep. Jim Leach (R-Iowa) said that the notes showed Wall to be "the Neville Chamberlain of financial regulation," referring to the British prime minister who negotiated a nonaggression pact with Adolf Hitler before World War II.

Yet the regulators were clearly not the only officials in Washington who retained confidence in Keating until the government stepped in.

Wall testified Tuesday that on the day Lincoln was seized, he called Sen. Alan Cranston (D-Calif.) and other senators who previously had intervened with regulators on Keating's behalf. He said that Cranston replied "he hoped it was not a mistake."

Although the official minutes of the April 5 meeting do not reflect the comments recorded by bank board member Martin, Wall did not deny them during his long-delayed testimony before the committee.

Wall took over as chairman of the bank board in July, 1987, shortly after regional thrift regulators in San Francisco made the first recommendation that the government seize Lincoln.

Wall, who now heads the Office of Thrift Supervision, the bank board's successor agency, staunchly defended his decision to reject that recommendation on grounds that federal seizure of Lincoln in 1987 could not have been justified legally.

"We did not have a solid case in the fall of 1987 to take strong action against Lincoln Savings," Wall said.

But he stated publicly for the

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LOS ANGELES TIMES
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first time that he had made some mistakes.

"I acknowledge that if we had known then what we know now about this savings and loan, I for one would have done things differently—even through it appeared to be a solvent and well-capitalized institution at the time," he said.

Wall also denied that his failure to move sooner against Lincoln was the result of political pressure from Keating, with whom he had met personally three times during the bank board's investigation of Lincoln.

He also denied that he was swayed by Cranston and Sens. John McCain (R-Ariz.), Dennis DeConcini (D-Ariz.), John Glenn (D-Ohio) and Donald W. Riegle Jr. (D-Mich.), who had received large campaign contributions from Keating.

Gonzalez, a long-time critic of Wall, released a six-inch stack of documents, many of which suggested that the bank board chairman had looked favorably upon Lincoln during the two-year period that he oversaw the investigation of the thrift.

A memo written by bank board counsel Jordan Luke on Nov. 11, 1987, reported that Wall had told another staff member, Darrel W. Dochow, to dispose of a pending matter involving Lincoln "because the chairman doesn't want anything to do with [Lincoln] to go to the board."

Dochow, who was placed in charge of the Lincoln investigation by Wall in 1987, gave a similar account in testimony Tuesday. "I had a sense—I had a feeling that the three bank board members wanted [the Lincoln case] resolved on a friendly basis," he said.

Likewise, Wall and his handpicked assistants at the board all expressed confidence in Keating during a May 5, 1988, meeting, according to Martin's handwritten notes.

"Keating is no Don Dixon," Wall is reported to have said at that meeting. Dixon was the owner of another high-flying thrift, Vernon Savings & Loan in Texas, that will cost the government $1 billion to clean up.

Gonzalez said that the attitude of Wall and his assistants was particularly difficult to understand since Keating had made no secret of his intention to use Lincoln's assets to make risky investments in long-shot land development deals and junk bonds.

"This was jet-age banking up against horse-and-buggy regulation," he said.

Tuesday's testimony by Wall, Dachow and Rosemary Stewart, the chief of enforcement at the Office of Thrift Supervision, was criticized by some committee members.

Rep. Jim Bunning (R-Ky.) summed up Wall's testimony as follows: "Poor Danny Wall, I'm too busy to do the job I was assigned to do."

Rep. Marge Roukema (R-N.J.) said the testimony demonstrated that throughout the two years that Wall and his associates investigated the Lincoln case, "there was always another rationalization why Lincoln cannot be closed down."

Under lengthy questioning, Wall, Dachow and Stewart defended their decision in early 1988 to enter into a "memorandum of understanding" with Lincoln that permitted the thrift to continue in business despite evidence of wrongdoing.

Wall said the agreement gave bank board examiners access to Lincoln's books, eventually leading to government action against Lincoln earlier this year.

But the board continued to look favorably on Lincoln, Wall acknowledged, until California Savings and Loan Commissioner William Crawford notified federal regulators that American Continental was looting Lincoln by collecting advance taxes from the thrift. Those taxes were never forwarded to the government.

At that point, Wall said, "we knew we were dealing with bad people."

Wall also insisted that the state of California and the Securities and Exchange Commission share responsibility with the bank board for allowing American Continental to sell junk bonds in the lobbies of Lincoln branch offices. More than 24,000 investors bought the now-worthless bonds, many thinking they were insured by the government.

In his appearance before the committee, Keating declared: "I have no testimony to give today. . . . On the advice of counsel, I respectfully exercise my constitutional prerogative and privilege and refuse to answer questions here today."

Keating, who refused to allow cameras to record him as he invoked the Fifth Amendment, later issued a statement saying that he might reconsider his refusal to testify "with the passage of time and the resolution of various investigations."

Lincoln's collapse, which will cost the government an estimated $2 billion, also is being investigated by the Justice Department, the Securities and Exchange Commission and a committee of the California Assembly.

Before invoking the Fifth Amendment, Keating tried without success to persuade the committee to close its proceedings to the press. When it became apparent that the committee intended to debate the matter at length, he withdrew the request.

Times staff writer James S. Granelli in Orange County contributed to this report.

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Wall Denies Politics Altered S&L Rulings As Lincoln's Ex-Owner Refuses to Testify

(Indicate page, name of newspaper, city and state.)

WALL STREET JOURNAL

Date: 11/22/89 Page A14

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By Brooks Jackson
And Paulette Thomas
Staff Reporters of The Wall Street Journal

WASHINGTON—Thrift regulator Danny Wall told a congressional hearing that politics played no part in his decisions regarding **Lincoln Savings & Loan Association**, while Lincoln's former owner asserted his constitutional rights and declined to testify.

Lincoln's Charles Keating, who cited his Fifth Amendment right against self-incrimination, said in a statement later that Congress should turn to "the unpleasant task of revamping the existing regulatory scheme," adding, "I am not sure that Congress is really up to the task."

Mr. Keating's refusal came at the House Banking Committee's sixth day of hearings on why regulators in Washington waited nearly two years to seize Lincoln after receiving a recommendation for such action on May 1, 1987. The hearings have focused on regulators' relationship with Mr. Keating, who arranged $1.4 million in political contributions for five U.S. senators who interceded for him with Mr. Wall's predecessor, Edwin Gray.

"My decisions in the Lincoln case were my own," Mr. Wall, director of the Office of Thrift Supervision, declared in his testimony before the committee. "They were devoid of any political influence."

The hearings have occurred amid some lawmakers' calls for Mr. Wall's resignation and weakening support from the Bush administration. Rep. Jim Leach (R., Iowa) called Mr. Wall "the Neville Chamberlain of financial regulation, a cheerleader who saw little evil and thus spoke little truth."

During the hearings, Mr. Wall said he has asked the Justice Department and the Securities and Exchange Commission to investigate "what may be a pattern" regarding Lincoln's use of high-yield junk bonds tied to subordinated debt, and including possible links to **Southmark** Corp., a Dallas real estate investment company. Mr. Wall said the inquiry involving Southmark is "a very, very important investigation," but wouldn't elaborate. There were several transactions between Southmark and its Houston thrift, and Lincoln S&L and **American Continental**, Lincoln's former parent, involving real estate purchases and loans for those purchases, that have attracted regulators' attention.

Committee members were less concerned about whether politics influenced Mr. Wall than they were about the fractious relationship between thrift regulators in San Francisco and Washington, which appeared to divert them from focusing on the substantive question of whether Lincoln was operating recklessly. "I, for the life of me, can't see why you didn't listen to your people in San Francisco instead of Keating," Rep. Toby Roth (R., Wis.) told Mr. Wall. "When it comes to Mr. Keating, you seem to be rather wimpish."

Mr. Wall testified that "I was not under the spell of Charles Keating," and he and his top deputies said they delayed action because there was a lack of evidence to support strong regulatory moves. Rosemary Stewart, the agency's chief of enforcement, said they lacked specific documentation that would hold up in court to prove suspected illegal lending practices.

But several panel members were skeptical. Rep. Paul Kanjorski (D., Pa.) told Ms. Stewart, "If you were chief counsel of the Senate committee investigating Richard Nixon in 1972, he'd still be in office."

Mr. Wall conceded he should have done some things differently. He said he should have taken on Mr. Keating in court when he threatened lawsuits to keep examiners from the San Francisco office out of his Irvine, Calif., thrift in 1987. He also said he should have resolved an acrimonious rift between regulators in San Francisco and Ms. Stewart in Washington.

That feud was still running yesterday. Ms. Stewart testified that William Black of the San Francisco office participated in a troublesome news leak of confidential information concerning Lincoln to The Wall Street Journal in late 1986, and that he might have committed perjury in characterizing her role in the Lincoln affair. She was admonished by Rep. Leach, however, who called the perjury remark "very defensive and uncalled-for."

Mr. Black had criticized a letter Ms. Stewart wrote to Lincoln disclaiming any intent to refer Lincoln actions for possible criminal inquiries; Rep. Leach said he thought the letter was "egregiously soft" and "an embarrassment."

As to the news leak, Mr. Black testified at an earlier hearing that the information seemed to emanate originally from a staff aide of the Senate Banking Committee, whom Mr. Black had briefed. Mr. Black also said he confirmed The Journal's report at the direction of Mr. Gray.

Mr. Wall's apologies yesterday won some rare sympathy from the panel, which reserved much of its incredulity for Ms. Stewart.

But at yesterday's hearings, the Banking Committee staff released dozens of exhibits reflecting Mr. Wall's cautious approach to Mr. Keating. Committee investigators tallied 25 telephone calls and meetings involving Mr. Keating and Mr. Wall or his Washington-based aides.

At a crucial May 5, 1988, meeting of the Federal Home Loan Bank Board (which was predecessor to the Office of Thrift Supervision), Mr. Wall declared he knew Mr. Keating personally, though not well, according to the official minutes of the closed session. "It seems to me Mr. Keating in my own knowledge has been a very active, and a very entrepreneurial businessman for at the least the last 13 years that I've known him," Mr. Wall said.

Another regulator, George Barclay, president of the Federal Home Loan Bank of Dallas, was quoted as saying at the same meeting that Mr. Keating's complaints of harassment by regulators and of regulatory delays reminded him of similar complaints raised by Empire Savings & Loan Association and Vernon Savings & Loan Association before those two Texas thrifts crashed, amid allegations of widespread wrongdoing. But Mr. Wall said Mr. Keating "is clearly not a flash in the pan, and he's not a Don Dixon, " a reference to Vernon's flamboyant owner.

It was at the May meeting that a divided Bank Board relieved San Francisco officials of responsibility for examining Lincoln and commenced a Washington-led exam that resulted in Lincoln's seizure by the government nearly a year later. The collapse of Lincoln is expected to cost taxpayers as much as $2.5 billion.

Other documents released by the committee show Mr. Wall remained hopeful almost to the end that Mr. Keating's skills as a businessman would spare the government from having to move in on Lincoln. At a Bank Board meeting on April 5, 1989, just days before Lincoln's parent company entered bankruptcy-law proceedings, Mr. Wall expressed hope that Mr. Keating could find a qualified buyer for the thrift.

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Front Section, Page 3

Title: VAST INVESTMENT IN STATE POLITICS BY KEATING TOLD

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Vast Investment in State Politics by Keating Told

By RALPH FRAMMOLINO
and PAUL JACOBS
TIMES STAFF WRITERS

SACRAMENTO—Lincoln Savings & Loan owner Charles H. Keating Jr., his family and his business empire poured nearly $350,000 into state politics during 1985 and 1986, with about half of it going to Gov. George Deukmejian's reelection campaign, contribution records show.

Along with the $173,000 donated to Deukmejian's campaign, Keating's family and business connections also contributed $176,500 over the two years to Democratic and Republican groups and such politicians as then-Assembly Republican Leader Pat Nolan of Glendale and Gray Davis in his successful race for state controller.

■ **EARLY WARNING**
A key federal regulator told top government officials nearly a year before the collapse of Lincoln S&L that their efforts to control the Irvine thrift would be unsuccessful. D1

The figures do not include at least $83,336 in contributions made personally or through the firms of two other Keating associates—Los Angeles attorney Karl M. Samuelian and San Diego businessman Tom C. Stickel.

Keating hired Samuelian, the governor's chief fund raiser, to be one of his California attorneys. He also invested heavily in a San Diego company controlled by Stickel, who also was a Deukmejian fund raiser and became the Republican Party's finance co-chairman in 1987.

"Charlie Keating's political reach, in retrospect, was phenomenal," Stickel said in a recent interview about Keating's political muscle.

The political largess in Sacramento was part of a web of influence that the blunt-talking Arizona businessman wove throughout the country to nurture and protect his ill-fated financial and investment companies, which regulators now contend inflated the value of their assets and deceived investors into buying high-risk bonds.

In April, Keating's American Continental Corp. of Phoenix filed for bankruptcy, prompting federal officials to immediately take over its subsidiary Lincoln Savings & Loan. The move is expected to cost taxpayers $2 billion—the costliest savings and loan bailout in American history.

After the seizure, the outspoken Keating candidly declared that he had expected the political contributions to prod influential politicians, such as U.S. Sen. Alan Cranston (D-Calif.), to fend off hostile regulators.

"One question, among the many raised in recent weeks, had to do with whether my financial support in any way influenced several political figures to take up my cause," said Keating. "I want to say in the most forceful way I can, I certainly hope so."

In California, Keating hired key Deukmejian supporters or appointees to help protect his ill-fated Lincoln Savings. As attorneys, he hired fund raiser Samuelian and Franklin Tom, a former state commissioner of savings and loan who left public service to join Samuelian's Los Angeles law firm. The

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lawyers helped Keating obtain state permission to float more than $200 million in high-risk bonds, on which his company subsequently defaulted.

Keating also paid $200,000 in 1985 for the consulting services of former Savings and Loan Commissioner Lawrence W. Taggart, who had left government service in December, 1984, for a job with TCS Enterprises of San Diego. Days before he left for TCS, Taggart approved a request by Lincoln to increase the amount of assets the institution could sink into high-risk real estate investments.

In January, 1985, when Taggart joined TCS, Keating hired him as an executive and paid $2.89 million to buy 19.2% of the fledgling San Diego firm's stock as it went public.

Meanwhile, Keating and his associates were investing heavily in California state politics. His coalition of contributors included his family—son Charles Keating III and three sons-in-law—and his corporations, including American Continental, Lincoln Savings and three other subsidiaries.

The group also included eight employees and executives, such as American Continental Vice President Robert J. Kielty and consultant Taggart, as well as Phoenix business associate Conley Wolfswinkel, who bought 6,150 acres in Tucson with American Continental in 1985.

While Keating himself gave only $7,000—all of it to Deukmejian—the coalition of his relatives, business interests and associates brought total donations to $349,500 in 1985 and 1986. Reports show:

- Deukmejian received $173,000 from the Arizona businessman and his associates. The governor received $80,000 directly from American Continental and Lincoln Savings; $19,000 from Keating and his family members; $51,000 from other American Continental subsidiaries and executives; and $23,000 from Keating business associates.

The governor has said that he met Keating only once and never knew of Lincoln's financial woes until he read about them in newspaper reports this year.

- Keating and associates gave $176,500 to other state political organizations and politicians. They gave $7,500 to the California Republican Party, $50,000 to the League of Conservative Voters, $17,000 to then-Assemblyman Davis' campaign for state controller, and $85,000 to the state Democratic Party.

They also gave $17,000 to four legislators—Nolan, who authored the law deregulating the savings and loan industry in 1982; Assembly Rules Committee Chairman Tom Bane (D-Van Nuys); Assemblyman Bruce Bronzan (D-Fresno), and Assemblyman Dennis Brown (R-Los Alamitos).

- Stickel and TCS contributed $50,666 in money, staff time and office space to Deukmejian and the Republican Party. Samuelian and his law partners gave $32,700.

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S&L's Failure a Shock, Says Greenspan

■ **Thrifts:** He sought help for Lincoln Savings 5 years ago while acting as a consultant. Today, Fed chairman still backs relief on direct investments.

From Associated Press

WASHINGTON—Federal Reserve Chairman Alan Greenspan, looking back on his work for Lincoln Savings & Loan Assn., said he does not believe that he could have foreseen the thrift's failure, expected to be the costliest in the nation's history.

Nearly five years ago, Greenspan testified before Congress as a private consultant and lobbied regulators on behalf of Lincoln and its owner, Phoenix millionaire Charles H. Keating Jr.

Keating objected to federal regulations restricting thrift institutions' direct investments in real estate development. Greenspan, a conservative economist generally opposed to government's meddling in business, supported him.

In an interview last week, Greenspan said he was surprised and distressed by Lincoln's eventual failure because of sour real estate deals. But he said he still supports short-term direct investments when thrifts are exposed to interest rate risks.

Supporters of direct investments have long argued that they can benefit S&Ls struggling with a portfolio of long-term mortgages.

"I look back and I say to myself, 'Was there something I should have seen and didn't see?' and the answer is, 'There was nothing visible—at least to me,'" Greenspan said.

In early 1985, Irvine, Calif.-based Lincoln was a fast-growing institution under aggressive managers who eschewed traditional home mortgage lending. Greenspan was a private economist with impressive political credentials as President Gerald R. Ford's chief economic adviser a decade earlier.

Now, Lincoln is insolvent and under government control. Regulators say it will cost taxpayers $2 billion to protect its depositors.

In a Feb. 13, 1985, letter to the Federal Home Loan Bank of San Francisco, Greenspan argued that Lincoln deserved an exemption from regulations limiting to 10% thrifts' direct investment in real estate and other commercial ventures.

Lincoln's management, he said, was "seasoned and expert in selecting and making direct investments" with "a long and continuous track record of outstanding success." The institution itself was "financially strong," in a "vibrant and healthy state" and presented "no foreseeable risk to the Federal Savings and Loan Insurance Corp.," he said.

Two weeks later, on Feb. 27, 1985, Greenspan told the House Government Operations subcommittee on consumer, commerce and monetary affairs that direct investments, while undoubtedly risky, were essential for thrifts to diversify their holdings.

LINCOLN

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Traditional S&Ls, which took in short-term deposits and made long-term mortgage loans, were vulnerable to a sharp rise in interest rates and direct investments were a valuable alternative, he said.

He also endorsed a study by economist George Bentsen that cited the success of 17 S&Ls in direct investments. Fifteen of the 17 have since failed.

"It was my view then, as it is now, that interest rate risk was the crucial problem confronting S&Ls—the problem of long-term assets financed by short-term deposits. In that particular context, at that particular time, direct investment would reduce risk," he said.

Greenspan still believes that Bentsen took a "rather sensible statistical approach" but he points out that most of the 17 S&Ls cited in his study were in Texas, later the center of the oil and real estate bust.

The central bank chairman's views have been cited as one of the reasons why a petition, calling on S&L regulators to postpone direct investment limits, attracted 225 signatures in the House in early 1985.

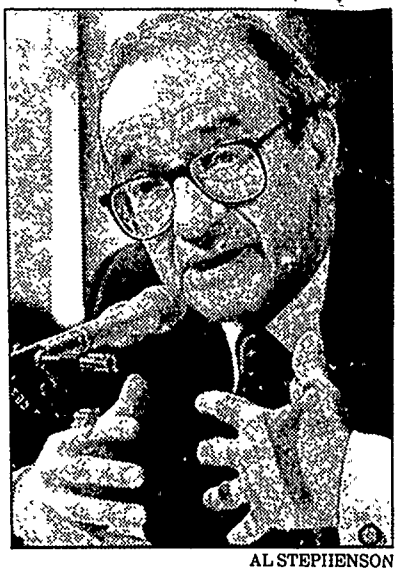
It is also being cited as a reason why, two years later, five senators decided to intervene with S&L regulators after Keating complained about their efforts to examine Lincoln's finances.

The five—Alan Cranston (D-Calif.), Dennis DeConcini (D-Ariz.), Donald W. Riegle Jr. (D-Mich.), John Glenn (D-Ohio) and John McCain (R-Ariz.)—met with the regulators in April, 1987.

Two of them—Cranston and McCain—said Greenspan's views on Lincoln's health heavily influenced their thinking.

"The problem, as conveyed to me at the time, not only by Mr. Keating but also by Mr. Greenspan and Arthur Young & Co. [an accounting firm] was that federal examiners bore substantial responsibility for creating a most destructive and irrational state of limbo for this institution," Cranston told the Senate Ethics Committee in a Nov. 16 letter.

Greenspan said he does not understand why some senators cite his opinion as a reason for actions taken so long after it was given.

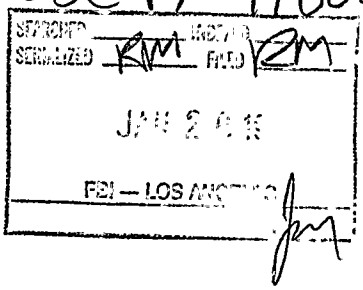


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Alan Greenspan

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Lincoln Savings, Cranston Losses: Perceptions of Political Propriety

■ Fund-Raising: When politicians take campaign dollars from wheeler-dealers, they may build war chests at the expense of public trust.

By Sherry Bebitch Jeffe

In 1969, one of the first constituent letters to newly elected California Sen. Alan Cranston came from comedian Groucho Marx, who wrote:

"I am one of your strongest supporters and one who believed in your integrity—perhaps even your manhood. I sent you a check for $25 for your campaign.

"Inasmuch as you are now safely ensconced in office, I think you would be doing a handsome deed by returning the $25."

The senator reportedly replied:

"Dear Groucho:

"I was relieved to learn that you believe in my integrity and my manhood, just as you will be relieved to learn that your $25 check, which I promptly cashed, was good.

"So much for my integrity, my manhood and your 25 bucks."

Two decades later, Cranston, by his involvement with the now-defunct Lincoln Savings and Loan Assn., has sent a message in the same spirit to the thrift's beleaguered investors. But this time, it's no laughing matter; this time, stakes are higher and there are real victims.

The saga of Irvine-based Lincoln Savings involves alleged fraud and insider dealing by its owners, allegations that the regulatory process was subjected to political interference and charges that regulators leaked confidential information. Cleaning up the Lincoln mess may cost U.S. taxpayers more than $2 billion.

What happened defines the collapse of the nation's savings-and-loan industry. It is also a California political tragedy.

California has come to epitomize the trend toward big politics bankrolled by rich wheeler-dealers. The Lincoln debacle—the role of Cranston and other government officials in it—underscores the perils of a political system gone sour.

Five U.S. senators—Cranston, Dennis DeConcini (D-Ariz.), John Glenn (D-Ohio), John McCain (R-Ariz.) and Donald W. Riegle Jr. (D-Mich.)—are alleged to have improperly intervened with federal regulators on behalf of the failing S&L. Together, they received more than $1.3 million in contributions from Lincoln's owner, Charles H. Keating Jr., and his associates, for their own campaign committees or for political committees with which they were affiliated.

Cranston, a senior member of the Senate Banking, Housing and Urban Affairs Committee, took $39,000 in direct contributions for his 1986 reelection campaign and solicited more than $900,000 for voter-education projects and get-out-the vote drives.

All five senators have argued that they did not intervene because of Keating's donations, that they merely made "routine inquiries" as they would on behalf of any constituent. But that's not necessarily the public perception.

Whether in perception or reality, public officials cannot go around championing the risky interests of a single generous individual over the greater public good. It is, as Cranston himself admitted, "politically stupid." Why did politicians in Sacramento and Washington intervene?

They intervened because they weren't prohibited from intervening. The rationale is that part of a representative's job is constituent service. It's just that some constituents—mostly large campaign contributors—are more equal than others.

They intervened because the system encourages it—that's how huge electoral bills are paid.

The bill for Cranston's narrow 1986 victory was $11 million. And he has already begun raising large sums for 1992. His constant fund-raising is not unusual; the political fact of life for all incumbents is that nothing beats a huge, early war chest to freeze out potential challengers.

Early on, Cranston dismissed the hubbub over his questionable campaign contributions. "I don't see it as a major issue," he insisted, "compared with 20 years in the Senate." But like the current problems of Mayor Tom Bradley, Cranston's ethical quandaries stem, at least partially, from long tenure in public office.

Cranston, like Bradley, has become a victim of "professional politician syndrome." Hubris—the overweening arrogance that comes from being in power too long—leads to isolation from the broader constituency. Entrenched incumbents take it upon themselves to be the sole judge of their actions. That's what happened here. And they judged poorly.

It will be difficult for Cranston, if he runs for a fifth term, to position himself as the "champion of the underdog" when his opponents and the media portray a grinch who stole pensioners' savings.

Opinion-makers have already begun to write Cranston's political obituary. The conventional wisdom is that, like Bradley, Cranston will limp into political retirement—absent any legal charges that might stem from his troubles.

In Washington, the California congressional delegation has already suffered the resignation of the third-ranking House Democrat. Tony L. Coelho. The former Merced congressman, once thought to be the embodiment of the high-powered California approach to campaign fund-raising, left in the wake of ethical questions about his financial dealings.

Now Cranston, the Senate's assistant majority leader, the highest ranking Californian on the Senate leadership ladder, has been weakened by ethical and political questions.

At the ballot box and in the media, the political outcome of the Keating scandal may be a bipartisan wash, both in California and nationally.

The group of senators under investigation includes four Democrats and one Republican. But Keating is a Republican who contributed heavily to both parties. M. Danny Wall, the Federal Home Loan Bank Board chairman accused of being too lenient with Lincoln, was a Reagan appointee.

(Indicate page, name of newspaper, city and state.)

LOS ANGELES TIMES
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Edition: OPINION SECTION, PAGE M4

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LOS ANGELES

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In California, Lincoln collapsed on the watch of Republican Gov. George Deukmejian, whose 1986 campaign received $172,000 in Keating-connected largess.

State legislators of both parties, who are involved in banking and thrift regulation, have also received contributions, including $53,750 from Lincoln to members of the California Assembly's Finance and Insurance Committee.

The Keating affair has also raised questions about the politics of the regulatory process. One of the hottest is how much political pressure was applied to state and federal regulators. At minimum, what happened constituted inappropriate legislative meddling in the regulatory arena. At worst, it confirmed the existence of a system that requires bureaucrats to be politically responsive to the regulated industries whose contributions keep their elected bosses in power.

The Lincoln mess demonstrates the devastating impact on public policy of the "legalized bribery" that fuels the national and state political process.

Back when Southern Pacific ran California and later when lobbyist Artie Samish "selected and elected"—sometimes housed and fed—underpaid, part-time legislators, corruption tended to be personal. The end was self-enrichment. Votes were traded for money, sustenance and other favors.

With the "upgrading" of the past two decades, corruption has tended to become institutional. It stems not from illegal personal behavior but from the necessity to contest legitimate elections to win powerful, attractive, but costly jobs.

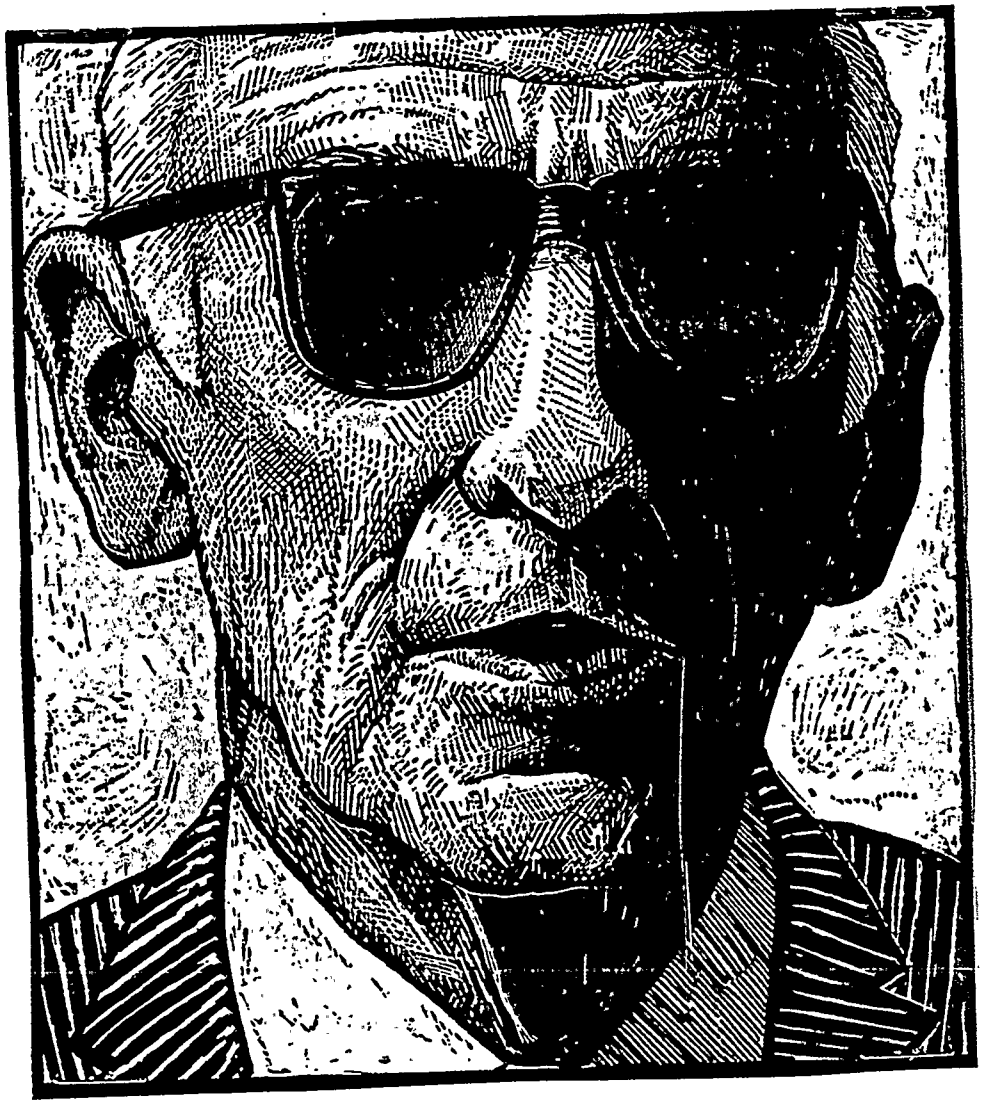
Most politicians, Cranston included, would never trade their vote for personal wealth but many have rationalized their corruption by arguing that taking money from special interests is OK as long as it's "for a good cause."

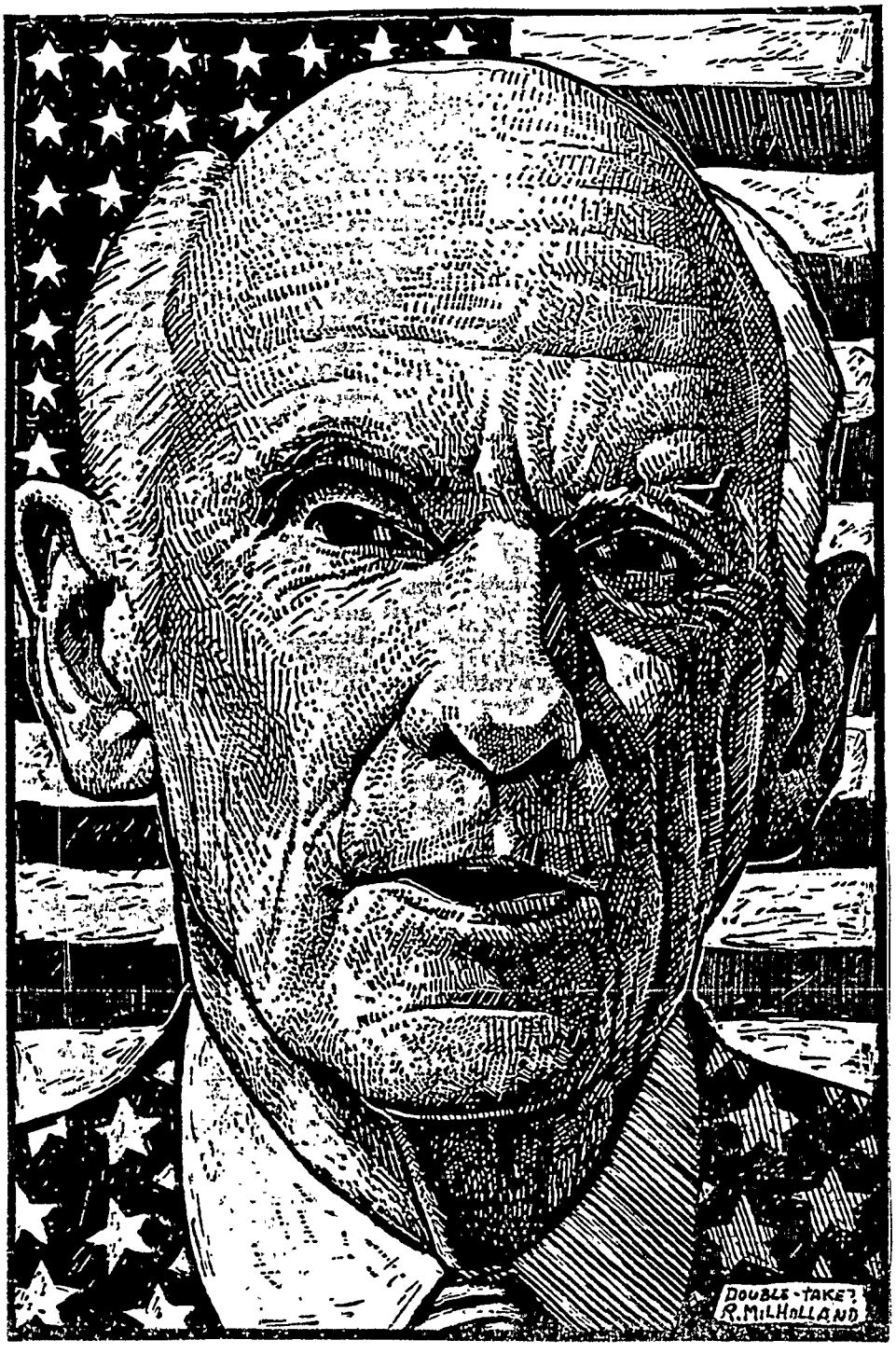
That may be Cranston's rationale for 20 years spent taking contributions from economic interests whose aims don't mesh with his liberal agenda; he wants to protect that agenda in an increasingly hostile political environment and that requires campaign money.

But is that explanation enough? Or do campaign contributions allow politicians to dodge the moral and legal dilemmas inherent in our current system by, in effect, institutionalizing bribery?

Did the senators' intervention violate, as Common Cause alleged, rules "prohibiting improper conduct . . . the dispensing of special favors and privilege"?

Did a senator accept "favors or benefits under circumstances that might be construed . . . as influencing the performance of his governmental duties?" That question is at the crux of the terrible dysfunction that pervades our governmental institutions. As long as money is allowed to dominate politics, the public will continue to view politicians more as crooks than as leaders. When political entrepreneurship is replaced by public service, then policy on its merits might—




DOUBLE-TAKE?
R. MILHOLLAND

(Rev. 5-8-81)

(Mount Clipping in Space Below)

(Indicate page, name of newspaper, city and state.)
ORANGE COUNTY REGISTER
PG A3

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Governor's ally defends role in Lincoln case

Fund-raiser says he never used relationship to help troubled thrift

The Associated Press

SACRAMENTO — Gov. George Deukmejian's chief fund-raiser, who has been summoned to testify at a legislative hearing on Lincoln Savings & Loan Association, said in an interview published Sunday that his relationship with the governor never benefited the collapsed thrift.

"He is so innocent, as I am," said attorney Karl Samuelian in a Sacramento Bee interview. "It's regrettable that there should be any appearance or thought that anyone was doing anything that's improper."

As a lawyer for Charles H. Keating Jr., the Arizona millionaire who sought to avoid strict regulatory control of Lincoln Savings and Loan, Samuelian has come under scrutiny for his role in the nation's largest savings and loan failure.

Also Sunday, two of the five senators embroiled in the Lincoln Savings investigation denied that they had intervened improperly with banking regulators to keep the thrift open.

"Honesty and integrity are my life, and any implication that I've done something wrong is just flat wrong and I resent it with every fiber of my being," Sen. John Glenn, D-Ohio, said on ABC Television's "This Week with David Brinkley."

Glenn, one of whose political-action committees received $200,000 from Keating, said he did not request any special favors and promptly closed his file on Lincoln in 1987 after regulators told him they planned to file criminal charges with the Justice Department.

Sen. John McCain, R-Ariz., said he attended a meeting in April 1987 with then-chief thrift regulator Edwin Gray partly because Alan Greenspan, a respected Wall Street economist who is now chairman of the Federal Reserve Board, had described Lincoln in a report as strong and viable.

McCain said he also was influenced by a report from accounting firm Arthur Young, which concluded that regulators were harassing and intimidating Lincoln, whose parent company, American Continental Corp., was a major employer in Arizona.

ABC said the other three senators who interceded on Keating's behalf — Democrats Alan Cranston of California, Dennis DeConcini of Arizona and Donald Riegle of Michigan — declined to be interviewed.

Samuelian is scheduled to testify before a state legislative committee Wednesday about his efforts to influence state decisions that permitted American Continental Corp. to sell high-risk, uninsured bonds through Lincoln branches.

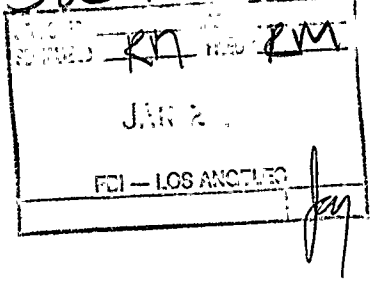
Those bonds now are deemed worthless by attorneys for the purchasers, who have named Samuelian's law firm as a defendant in at least three class-action suits.

Samuelian, 57, acknowledged in the interview that his law practice has flourished since he became a prominent Republican fund-raiser and Deukmejian confidant. But he said the number of clients he represents before state agencies has not increased "in any significant way."

"It's helped my career," he said.

Reuters contributed to this report.

58C-DX-41605-24



Rev. 5-8-81

(Mount Clipping in Space Below)

Cranston defends Lincoln S&L help

Says regulators had vendetta against thrift

The Associated Press

SAN JOSE — Sen. Alan Cranston said he was convinced San Francisco-based federal regulators waged a "vendetta" against the savings and loan of Charles H. Keating Jr., and said he asked regulators to handle their investigation more fairly.

In a telephone interview with the San Jose Mercury News from Santa Barbara Monday, Cranston discussed his activity on behalf of Keating, a Phoenix, Ariz., resident facing multiple investigations. Keating also is accused in a federal government lawsuit of looting millions of dollars from Lincoln Savings and Loan.

"For God's sake," said the 75-year-old Cranston. "If a senator is not supposed to speak to regulators who are on somebody's back, and seek to make sure they're being treated fairly, and to end the process, what is a senator supposed to do?"

Keating's thrift is in the midst of a taxpayer bailout that is expected to cost at least $2.3 billion, the country's most expensive S&L bailout.

Cranston said he regretted none of his actions on behalf of Keating, and did not regret accepting $970,000 for his political campaigns and favorite causes from Keating, his relatives and associates.

Cranston received $850,000 for voter registation groups in 1987 and 1988, and another $120,000 in 1986 for his re-election and for the California Democratic Party.

In his interview, Cranston said he wasn't alarmed to learn in 1987 that Justice Department prosecutors would be asked to look at possible criminal activity involving Keating's thrift "because it's very often done by regulators. When they can't resolve something, and they're annoyed, they send it over to Justice. And often it's never heard of again."

A California senator since 1969, Cranston said he thinks the country's top thrift regulator, M. Danny Wall, acted correctly when he transferred jurisdiction of Keating's savings and loan from San Francisco to Washington, DC, in 1988.

"I think he probably did, since he knew there was a vendetta going on and didn't trust their (San Francisco's) judgment," Cranston said.

Some members of Congress have harshly criticized the move.

On Monday, Senate Majority Leader George Mitchell, D-Maine, became the latest high official to call for Wall's resignation. However, a spokesman for the top regulator said Tuesday that Wall had no intention of resigning.

Nonetheless, pressure is growing on Wall. Today, leaders of three advocacy groups are expected to call for the ouster of Wall. They are Jim Davidson, chairman of the National Taxpayers Union; Joan B. Claybrook, president of Public Citizen, a group founded by consumer activist Ralph Nader, and Alan L. Keyes, president of Citizens Against Government Waste.

Rep. Henry B. Gonzalez, D-Texas, chairman of the House Banking Committee, has written to President Bush suggesting that Wall step aside. The president's response has been less than warm support.

"If part of the savings and loan problem proves to be management or regulation people that aren't aggressive enough, the answer will be yes," Bush said when asked about Gonzalez' letter.

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LOS ANGELES TIMES
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(Mark Clipping in Space Below)

Cranston Says Lincoln Charges Are 'Ridiculous'

By SARA FRITZ
TIMES STAFF WRITER

Sen. Alan Cranston (D-Calif.), defending himself after weeks of silence about his efforts on behalf of Lincoln Savings & Loan, declined Tuesday to blame anyone—including owner Charles H. Keating Jr.—for the $2-billion collapse of the Irvine thrift.

In an interview, Cranston characterized allegations of wrongdoing by him as "ridiculous" and expressed hope that the controversy will be laid to rest before he seeks reelection in 1992. But he acknowledged that the matter already has diverted his attention and has interfered with fund raising for his reelection drive.

"I know my opponent will resur-

Please see LINCOLN, A20

Continued from A1

rect it," he said. "Obviously, my opponent will have an unpleasant 30-second television spot about it."

Until now, Cranston has declined to be interviewed while the House Banking Committee conducted six weeks of hearings that focused increased attention on the efforts of five senators to intervene with federal regulators on Keating's behalf during an early investigation of Lincoln.

The 73-year-old senator said he has refused to talk about it for the past two months because he was preparing his legal response, which was presented to the Senate Ethics Committee last week, and because he was "getting tired" of the persistent questions of reporters. In addition, he conceded he was upset by the embarrassing testimony before House committee hearings.

"Now that's over, and I've had a few days' rest and I'm ready to address it again," he said, vowing to defend himself as aggressively as possible in the days to come.

On Monday, Cranston was asked about the Keating affair by a constituent only once during a series of forums he held in Santa Barbara—his first public appearances in California since Congress recessed last week. He responded with a forceful, 5-minute defense of his actions that drew mild applause from the audience of about 250 persons.

Cranston and four other senators—Dennis DeConcini (D-Ariz.), Donald W. Riegle Jr.(D-Mich.),

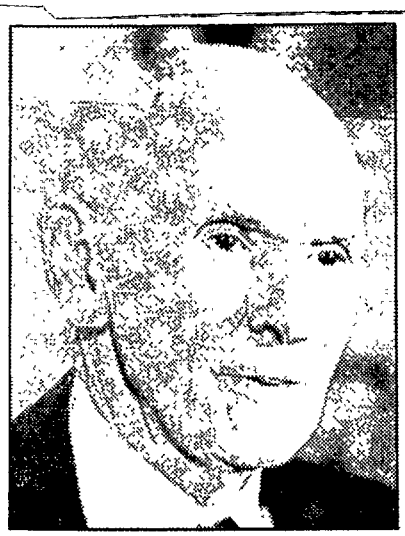
■ **FAMILY AFFAIR**
Keating's brother runs finances for Detroit's JOA papers. D1
■ **LOSSES MOUNT**
$60-million loss puts Lincoln down $877 million for year. D5

John Glenn (D-Ohio) and John McCain (R-Ariz.)—have been accused of interfering with a federal investigation of Lincoln in exchange for thousands of dollars in political contributions from Keating, a wealthy Arizona businessman.

The four-term California senator rejected the statements of three elderly California women who had told the House Banking Committee that they hold him personally responsible for the losses of $200 million suffered by 24,000 investors who purchased insured junk bonds at offices of Lincoln. The bonds are now worthless and investors are suing Keating for repayment.

Cranston said he is not responsible either for the fraudulent bond sales or for the collapse of Lincoln last April, which is expected to cost the American taxpayers $2.3 billion to repay insured depositors. "It's all ridiculous," he said, referring to their efforts to blame him.

At the same time, Cranston said he would not engage in "finger pointing" or blame others who



Associated Press

Sen. Alan Cranston

have been implicated in the scandal—including Keating, the four other senators, former Federal Home Loan Bank Board Chairman Edwin J. Gray or M. Danny Wall, director of the Office of Thrift Supervision, the successor agency to FHLBB.

Although Keating currently is under investigation by the Justice Department and the Securities and Exchange Commission for his stewardship of Lincoln, Cranston said it is too early to judge whether the Lincoln owner did anything wrong. "We'll have to wait and see," he said.

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FBI — LOS ANGELES

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The senator said he still believes that Lincoln was being unfairly harassed by federal regulators in 1987 when he contacted Gray at Keating's request. He added that Keating never asked him to do anything as a "quid pro quo" for his generous contributions.

Nor would Cranston join in the chorus of Democrats in Congress—including Senate Majority Leader George J. Mitchell (D-Me.)—who are calling on President Bush to oust Wall as the nation's chief thrift regulator for his failure to act sooner to halt the alleged fraud and mismanagement by Keating at Lincoln.

Rather, Cranston said Wall deserves credit for deciding last April that the federal government should seize Lincoln to stop the loss of federally insured deposits. "He's the one that finally took matters into his own hands in Washington and found the evidence that he felt was needed and made a decision," Cranston declared.

But the senator's vow to avoid finger pointing was sorely tested when it came to the subject of Gray, who has been his chief accuser. Gray, who met with the senators in April, 1987, when he was head of the bank board, has accused them of improperly trying to influence the investigation of Lincoln.

Cranston said Gray shares "some culpability" because he headed the bank board at the outset of the investigation of Lincoln. The senator's aides have speculated that Gray, a former press secretary for Ronald Reagan, is trying to get even with Cranston for his criticism of the former California governor and President dating back to 1966.

The senator expects to be cleared of any wrongdoing by the Senate Ethics Committee. "I expect they will find that I did nothing improper—that I violated no rule, no law," he said.

And he predicted that the panel's findings would help him get beyond the scandal by the time he faces reelection. "This may go away by then if the Ethics Committee comes out with the sort of decision I anticipate and if my message gradually gets through," he said.

Cranston plans to run an effective, well-financed reelection campaign, even though the Keating case already has "diverted my attention" away from fund raising, he said. "It's slowed down a bit," he said of his recent fund raising, "but we'll be in good shape . . . And some people have contributed to me because of this—because they want to show friendship."

Cranston's defense of himself is based primarily on the testimony of both Gray and Wall, who told the House committee that the senators' intervention did not affect their handling of the Lincoln case in any way. He insists that he never asked the regulators for leniency for Lincoln but only requested that the probe of Lincoln be brought to a speedy conclusion.

"When you are asking them to make a decision, how can you be blamed for the fact that they didn't make a decision," Cranston asked.

He also argued that members of Congress are expected to intervene with the government on behalf of constituents who have a legitimate complaint about bureaucratic red tape. This, he said, is no different than what former President Reagan often promised to do—"to get government off the backs of the people."

Cranston said he did not know at the time he contacted the regulators for Keating that worthless junk bonds were being sold at Lincoln offices to many people who mistakenly believed their investment was insured by the government. He said he did not learn about the bonds until earlier this year.

Even when Lincoln was seized by the government last April 14, Cranston admitted, he told Wall he feared the regulators were making "a mistake." He said he felt the government should have permitted Keating to sell Lincoln.

"I would do most of what I did again, knowing what I knew at the time," he said. "In hindsight, I wouldn't do it if I had known all the facts. But given what I knew at the time, I think it was the appropriate thing to do."

FD-350 (Rev. 5-8-81)

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Cranston defends Lincoln actions

SAN JOSE (AP) — Sen. Alan Cranston said he was convinced San Francisco-based federal regulators waged a "vendetta" against the savings and loan of Charles H. Keating Jr., and said he asked regulators to handle their investigation more fairly.

In a telephone interview Monday with the *San Jose Mercury News*, Cranston discussed his activity on behalf of Keating, a Phoenix, Ariz., resident facing multiple investigations. Keating also is accused in a federal government lawsuit of looting millions of dollars from Lincoln Savings and Loan.

"For God's sake," said the 75-year-old Cranston. "If a senator is not supposed to speak to regulators who are on somebody's back, and seek to make sure they're being treated fairly, and to end the process, what is a senator supposed to do?"

Keating's thrift is in the midst of a taxpayer bailout that is expected to cost at least $2.3 billion, the country's most expensive S&L bailout. Cranston said he regretted none of his actions on behalf of Keating, and did not regret accepting $970,000 for his political campaigns and favorite causes from Keating, his relatives and associates.

Cranston said he wasn't alarmed to learn in 1987 that prosecutors would be asked to look into possible criminal activity at the thrift.

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FRONT SECTION, PAGE 10

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Date: THURS., NOV. 30, 1989
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Title: THRIFT OWNER CALLED A 'CON MAN'

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Thrift Owner Called a 'Con Man'

By RALPH FRAMMOLINO and PAUL JACOBS
TIMES STAFF WRITERS

SACRAMENTO—Lincoln Savings & Loan owner Charles H. Keating Jr. was a "con man" who relied on lies and political influence—"juice"—to fool and bully regulators in charge of his ill-fated Irvine-based thrift, California Savings and Loan Commissioner William J. Crawford told an Assembly committee Wednesday.

The committee also heard Gov. George Deukmejian's top campaign fund-raiser, Los Angeles attorney Karl M. Samuelian, defend his actions as one of Keating's attorneys, hired to represent the Arizona businessman's interests before state regulators. Samuelian said he recommended the appointment of two successive state corporations commissioners—both of whom subsequently approved the sales of high-risk junk bonds by Lincoln's parent corporation.

Samuelian, Deukmejian's campaign finance chairman since 1982, also said that he represented Keating at several meetings with state regulators. After the hearing, Samuelian told reporters that he helped set up meetings between Keating and the regulators' boss, Business, Transportation and Housing Secretary John K. Geoghegan.

But it was Crawford's blunt remarks about Keating's tactics and demeanor that provided the most provocative testimony Wednesday before the Assembly's Finance and Insurance Committee.

Asked for a simple explanation of why Lincoln Savings failed, prompting a federal takeover in April that could cost taxpayers more than $2 billion, Crawford said: "If I had to pick one reason, I would have to say that probably the owner was a con man."

"He was a dominant person who believed that he was above the law and regulations, that he was powerful and he had the juice and he could win. He could fight the regulators, and he did a very good job of it."

When Keating first took over Lincoln in February, 1984, he told state regulators one thing but all along planned to do another, Crawford said.

"They said they were going to run a traditional savings and loan. They lied to us," Crawford said.

Instead, Crawford said, Keating used Lincoln's citizen deposits and sales of high-risk bonds as sources of cash for marginal land acquisitions in Arizona, Colorado, Texas and Louisiana. Crawford said that when he took over the department in 1985, he found that his predecessor had allowed Keating to keep the original records of Lincoln Savings in Phoenix, leaving only incomplete copies of documents for California regulators in the Lincoln offices in Irvine.

Crawford said he ordered Lincoln's files to be brought back to California after he discovered Keating had contributed $50,000 to Arizona's attorney general in an uncontested race—a move that persuaded him that any action by California regulators would be resisted by their counterparts in Arizona. He also said regulators needed the centralized files to help keep up with Keating's financial empire, which expanded from 32 corporations in 1984 to 54 entities by the end of 1987.

"That was 54 places to hide the smoking gun," said Crawford, who added: "We were never on top of the problems of Lincoln Savings. . . . They could write up [the value of] their assets faster than you could write them down."

He said the task was made even more difficult by the phalanx of Keating employees and attorneys, who overwhelmed understaffed regulators. Crawford said he tried to keep tabs of Lincoln with only one experienced examiner and two trainees.

"They [Lincoln and American Continental] had a battery of people. They had 48 CPAs, they had 15 attorneys on staff. I just lately learned they employed 77 outside law firms," Crawford said.

Referring to a Home Loan Bank Board memo that said Keating had attempted to have him fired, Crawford said he did not know of any such effort but added that he, like federal regulators, felt "beat up" by the Arizona businessman.

'Proof of the Pudding'

But he insisted that no one from Deukmejian's office tried to influence his handling of Lincoln.

"He had the juice [but] he didn't have it on a direct line from the governor to me. I'm still here, and that's proof of the pudding, I think," Crawford said.

The committee's chairman, Assemblyman Patrick Johnston (D-Stockton), expressed concern about allegations that Keating and his associates used political connections to influence state regulators.

Keating was invited to attend the committee hearing but did not respond, Johnston said.

Deukmejian fund-raiser Samuelian, however, said he has never contacted the governor on behalf of any client.

"As far as the governor is concerned, I have religiously for 10 years separated my business matters from my [campaign] assistance to the governor," he said.

Samuelian outlined 1986 and 1987 contributions to Deukmejian's campaign committee from Keating's companies, relatives and business associates totaling $150,000, plus an additional $100,000 to Republican fund-raising efforts in California that Samuelian collected.

However, he denied ever "lobbying" for Keating or his companies.

FBI/DOJ

"We were representing a client as a lawyer, not doing any lobbying work," Samuelian said.

After the hearing, Samuelian said he helped set up Keating's meetings in February and March, 1988, with Transportation and Housing Secretary Geoghegan, a Deukmejian appointee whose agency oversees the state's savings and loan and corporations regulators.

Samuelian also revealed to the committee Wednesday that he had recommended that Deukmejian appoint two former law associates, Franklin Tom and Christine W. Bender, as corporation commissioners. The governor named Tom first, and then Bender succeeded him.

Both Tom and Bender approved the sale of controversial high-risk bonds issued by American Continental and sold through Lincoln's branches.

After Tom left his post as commissioner, he rejoined Samuelian's law firm and represented Keating's position in meetings with Bender, his successor and former deputy.

Wording Deleted

Also during the hearing, state savings and loan examiner Richard Newsom said the state attorney general's office deleted wording in a December, 1988, cease-and-desist order against American Continental that could have warned investors not to buy the company's high-risk junk bonds.

Newsom said the wording would have been the "atomic bomb" to end the junk bond sales, which continued through early 1989. But, he added, the attorney general balked at including the language because his office lacked the expertise to defend the state on a court challenge over securities matters.

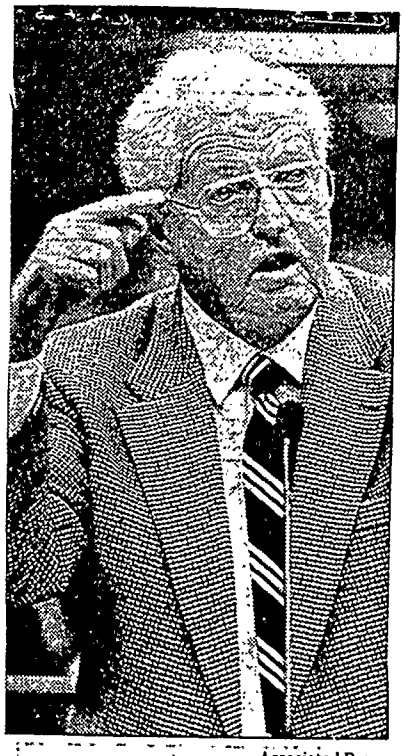
However, Newsom's testimony was immediately refuted by both Atty. Gen. John K. Van de Kamp and an attorney for the Savings and Loan Department. The attorney, Shirley Thayer, said she and others in the department made the decision to drop the language, not Van de Kamp.

In Washington, meanwhile, White House spokesman Marlin Fitzwater said President Bush had no immediate plans to oust M. Danny Wall, the embattled chairman of the office of thrift supervision.

Wall, who previously headed the Federal Home Loan Bank Board, is under fire for not acting on a recommendation by regional regulators to seize Lincoln in 1987. The government did not take control of the thrift until last April, and critics contend that the delay greatly increased the eventual cost to taxpayers.

Asked at a press briefing if the White House planned to fire Wall, Fitzwater replied: "No, there's been no consideration of Mr. Wall's tenure. He's serving on the [office of thrift supervision] board, and there's been no change."

Calls for Wall's resignation have increased in recent days. On Wednesday, three nonprofit organizations—the National Taxpayers Union, Public Citizen and Citizens Against Government—sent a letter to Bush urging him to oust Wall.



Associated Press

William J. Crawford

Deukmejian confidant

Newspaper, city and state:
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tells of Lincoln role

Samuelian lobbied ex-partner to win state approval of bonds

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By Chris Knap
The Register

SACRAMENTO — Gubernatorial fund-raiser Karl Samuelian recommended his former law partner for the job of corporations commissioner, then lobbied her to permit the sale of uninsured bonds by his client American Continental Corp., he testified Wednesday.

American Continental, the parent firm of Irvine-based Lincoln Savings and Loan, went bankrupt less than a year after Commissioner Christine Bender approved the sale, leaving 23,000 Californians holding $200 million in worthless debentures.

Samuelian also disclosed that he attended at least three meetings with state officials and helped set up cabinet meetings for his client.

During one such meeting, American Continental chief Charles Keating suggested to Business Secretary John Goeghegan that Savings and Loan Commissioner William Crawford should be replaced with a less-zelous regulator, Goeghegan has said.

Despite those disclosures, Samuelian said he and his law partners could not be blamed for investors' losses.

"Our job was strictly to file the necessary papers," he said.

Samuelian was described Wednesday by the governor's office as a "friend (of Gov. George Deukmejian) and a key political adviser."

As campaign finance director for Deukmejian in 1986, Samuelian collected $172,000 from Keating, his friends and business associates, plus $100,000 for a national Republican committee called Victory '88, according to Samuelian's testimony and state campaign finance records.

Samuelian's testimony before a state Assembly committee was his first public explanation of his role in the $2 billion collapse of Lincoln, now a nationwide symbol of the savings and loan deregulation debacle.

Absent from the hearing were committee members Pat Nolan, R-Glendale, and Tom Bane, D-Van Nuys, sponsors of the 1983 bill that deregulated state thrifts. The pair has received $41,000 in contributions from Lincoln.

State regulators testified Wednesday that they knew Lincoln Savings and Loan was "about to go over the cliff," but influential lobbying, bureaucratic snafus and fear of legal entanglement kept

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FBI — LOS ANGELES

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Page 2

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them from halting the collapse.

For example, Department of Savings and Loan senior examiner Richard Newsom testified Wednesday that he tried to get language included in a 1988 cease-and-desist order that would have attacked the credibility of the prospectus for American Continental's junk bonds.

Newsom said the language would have been "an atomic bomb" that would have made it difficult for American Continental to continue the bond sales.

But attorneys in the Department of Savings and Loan and the Attorney General's Office conferred and decided to remove the language.

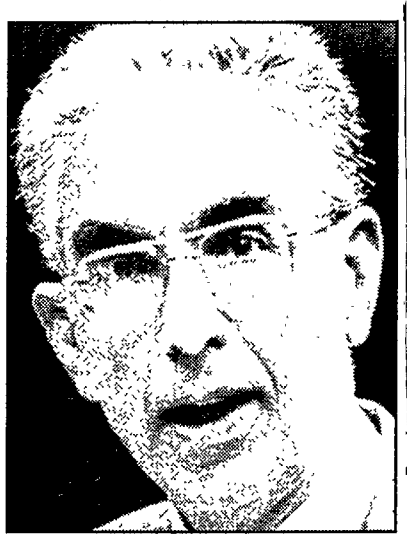
"The laws favor the entrepreneur," Crawford testified. "You can't take (their thrifts) away without due process. Due process sometimes means no process. Every time you try to take aggressive action you talk to your attorneys, and they say 'Why do you want to do that?' "

Crawford, who described Keating as a "con man," was praised by the committee. But former Corporations Commissioner Franklin Tom and Commissioner Bender were criticized for their role in allowing the sale of the "junk bonds," many of which were sold to unsophisticated investors from desks set up in Lincoln branches.

Tom and Bender were named commissioners after recommendations from Samuelian, their law partner.



Christine Bender
Lobbyist's ex-partner OKd bonds



Karl Samuelian
Lobbied on behalf of Lincoln parent

Tom apparently incriminated himself when he testified that he called an assistant commissioner in March 1987 to "assure prompt consideration" of the American Continental application.

The Department of Corporations conflict-of-interest code prohibits a former commissioner from representing an applicant before the department for a period of one year. Tom had resigned as commissioner and returned to Samuelian's law firm less than one month before the phone call.

Tom said he forgot to disclose the contact with Assistant Commissioner Jerry L. Baker in his testimony before the committee in August. But he insisted that he had done nothing wrong in making that "procedural-type request," nor in making a previously disclosed phone call to a lower-level regulator in San Francisco.

But committee chairman Pat Johnston, D-Stockton, said Tom's action "violates the (conflict-of-interest) regulation" and that he would turn over a report to the Fair Political Practices Commission.

Johnston ridiculed Tom's "procedural-request" explanation, saying, "Surely Mr. Tom, you were not asking for prompt consideration in order for them to reject it."

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Riegle Says Media Misreports Probe of Lincoln Savings

From Associated Press

WASHINGTON—Sen. Donald Riegle (D-Mich.) defended his involvement with Lincoln Savings & Loan Assn. on Wednesday and accused the news media of ignoring evidence that he did not influence regulators to delay closing the failed thrift.

"A lot of the press stories have been based on the false notion that senators or others in Congress had somehow influenced the process, and that's not true," Riegle said.

Congressional testimony that Riegle said clears him and four other senators of wrongdoing has been played down in news accounts because "it basically blows away the story."

Riegle, chairman of the Senate Banking Committee, has said little publicly about his role in the battle between federal regulators and Lincoln, which the government seized in April.

The Senate Ethics Committee has hired an outside lawyer to examine allegations that five senators improperly intervened with regulators on Lincoln's behalf. The senators are Riegle, Alan Cranston (D-Calif.), John McCain (R-Ariz.), John Glenn (D-Ohio) and Dennis DeConcini (D-Ariz.).

(Indicate page, name of newspaper, city and state.)

LOS ANGELES TIMES
LOS ANGELES, CA
THURS., NOV. 30, 1989
DAILY PG. 432

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DAILY NEWS
SAN FERNANDO, CA
THURS., NOV. 30, 1989
VALLEY PGS. 1 & 18

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Title: STATE PULLED INTO LINCOLN CONTROVERSY

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State pulled into Lincoln controversy

Attorney General's Office accused of blocking order

By JAMES W. SWEENEY
Daily News Sacramento Bureau

SACRAMENTO — The state Attorney General's Office blocked a regulatory order that "would have dropped an atomic bomb" on junk bond sales by collapsed Lincoln Savings, according to testimony at a legislative hearing Wednesday.

Richard Newsom, a state Department of Savings and Loan examiner, said that the order would have disclosed insider trading violations by Lincoln officials and halted the sale of more than $10 million in now-worthless bonds.

Newsom said that the December 1988 order was scaled back at the request of the Attorney General's Office to cover only unsafe loan practices and that Lincoln continued to sell the uninsured junk bonds until it was seized by federal regulators in April.

Attorney General John Van de Kamp denied that his department ignored the request, saying attorneys for the Savings and Loan Department decided on their own to remove the insider-trading language from the regulatory order.

In a written statement, Van de Kamp said that his office told the Savings and Loan Department it "would pursue whatever action the department chose to file, but asked whether the department was sufficiently sure of its facts."

Van de Kamp, who is seeking the Democratic nomination for governor, opened a criminal investigation last week into whether Lincoln Savings and Loan employees sold uninsured securities to 23,000 Californians without a license.

Newsom's testimony came during a three-hour hearing by the Assembly Finance and Insurance Committee, chaired by Patrick Johnston, D-Stockton. Other developments at Thursday's hearing included:

■ Former state Corporations Commissioner Franklin Tom testified that he contacted his former deputies on behalf of Lincoln a few weeks after leaving office, an apparent violation of state lobbying regulations. Johnston said that he will ask the Fair Political Practices Commission to investigate Tom, now a Los Angeles attorney.

■ Los Angeles attorney Karl Samuelian, chief fund-raiser for Gov. George Deukmejian, said that he helped arrange a meeting with a top administration official where Lincoln owner Charles H. Keating Jr. asked the state to relax its investigation. Keating, his company and his business associates have contributed more than $200,000 to Deukmejian and the state Republican party through Samuelian.

■ California Corporations Commissioner Christine Bender, a former law partner of Samuelian and Tom, said that she did not consider warnings about Lincoln from state and federal savings and loan regulators sufficient to reject its proposal to sell junk bonds through its 29 branches.

Before it was shut down last spring, Lincoln sold about $200 million worth of the uninsured bonds issued by its parent company, American Continental Corp. of Phoenix, Ariz. to 22,000 mostly elderly customers.

Those bonds — formally known as subordinated debentures, meaning all other debts must be paid ahead of them — became virtually worthless when American Continental Corp. declared bankruptcy the day before Lincoln was seized.

Unlike regular deposits, the bonds are not covered by federal insurance.

Newsom, the state savings and loan examiner, said that he discovered "flagrant, unsafe lending practices" as well as violations of federal insider trading laws when he audited Lincoln in 1988.

Testifying before the Assembly Finance and Insurance Committee, Newsom said that he found "outright theft of $20 million followed by lying to shareholders" in the purchase by Keating of the plush Pontchatrain Hotel in Detroit.

Newsom said that Lincoln funds were used to finance deals structured to personally benefit Keating and other officials and that funds from bond sales — the only new cash in the final weeks before seizure of Lincoln — were used to buy back company stock held by Keating and other officials.

Both the unsafe loans and the securities-fraud allegations were included in a proposed cease-and-desist order that Newsom submitted to Savings and Loan Department attorneys in November 1988.

Had the order been issued, he said it "would have dropped an atomic bomb" on the bond sales.

But, Newsom testified that he understood that the securities-fraud allegations were deleted from the order after a deputy attorney general questioned whether there was sufficient evidence to defend the order in court.

Van de Kamp denied that contention in a written statement, and deputy Attorney General R.H. Rehm said that Savings and Loan Department attorneys called him with concerns about the securities-fraud allegation.

Shirley Thayer, the Savings and Loan Department attorney who placed the call to Rehm, could not be reached for comment. But Savings and Loan Commissioner William J. Crawford said that he supported the decision to scale back the regulatory order.

The Savings and Loan Department was one of two state agencies involved in investigations of Lincoln and the sale of American Continental Corp. bonds through Lincoln branch offices.

The other is the Corporations Department, whose head was sharply criticized by Finance and Insurance Committee chairman Johnston for approving the bonds sales beginning in 1987 and renewing the authority in 1988.

Bender said that she was aware of critical reports by state and federal regulators, but noted that the Federal Home Loan Bank Board in Washington had overruled the report of its San Francisco branch and ordered a new investigation.

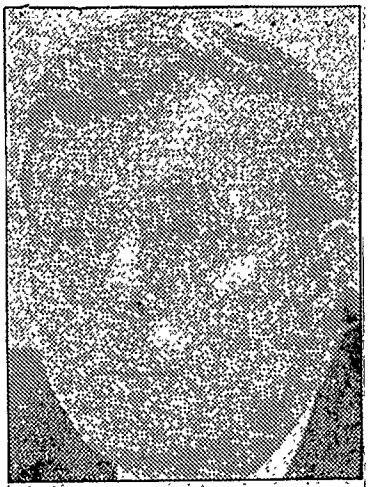
"A regulator, the commissioner, weighed the recommendations of the Federal Home Loan Bank Board and the state Savings and Loan Department and accepted the recommendations of a very influential law firm and a Phoenix corporation," Johnston told reporters after the hearing.

Noting the ties between Bender and her former law partners Samuelian and Tom, Johnston said that Keating "shrewdly used the right kind of lawyers and lobbyists to make himself a big man in Washington and Sacramento."

Bender replaced Tom as corporations commissioner in February 1987 when he returned to the Samuelian law firm. Within the next three weeks, he made two phone calls to Corporations Department officials on behalf of Lincoln.

Tom said the calls — one seeking transfer of the Lincoln file from San Francisco to Los Angeles and the other asking for an expedited decision on allowing the bond sales — were procedural and not substantive.

But Johnston said that they violate a state regulation barring Corporation Department officials from lobbying their former agency for one year after resigning, adding that he will refer the case to the FPPC.



John Van de Kamp
Attorney general

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DAILY NEWS
SAN FERNANDO, CA

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Cranston says he won't resign office; expects re-election

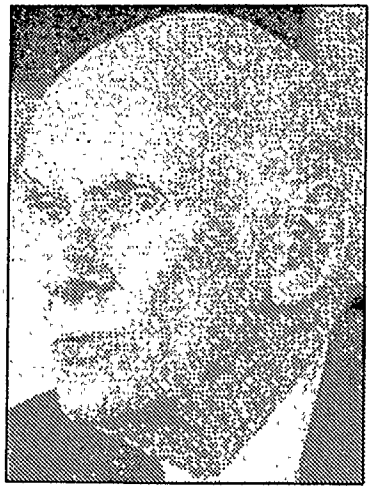
By PATRICK McGREEVY
Daily News Staff Writer

UNIVERSAL CITY — Sen. Alan Cranston said Wednesday that he expects to be re-elected in spite of political damage from his actions on behalf of financier Charles H. Keating Jr. before the failure of Lincoln Savings and Loan.

"What I'm finding now is that some people are holding back on support but others are being more vigorous in their support," the California Democrat told reporters at Universal Studios, where he participated in a panel discussion on the drug problem.

Cranston, who first won election to the Senate in 1968, would be up for re-election in 1992.

The Senate Ethics Committee has retained counsel to examine whether Cranston and four other senators intervened improperly with federal regulators on behalf of Lincoln Savings and Loan Association.



Alan Cranston
Expects to be re-elected

The 73-year-old Cranston, on a week-long swing through his home state, dismissed suggestions by some political figures that it is time for him to consider resigning. He also denied that the Keating controversy is evidence that he has grown complacent about ethics while serving 21 years in the Senate.

"I, of course, will not resign because I've done nothing improper," Cranston said in response to a suggestion this week by Republican State Chairman Frank Visco.

Political consultant Harvey Englander, who has worked on Democratic campaigns, also said Wednesday that Cranston should consider leaving office.

Cranston denied that he has spent too much time in office and, as a result, has grown sloppy on ethics.

"It's up to the people to determine how long they wish someone to stay in office but I don't think it is arrogant to help a constituent who appears to be having a problem," Cranston said.

The five senators including Cranston received $1.3 million in political contributions from Keating, who is chairman of Lincoln's parent company.

In 1987, Cranston and his colleagues met twice with federal regulators who were investigating Lincoln's finances. A month later, the investigation was transferred to another office, resulting in a two-year delay in the government seizing the institution.

One of the regulators who met with Cranston, Edwin J. Gray, has said that Cranston is one of the senators most culpable for delaying the examination of Lincoln.

Cranston said that later public statements by Gray, former head of the Federal Home Loan Bank Board, have contradicted Gray's early testimony to Senate investigators.

"When Ed Gray was under oath he testified — and he'd be committing perjury if this was untrue — that I was largely silent in the meeting with him and that all I asked was why this (investigation) was taking so long," Cranston said. "I know Gray is the man who was on the watch when all of this tragedy at Lincoln Savings began and he's trying to divert attention by finger-pointing at others."

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Deukmejian Defends Samuelian

■ **Politics:** Governor says his friend and fund-raiser was simply doing an attorney's job in representing Lincoln S&L before state regulators.

By RICHARD C. PADDOCK and PAUL JACOBS
TIMES STAFF WRITERS

LAS VEGAS—In a strong defense of an old friend and chief fund-raiser, Gov. George Deukmejian said Friday that Los Angeles attorney Karl M. Samuelian acted "in a totally ethical and legal fashion" in representing troubled Lincoln Savings & Loan and its owner, Charles H. Keating Jr., before state regulators.

Samuelian "never discussed his work on behalf of his clients, or any other clients for that matter, with me or people in the governor's office," Deukmejian said in an interview with The Times, while attending the Western Governors Assn. conference. "He was simply doing a job as an attorney for a client."

The governor's remarks were his first detailed public statements in defense of Samuelian, who along with other members of his law firm represented Lincoln and its parent company, American Continental Corp., before state regulators.

Samuelian himself was present during meetings with the regulators, who eventually approved an application by American Continental to issue high-risk junk bonds that were sold through the S&L's branches.

In addition, Samuelian has said that he helped arrange meetings between Keating and Business, Transportation and Housing Secretary John K. Geoghegan—a member of Deukmejian's cabinet whose agency oversees the state's savings and loan and corporations commissioners.

The Arizona-based Keating, his companies, business associates and family have contributed $153,000 to Deukmejian campaign committees. Keating and his companies also contributed $100,000 through Samuelian to a statewide Republican fund-raising effort in 1988.

In April of this year, American Continental went into bankruptcy, leaving an estimated 23,000 investors—many of them retirees—holding worthless bonds that they had purchased for $250 million. A federal takeover of Lincoln is expected to cost taxpayers more than $2 billion.

Deukmejian expressed concern that a political ally has been subjected to increasing criticism for simply representing a controversial client: "We expect people to be involved politically and be involved in their government and then, at the same time, when somebody does get involved and does express this kind of interest [in elective politics], they shouldn't be penalized for doing it.

"They shouldn't be prohibited from conducting—in this case—their law practice, as long as they are doing it in an ethical fashion and a legal fashion," said Deukmejian, himself an attorney.

"And from everything I've heard about this up to this point, I'm satisfied that Karl [Samuelian] did act in a totally ethical and legal fashion on behalf of the client," the governor said.

Deukmejian said that much of the information about Keating and his enterprises that has emerged from congressional and legislative hearings was "probably news to him [Samuelian] as well. When you are retained by somebody, you don't conduct an investigation at the time you are asked to represent the client as to all the dealings the client is involved in."

When asked whether Keating had tried to take advantag of

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Samuelian's closeness to the governor in choosing a law firm to represent him in California, Deukmejian said: "I don't care who it is, if you have a matter before a government agency or regulator, you want to have representation that you believe will put forward your position in the most effective manner possible."

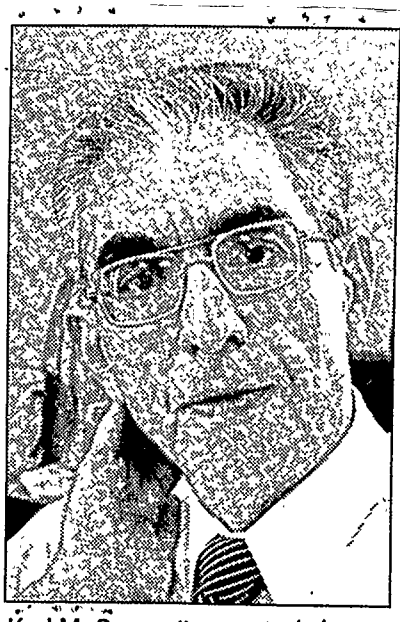
Might Keating have been influenced by the fact that both the current state corporations commissioner, Christine W. Bender, and her predecessor, Franklin Tom, had worked in Samuelian's law firm? "I would imagine that Keating probably considered that at the time," Deukmejian said.

In testimony this week before a legislative committee, Samuelian said that he and Deukmejian met for the first time at a church banquet in 1971. He said he hosted his first fund-raising dinner for Deukmejian in 1978 when Deukmejian was a successful candidate for state attorney general.

By 1982, when Deukmejian was the Republican candidate for governor, Samuelian became his campaign finance chairman.

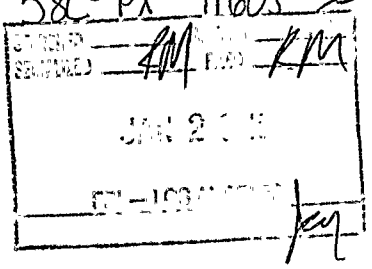
In his legislative testimony, Samuelian expressed concern about the 23,000 Californians who had lost their investments because of the collapse of American Continental. "I appreciate the problem," Samuelian said. "It's a horrible problem. But I don't feel that our firm or our representation was responsible in any way for it."

Paddock reported from Las Vegas and Jacobs from Sacramento.



Karl M. Samuelian

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Institute Keating helped fund to shut down

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PHOENIX GAZETTE
pg. F4

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By Joan Mower
The Associated Press

WASHINGTON — The Forum Institute, which received hundreds of thousands of dollars from Charles H Keating Jr., a key figure in the nation's savings and loan scandal, is suspending operations.

"Given all the proceedings, given the involvement of (Sen. Alan) Cranston and Keating, the board thinks it's best they suspend operations on January 1," William Jeffress, an attorney for the politically liberal grant-giving institution, said Tuesday.

Cruz Reynoso, a former California Supreme Court justice and member of the institute's board, said, "The whole publicity has made it very difficult to raise money."

Reynoso also said the Center for Participation in Democracy, a Los Angeles-based voter registration group Cranston helped set up, is not "actively soliciting resources." Reynoso, chairman of the center's board, said directors planned to discuss the center's future at the next meeting.

Several of the Forum Institute's board members refused to talk about the group, referring all telephone calls to Jeffress. "We're all caught up in this, and it's a very touchy situation," said Roberta Greene, a board member and the institute's former deputy director.

Keating, the Phoenix millionaire who headed American Continental Corp. and its subsidiary, the collapsed Lincoln Savings and Loan Association, contributed $325,000 to the institute over two years, Jeffress said.

Jeffress said he did not know why Keating gave to the Forum Institute, but, "I assume Keating first learned of the activities through Cranston or through Rob Stein." Stein is a former consultant to the Democratic Party.

The non-profit, tax-exempt institute, created in 1981 by Stein, is an organization that "gives grants to groups that encourage voter participation and public education," records indicate.

An examination of the institute's Internal Revenue Service documents, testimony from the House banking committee's hearings on Lincoln, and Cranston's financial disclosure forms show an interlocking network of ties between Cranston, Keating and Stein and organizations with which they were affiliated.

Cranston, D-Calif., a strong supporter of efforts to register new voters, is one of five senators under investigation by the Senate ethics committee for accepting campaign contributions from Keating while at the same time intervening with federal regulators seeking to curb Lincoln's lending practices. He had denied any wrongdoing.

The Lincoln failure, which is the subject of numerous federal and state investigations, is expected to cost taxpayers up to $2.5 billion, the largest single thrift collapse.

The Forum Institute raised $2.1 million in 1988, about $300,000 more than the previous year, the group's IRS records show. Among the grants the institute handed out were roughly $305,000 in 1987 and 1988 to the Center for Participation in Democracy.

The forum also gave grants to projects dealing with clean air, youth and leadership training.

The center, a voter registration group founded by Cranston's son, Kim, with help from his father, also received $400,000 from Keating in February 1988, according to Cranston's spokesman, Murray Flander.

Flander said Cranston, who has a personal passion for registering new voters, traveled around the country raising money for his cause, including money from Keating.

"As far as Alan is concerned, this is a good cause," Flander said. Cranston first Keating either in 1985 or 1986 and learned that the Phoenix businessman contributed to a range of causes, from anti-pornography drives to Mother Teresa's projects, Flander said.

Cranston then sought money from Keating for the Forum Institute, the Center for Participation in Democracy and USA Votes, a project of Stein's company, New Dimension Resources Inc., Flander said.

New Dimension paid for more than a dozen trips for Cranston to travel around the country raising money for voter drives in 1988.

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S&L, Parent Firm Reportedly Gave State GOP $95,000

By SARA FRITZ
TIMES STAFF WRITER

WASHINGTON—Lincoln Savings & Loan and its parent company contributed $95,000 in "soft money" to the California Republican Party during the last election, even as the Irvine thrift was piling up $2 billion in federally insured losses, according to a study released Tuesday.

The contributions constituted an act of political bipartisanship by the parent firm, American Continental Corp., which previously had contributed $85,000 to the California Democratic Party in 1986 at the request of Sen. Alan Cranston (D-Calif.).

Soft money is a term used to describe contributions to state and local political activities, such as voter registration and get-out-the-vote drives, that are not subject to the contribution limits contained in federal election law.

At the time the money was contributed to the state GOP, American Continental Chairman Charles H. Keating Jr. was battling with state and federal officials for permission to continue the risky investment practices that eventually led to Lincoln's collapse. The Administrations in both Washington and Sacramento are Republican.

An Arizona Republican, Keating has stated that he expected his political contributions to win him influence with government policymakers. At least three members of Congress have returned Keating's donations since Lincoln was seized by the federal government last April.

Keating's contributions to the California GOP were disclosed in a new survey of soft-money donations in nine states by the Center for Responsive Politics.

The Center for Responsive Politics found that the California GOP took in $5.8 million and the state Democratic Party received $4.4 million in 1988—making them the two biggest single recipients of soft money in the survey.

Critics contend that soft money contributions have become a backdoor way for corporations and unions to continue giving to federal campaigns after their political action committees have already donated the maximum amounts permitted under federal law.

It is not known precisely how much soft money was raised in 1988. But the national Republican and Democratic parties estimated that they distributed more than $40 million in soft money and the center found evidence of at least $28 million spent in nine key states in the presidential contest between George Bush and Michael S. Dukakis.

While federal election laws prohibit individuals and corporate political action committees from making contributions in excess of $2,000, the center found that more than 100 corporations and individuals made soft-money donations in nine key states. In California, seven people contributed at least $100,000 each, and 82 gave $20,000 or more.

Among the big contributors to the California GOP were Marvin Davis of Los Angeles, head of an oil, communications and investment firm, who gave $110,000; Atlantic Richfield, $139,500, and the William Lyon Co., an Orange County builder in Newport Beach, $127,500.

"As this study shows, Keating isn't the only businessman in America wielding influence through political contributions," said center director Ellen Miller. "This study shows scores of other major givers—the Keatings of tomorrow."

According to the study, American Continental contributed $90,000 in soft money to the state GOP in the 1988 election cycle, all but $10,000 of it in the final days before the November election.

Lincoln made a separate $5,000 donation in May, 1987, about the time that federal regulators in San Francisco were recommending that the high-flying thrift be seized by the government.

In fact, the study, which was based on state records, may underestimate the actual amount of soft money that Keating and his affiliated companies contributed to California Republican causes in the 1988 election cycle.

In recent testimony before a California Assembly committee hearing, Karl Samuelian, Gov. George Deukmejian's fund-raiser, testified that Keating gave $100,000 to the party's Team 100 fund in 1988.

Samuelian said the contributions included $75,000 by American Continental to the California GOP, $20,000 to a fund known as the Presidential Trust and $5,000 made at a so-called Victory '88 fund-raising event.

State records do not disclose whether these funds came directly from corporate revenues or from individual donations made by employees of Keating's companies. Although federal law prohibits direct corporate contributions to candidates, critics have alleged that Keating paid "bonuses" to his employees from corporate funds with the expectation they would pass the money along to candidates for federal office.

A similar study of 1986 election cycle giving by the center uncovered the $85,000 contribution that Cranston solicited from Keating for the California Democratic Party. In addition, the senator persuaded Keating to give about $35,000 to his 1986 reelection campaign and $850,000 to voter registration groups supported by Cranston.

On Tuesday, it was announced that the Forum Institute, one of the Cranston-supported groups that received hundreds of thousands of dollars from Keating, will suspend operations Jan. 1. Cruz Reynoso, a former California Supreme Court justice and member of the institute's board, said recent publicity had made it difficult for the group to raise money.

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Cranston Alters Defense in Lincoln Savings Case

■ **Banking:** After his statements were publicly challenged by a federal official at a House hearing, the senator's recollections changed.

By SARA FRITZ
TIMES STAFF WRITER

WASHINGTON—As the story behind the $2-billion collapse of Lincoln Savings & Loan has continued to unfold, Sen. Alan Cranston (D-Calif.) has altered a key element of his original defense against charges that he intervened improperly on behalf of the Irvine thrift.

Earlier this year, when Cranston was asked to explain why he intervened with federal regulators in 1987 on behalf of the savings and loan, he said that he had asked the government to take "prompt corrective action" against Lincoln owner Charles H. Keating Jr.

"I said: 'Do something or leave him alone. If there's anything criminal, indict him,' " Cranston declared at a press conference last May.

But Cranston no longer makes that assertion when he speaks in defense of his actions in the Keating affair. Instead, he now contends that he simply asked Edwin J. Gray, then chairman of the Federal Home Loan Bank Board, why the investigation of Lincoln was taking so long.

Cranston's story changed after Gray, in testimony before the the House Banking, Finance and Urban Affairs Committee earlier this month, publicly challenged the senator's original explanation.

It is not the first time that Cranston has waivered in his recollection of matters involving Keating. Nor is it the first time that Cranston and Gray have clashed over what happened in April, 1987, when Cranston and four other senators met with the bank board chief to discuss Lincoln.

In fact, Cranston and Gray—former California political adversaries since 1966, when Cranston criticized Gray's boss, then-GOP gubernatorial candidate Ronald Reagan—appear to be engaged in an escalating war of words involving every aspect of the Lincoln scandal.

Asked in an interview about Gray's charge that his original statements were

Please see CRANSTON, A24

"untruthful," Cranston replied that he never intended for anyone to think that he had advocated Keating's indictment in the April 2 meeting.

"I didn't say I said that in that meeting," the senator said in an interview. "I said it upon other occasions."

But neither Cranston nor his aides could identify exactly when the senator advocated the possible indictment of Keating.

"You are not going to get a very satisfactory answer on that," said Cranston's press secretary, Murray Flander. "He recalls that he said it at some time, but he doesn't remember when."

The involvement of Cranston and the four other senators has been cited as a possible factor in a decision by bank board officials to reject a recommendation to seize Lincoln in 1987. When the government finally assumed control of Lincoln last April, the ultimate cost to taxpayers had grown to an estimated $2.3 billion.

Gray and other critics contend that the senators' action in the Lincoln case was improper because the five previously had solicited campaign contributions and other donations totaling $1.3 million from Keating.

Moreover, Gray has said that when he met with the senators on April 2, 1987, they were asking for special treatment for Lincoln, which at the time was under investigation by the bank board.

The other four senators are Dennis DeConcini (D-Ariz.), John McCain (R-Ariz.), John H. Glenn (D-Ohio) and Donald W. Riegle Jr. (D-Mich.).

In response, Cranston has said that his actions on behalf of Lincoln were no different than the inquiries that he regularly makes at many federal agencies regarding complaints from his constituents. During 20 years in the Senate, Cranston said, he has intervened with the bureaucracy on behalf of thousands of Californians.

Cranston has also insisted that his actions had no impact on the

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bank board's investigation of Lincoln. He has noted that both Gray and his successor, M. Danny Wall, have testified that they were not swayed by the contacts that they received from the senators.

Gray has been quick to assert that there are discrepancies in Cranston's explanations. After Gray began telling his side of the story last May, according to the former bank board chairman, "the knee-jerk reaction by the senators was simply to deny what I have said."

Cranston is by no means the only senator whose account of his role in the controversial case has changed over time. Riegle, who originally cast himself as a bit player in the drama, since has acknowledged that Gray met with the senators in April, 1987, at his suggestion.

Beginning last May, Cranston frequently said that his primary concern in 1987 was that the bank board investigation of Lincoln was taking too long.

He denied that he had sought special treatment for Keating. He repeatedly emphasized that he had told Gray and other bank board officials that he did not care whether Keating was indicted for criminal activity but only wanted the inquiry to be concluded before it hurt the reputation of the Irvine thrift.

As Cranston put it last August: "There was nothing improper in any of my contacts with Charles Keating, nor was there anything improper in my joining with other senators to ask the FHLBB to take prompt corrective action, including seeking criminal action against Keating, if grounds existed."

But in Gray's testimony before the House committee Nov. 14, the former regulator denounced as "untruthful" that statement and similar ones by the California senator.

"Cranston did not ask that we take 'prompt, corrective action' nor did he ask that we take 'criminal action against Keating' under any circumstances," Gray told the panel.

Gray also said in an interview that Cranston made no such statement during a subsequent meeting on April 9, 1987, between the five senators and top federal regulators from San Francisco, who were responsible for the Lincoln inquiry. A transcript of the second meeting shows that Cranston, who attended the meeting only briefly, said: "I just want to say I share the concerns of the other senators on this subject."

Furthermore, Gray emphasized that these were the only two meetings that Cranston has acknowledged having with federal regulators on the Lincoln matter in 1987.

Ever since Gray disputed Cranston's earlier statement, the senator no longer has stated that he urged the indictment of Keating when he is asked about it in public forums. Instead, he has quoted Gray as saying that he talked very little in the April 2 meeting and "only asked some questions about the duration of the examination."

Originally, Cranston also denied Gray's charge that DeConcini had tried to negotiate with the bank board on Keating's behalf during the first meeting on April 2. Gray has stated that DeConcini pledged Lincoln would make more home mortgage loans if the bank board withdrew a regulation restricting other investments. DeConcini has denied it.

It was not until Cranston recently read the transcript of the April 9 meeting—in which DeConcini raised the same subject—that he began to doubt his original recollection of the first meeting. The California senator said that "there may well have been some discussion of the regulation" by DeConcini on April 2.

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Los Angeles Times

Sen. Alan Cranston

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Cranston calls FBI inquiry a political ploy

By Norma Meyer
COPLEY NEWS SERVICE

Sen. Alan Cranston, increasingly on the defensive over his entanglement with Charles H. Keating Jr., on Wednesday angrily accused the FBI of harboring political motives for reportedly probing three voter registration groups that were backed by the lawmaker and received funds from the thrift executive.

In a letter sent to FBI Director William Sessions, the Democratic senator demanded an investigation into the source of leaks for a *New York Times* article Wednesday that reported the bureau is scrutinizing the activities of the groups, including one headed by Cranston's son, Kim.

"It makes my blood boil to see attempts to smear my son and drag him into the mud," Cranston told reporters at his campaign headquarters in Brentwood.

Cranston denied assertions attributed to FBI sources that two of the non-partisan groups may have violated their tax-exempt status by deliberately registering more Democrats than Republicans. He also called on the FBI to investigate a host of Republican-financed voter registration groups and other organizations with GOP sympathies, including Moral Majority and American Coalition for Traditional Values.

"If we are going to have even-handed justice, if we are going to have an FBI we can respect, I suggest they look into these activities carried on by Republicans as well as activities carried on by Democrats," he said.

Discipline sought

In the letter to Sessions, Cranston's lawyer demanded that the bureau discipline the government source of the *Times* report.

"These 'anonymous' federal law enforcement officials are behaving extraordinarily improperly and are motivated, we believe, by political rather than law enforcement objectives," wrote attorney William W. Taylor III.

A spokesman for the FBI, while refusing to comment on the reported probe, denied that any of the agency's investigations are politically motivated.

"The FBI has had a long history of being non-partisan in their investigations and I assure you any investigation undertaken is being done so in a non-partisan manner," said Milton Ahlerich, the bureau's assistant director for public affairs.

Quoting the unnamed federal authorities, the *Times* said the FBI is investigating two of the voter registration organizations — including the Los Angeles-based Center for Participation in Democracy headed by Kim Cranston — to determine if employees were ordered to register more Democrats than Republicans.

Large donations

The FBI is also interested in all three groups because of the large amounts of money they received from corporate donors, including Keating's failed Lincoln Savings & Loan Association, according to *The Times*. The other organizations are the Forum Institute and USA Votes, both based in Washington.

Forum Institute, which plans to cease operations in January, and the Center for Participation in Democracy, no longer active in fund-raising, are tax-exempt.

Cranston acknowledged that he solicited money for the groups from Keating, but denied being asked for or granting any favors in return. Keating is believed to have donated $850,000 to the organizations' registration drives in late 1987 and early 1988.

"He and others had a capacity to give and had a record of giving to public causes," Cranston said. "Mr. Keating had contributed to Mother Teresa, he had contributed to anti-pornography activities."

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Lincoln S&L Reportedly Bankrolled State GOP

By SARA FRITZ
TIMES STAFF WRITER

WASHINGTON—Lincoln Savings & Loan and its parent company contributed $95,000 in "soft money" to the California Republican Party during the last election, even as the Irvine thrift was piling up $2 billion in federally insured losses, according to a study released Tuesday.

The contributions constituted an act of political bipartisanship by the parent firm, American Continental Corp., which previously had contributed $85,000 to the California Democratic Party in 1986 at the request of Sen. Alan Cranston (D-Calif.).

Soft money is a term used to describe contributions to state and local political activities, such as voter registration and get-out-the-vote drives, that are not subject to the contribution limits contained in federal election law.

At the time the money was contributed to the state GOP, American Continental Chairman Charles H. Keating Jr. was battling with state and federal officials for permission to continue the risky investment practices that eventually led to Lincoln's collapse. The Administrations in both Washington and Sacramento are Republican.

An Arizona Republican, Keating has stated that he expected his political contributions to win him influence with government policymakers. At least three members of Congress have returned Keating's donations since Lincoln was seized by the federal government last April.

Keating's contributions to the California GOP were disclosed in a new survey of soft-money donations in nine states by the Center for Responsive Politics.

The Center for Responsive Politics found that the California GOP took in $5.8 million and the state Democratic Party received $4.4 million in 1988—making them the two biggest single recipients of soft money in the survey.

Critics contend that soft money contributions have become a back-door way for corporations and unions to continue giving to federal campaigns after their political action committees have already donated the maximum amounts permitted under federal law.

It is not known precisely how much soft money was raised in 1988. But the national Republican and Democratic parties estimated that they distributed more than $40 million in soft money and the center found evidence of at least $28 million spent in nine key states in the presidential contest between George Bush and Michael Dukakis.

While federal election laws prohibit individuals and corporate political action committees from making contributions in excess of $2,000, the center found that more than 100 corporations and individuals made soft-money donations in nine key states. In California, seven people contributed at least $100,000 each, and 82 gave $20,000 or more.

Among the big contributors to the California GOP were Marvin Davis of Los Angeles, head of an oil, communications and investment firm, who gave $110,000; Atlantic Richfield, $139,500, and the William Lyon Co., an Orange County builder in Newport Beach, $127,500.

"As this study shows, Keating isn't the only businessman in America wielding influence through political contributions," said center director Ellen Miller. "This study shows scores of other major givers—the Keatings of tomorrow."

According to the study, American Continental contributed $90,000 in soft money to the state GOP in the 1988 election cycle, all but $10,000 of it in the final days before the November election.

Lincoln made a separate $5,000 donation in May, 1987, about the time that federal regulators in San Francisco were recommending that the high-flying thrift be seized by the government.

In fact, the study, which was based on state records, may underestimate the actual amount of soft money that Keating and his affiliated companies contributed to Cal-

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ifornia Republican causes in the 1988 election cycle.

In recent testimony before a California Assembly committee hearing, Karl Samuelian, Gov. George Deukmejian's fund-raiser, testified that Keating gave $100,000 to the party's Team 100 fund in 1988.

Samuelian said the contributions included $75,000 by American Continental to the California GOP, $20,000 to a fund known as the Presidential Trust and $5,000 made at a so-called Victory '88 fund-raising event.

State records do not disclose whether these funds came directly from corporate revenues or from individual donations made by employees of Keating's companies. Although federal law prohibits direct corporate contributions to candidates, critics have alleged that Keating paid "bonuses" to his employees from corporate funds with the expectation they would pass the money along to candidates for federal office.

A similar study of 1986 election cycle giving by the center uncovered the $85,000 contribution that Cranston solicited from Keating for the California Democratic Party. In addition, the senator persuaded Keating to give about $35,000 to his 1986 reelection campaign and $850,000 to voter registration groups supported by Cranston.

In a related development, the New York Times reported today that federal law enforcement authorities are investigating the voter registration groups to determine whether employees were instructed to register more Democrats than Republicans. Employees for one of the groups have alleged that such instructions were issued, a charge denied by the organization.

The Times reported that the FBI is interested in the voter registration groups because of the large amounts of money flowing to them from major donors, including Keating and his associates. The newspaper quoted anonymous officials as saying that California banking regulators sent documents to the FBI last July involving the three groups.

On Tuesday, it was announced that the Forum Institute, one of the Cranston-supported groups that received hundreds of thousands of dollars from Keating, will suspend operations Jan. 1. Cruz Reynoso, a former California Supreme Court justice and member of the institute's board, said recent publicity had made it difficult for the group to raise money.

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Wilson received $16,500 from Lincoln chief in '85

WASHINGTON — US Sen. Pete Wilson received at least $16,500 in campaign contributions from former Lincoln Savings and Loan executive Charles Keating Jr. and Keating's associates, according to contribution reports.

The press secretary for Wilson, R-Calif., said that one of the senator's aides recalls that Wilson may have met once with Keating. But he said that the senator, who now is campaigning to become California's governor, didn't remember the meeting.

"We know he contacted our office and wanted us to get involved in an issue, but we declined to get involved in that issue," Bill Livingstone said.

He said the call came in 1985, the same year as the campaign contributions.

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The Keating Five

Senators Who Helped Lincoln S&L Now Face Threat to Their Careers

Coming Ethics Panel Probe Holds the Greatest Danger For Cranston, DeConcini

Grist for Comedians' Routines

By JILL ABRAMSON and PAUL DUKE JR.
Staff Reporters of THE WALL STREET JOURNAL

WASHINGTON—When a frantic Sen. Donald Riegle burst into Sen. John McCain's mailroom one day last month, astonished McCain aides realized just how much the courteous and clubby world of the Senate has been upended by the Charles Keating scandal.

Both senators have been swept into membership in the "Keating Five," the men accused of selling their influence with the Federal Home Loan Bank Board to Mr. Keating, the now-notorious chairman of failed Lincoln Savings & Loan Association. Sen. McCain has accused Sen. Riegle of trying to shift some of the unwelcome attention away from himself and onto Sen. McCain.

With the Ethics Committee set to probe both senators, the last thing Sen. Riegle wanted was to tip his defense strategy. So when he learned that a congressional page had mistakenly delivered his own handwritten draft of a letter for the Ethics Committee to, of all people, Sen. McCain, he raced to the senator's mailroom, demanding that McCain aides help him find the paper. Sen. Riegle "was unbelievably rattled," says one of the aides.

It turned out someone else on Sen. Riegle's staff had already retrieved the notes. But the incident underscores what a toll the Keating affair is exacting.

Threat to Careers

To different degrees, the scandal has threatened the political future of each of the Keating Five senators—Riegle, McCain, Dennis DeConcini, Alan Cranston and John Glenn. Having met with thrift-institution regulators in 1987 on behalf of Mr. Keating's highflying Lincoln Savings, which wanted relief from a restriction on its investments, they face investigations of whether their actions were linked to some $1.3 million in political contributions he sent their way.

The five have been elevated now to that agonizing level of political notoriety suffered earlier this year by former House Speaker Jim Wright and former Pentagon nominee John Tower. They find themselves denounced in editorials, spoofed in "Saturday Night Live" skits and mocked in Jay Leno monologues (his "scenic" checks from Lincoln Savings, the comedian says, show five senators waving from a yacht off Bimini).

Possible Censure

It is unprecedented for five sitting senators—among them the second-ranking Democrat, two military heroes and the chairman of the influential banking committee—to be under investigation. Next year, the Senate probably will have to pass judgment on them, in a process that may wrench the upper chamber much the way the House was torn by the Wright case. They could be censured by their colleagues and face action by law-enforcement authorities, for what former Home Loan Bank Board Chairman Edwin Gray has called "a clear subversion of the regulatory process."

The senators deny wrongdoing and say their actions on behalf of Mr. Keating were part of normal constituent service. All say they either didn't ask for the investment curb to be dropped or don't recall the matter coming up. But even if they convince investigators, the five still face judgment by the taxpayers who must foot the bill for the Lincoln Savings debacle, a bill estimated at $2 billion.

There are important distinctions among the Keating Five, in the degrees of their involvement with Mr. Keating, in the actions they took and in the ways they are seeking to limit the damage. These differences ultimately will determine which will survive the Keating mess.

At this point, Sens. Cranston and DeConcini are the most bloodied. They continued to intercede for Mr. Keating and accept his money even after being pointedly warned that regulators were asking for a criminal investigation. Sen. Cranston and his voter-registration organizations got the most money from Mr. Keating, while Mr. Gray suggests that Sen. DeConcini took the lead in trying to influence regulators.

Sen. Riegle has been hit surprisingly hard, as much for his erratic handling of the matter as for what he actually did. One political observer describes his behavior as almost Nixonian.

Sens. Glenn and McCain appear the least at risk. Both say they had reservations about meeting with thrift regulators. But these former military heroes may have suffered the most personally. Sen. McCain ruefully observes that during five years he spent as a prisoner of war in North Vietnam, "even the Vietnamese didn't question my integrity."

Here is a look at the predicaments faced by each of the Keating Five:

McCain/Glenn: Tarnished Icons

"My reputation hangs on this in the seventh decade of my life," says an emotional Mr. Glenn, pounding the steering wheel of a rented sedan as he drives through the Ohio Appalachian foothills where he spent his boyhood. "From the standpoint of my honor and integrity this is absolutely the worst thing I've ever been through."

His strategy—to defend his honor, say he did nothing wrong and maintain high visibility—appears to be working.

At a speech in Cumberland, Ohio, Mr. Glenn's old Mercury 7 magic still charms them. He is mobbed by children who want to shake the hand of an astronaut. One woman waiting to get his autograph, Annette Hayes of Cleveland, says, "John Glenn can do no wrong in the eyes of a lot of people in Ohio." Still, the Keating affair is an unpleasant undercurrent, mentioned even at this friendly gathering.

Recent polls show Mr. Glenn's favorable ratings holding steady in Ohio. But even in his hometown of New Concord, some worry that their favorite son may have gone a bit astray. "Despite his explanations, I'm disappointed in John Glenn," says Herbert Thomson, an economics professor just retired from Muskingum College, the senator's old school.

The stress shows on Annie Glenn's face as she is asked to compare the ordeal with waiting for her husband to come home from his space voyage. "One was his life at risk. In this you're talking about a fine reputation at risk," says Mrs. Glenn, who frequently acts as her husband's co-pilot in their twin-engine plane. "They're different, but this is horrible."

Sen. Glenn received $234,000 in Keating-related contributions during the 1980s, including $200,000 to a political-action committee he controlled. But Mr.Glenn says that he met with regulators only after Mr. Keating provideddocumentation for his case from financial experts, and that he had nothing further to do with him after being told regulators were making a criminal referral. "What is so aggravating is I go to one meeting to ask about an audit and the public perception is I was responsible in some way for the whole S&L crisis," Mr. Glenn exclaims.



John Glenn

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Page 2

Also potentially damaging is the involvement of some former aides. Three onetime Glenn associates, including the manager of his 1984 presidential campaign, became lobbyists on the Keating payroll. Two helped arrange the PAC donation.

War Stories

Senator McCain, like Messrs. Glenn and Keating, is a former fighter-plane pilot. He was intrigued by Mr. Keating's war stories when they met at a Navy League dinner in Phoenix in 1981. They became friends.

For three years, the McCains vacationed at the Keatings' resort home on Cat Cay in the Bahamas. The senator only belatedly reimbursed Mr. Keating $13,000 for most of the nine trips he or his family took on the Keating corporate jet.

Sen. McCain received $112,000 in Keating contributions for the 1986 campaign. He also has been criticized for a $359,000 investment his wife and his father-and-law made in a Keating shopping mall in Arizona.

The media-savvy Arizona Republican has taken the most aggressive posture from the start of the scandal, accepting virtually all interview requests and even releasing details from his 1981 prenuptial agreement with his second wife. Trying to capitalize on his candor, his office gives journalists videotapes of his appearances and lists of interviews he's done on the Keating matter. "I couldn't live unless I did everything I could to clear my name," Mr. McCain says.



John McCain

Mr. McCain is also hitching himself to Mr. Glenn, who has both a hero image and a lesser involvement with Mr. Keating. When the producers of "This Week With David Brinkley" wanted to interview all five senators two weeks ago, Mr. McCain's staff made it known he preferred to appear alone or with just Mr. Glenn. He says colleagues have told him that in the Keating affair, "the two pieces that don't fit are me and Glenn."

There is bad blood between him and Sen. Riegle, going back to before the mailroom incident. Mr. Riegle, trying to minimize his own role, once said Sen. McCain had invited him to the meeting with thrift regulators; Sen. McCain hotly denied it and suggested to reporters that the Michigan Democrat might be "trying to throw you off his scent."

Meanwhile, Sen. McCain has pointed the finger at others. Sen. DeConcini was furious when Mr. McCain last May solicited former Bank Board Chairman Gray's recollections of the meetings with the senators. Mr. Gray exonerated Mr. McCain but excoriated Mr. DeConcini. Mr. McCain later apologized to his Arizona colleague. He denies trying to shift the blame. "I've been careful not to speak about his involvement," he says.

Regardless, "Dennis thinks McCain is trying to take himself off the hook while indicating that DeConcini deserves the blame," says Charles Pine, a former Arizona Democratic boss, who has discussed the incident with the senior senator. In addition, DeConcini staffers believe a memo damaging to their boss was leaked to the press by a McCain aide, who denies it.

Despite Sen. McCain's efforts, the percentage of Arizonans who hold a negative view of him has grown by 10 points since the story broke. In bedrock Republican country, at a meeting of the Mesa Rotary Club, Mr. McCain visibly winces as an octogenarian member tells the senator he still believes in him. "The fact that my supporters even feel they need to say these things is evidence of how serious the situation is," he observes.

Mr. McCain is generally expected to survive and win re-election in 1992. But the senator, who was seriously considered as a running mate for George Bush in 1988, is no longer regarded as a rising national star in the GOP. "He can forget Iowa," snaps one Republican consultant.

DeConcini: The Ringleader?

The Keating scandal caught Sen. DeConcini flat-footed. Instead of heading home to assess the damage, as his junior colleague did as soon as Congress recessed in November, he entertained a delegation of Soviet legislators. While he tended to Washington chores, his wife stood in for him at some events in Arizona. At a Phoenix soiree a month ago honoring a Democratic official, Susan DeConcini lambasted the press for its coverage of her husband. "There was an embarrassed silence in the room," one Democrat says.

The senator has taken a terrible pounding in the Arizona Republic, which has run political commentary with headlines such as "Stifle it, Dennis, nobody's listening to your whining." It's perhaps no wonder the newspaper's poll shows his approval rating falling below 40%, less than a year after he was re-elected with 57% of the vote.



Dennis DeConcini

Mr. DeConcini's biggest problem is that he has been fingered by former Bank Board chief Gray as the ringleader of the Keating Five. Mr. Gray says the Arizona Democrat actually negotiated on behalf of Mr. Keating, offering an improper quid pro quo under which Lincoln Savings would make more conventional home loans if regulators would drop an investment restriction that bothered Mr. Keating.

Earlier this year, Mr. DeConcini was still calling federal and California thrift regulators on behalf of Mr. Keating, who hoped to sell Lincoln. And Mr. Keating was toastmaster at the grand finale of the Arizona Democrat's 1988 campaign—a rally at a $300 million luxury resort, the Phoenician, that Mr. Keating built as a monument to himself.

Mr. DeConcini denies taking the lead in trying to help Mr. Keating, and he and the other senators dispute Mr. Gray's account of the meeting, saying they don't remember any deal being proffered. "I didn't put the meetings together," Sen. DeConcini says. "I told Keating, 'I'm not your guy.' "

Yet it was only recently, as the scandal deepened, that Mr. DeConcini distanced himself from Mr. Keating. In September, he returned the $48,000 Mr. Keating had raised for his 1988 campaign.

Some of the senator's supporters attribute his bumbling in part to the absence of his closest political adviser, Ron Ober, who has been sidelined by stories about big loans his company received from Lincoln. Some $30 million of these loans was unsecured, even though Mr. Ober's company had huge liabilities. Mr. Ober didn't return calls seeking comment. Mr. DeConcini says he wasn't aware of Mr. Ober's dealings with Mr. Keating.

The scandal has clearly taken a toll on Mr. DeConcini, say supporters who met with him at state Democratic headquarters a month ago. "Dennis is hurt. He feels he's been unduly persecuted," says Mr. Pine, the former state party leader. Mr. DeConcini, a wealthy former prosecutor, seems weary and defensive. "I find myself under a cloud, under suspicion," he complains. "That smacks at my integrity."

The one glimmer of hope for Mr. DeConcini is that he doesn't have to run again until 1994. Despite his recent fence-mending at home, "the consensus is that if he were up for re-election in 1990, he'd be in desperate trouble," says Robert Neuman, an Arizona Democrat and public-relations executive.

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Cranston: Badly Wounded

Alan Cranston evidently didn't grasp the magnitude of his troubles until last month, when three elderly California women who said they had lost their life savings by investing in uninsured bonds sold at Lincoln came to Washington to testify. Connie Wicksman of West Hills, a 78-year-old immigrant, said she was "ashamed to say I had faith in" the California senator. As she uttered those words, Mr. Cranston's chances for re-election in 1992 all but disappeared.

"You can just see the Republican ads they are going to make out of this," says a former state Democratic official.



Alan Cranston

Of the Keating Five, Mr. Cranston has the most serious liabilities. He took the most money from Mr. Keating: $850,000 for his voter-registration operations and $35,000 in direct campaign contributions. Like Mr. DeConcini, he continued to work on behalf of Mr. Keating, and take money from him, for some time after the 1987 meetings with federal thrift regulators.

The Federal Bureau of Investigation is reported to have widened its inquiry to examine whether employees of the voter groups violated their tax-exempt status by trying to enroll more Democrats than Republicans. A Cranston spokesman denied this suggestion and says the senator hasn't been contacted by the FBI. The broader investigation suggests that Mr. Cranston is in potentially deeper trouble than the rest of the five.

His biggest political problem is that about 130,000 Lincoln depositors live in California. And, in what most political observers view as a fatal mistake, Mr. Cranston avoided talking to the news media during the firestorm of publicity following the depositors' testimony. "His initial reaction was it would all blow over," says Anthony Podesta, a Democratic consultant and one of several party insiders who have urged Sen. Cranston to tackle the problem head-on.

Now Mr. Cranston is back in California trying to launch a counteroffensive. But the Keating case dogs him everywhere. "They will destroy Keating," he fumed to tablemates at a recent luncheon at the San Diego City Club, apparently referring both to the media and to various investigations.

Mr. Cranston insists he will seek re-election in 1992 at age 78. But leading Democrats, including California Rep. Nancy Pelosi, are pressing him to reconsider. Some predict he will be forced to step down before then. The Los Angeles Times said last Friday that 41% of California Democrats polled think Mr. Cranston should resign now.

Even if he stays, he may be hobbled in his post as majority whip, the second-highest Democratic post in the Senate. "It's like the cowboy who falls off the runaway horse, but his foot gets caught in the stirrup," says one senator who worries about Mr. Cranston's effectiveness. "You can't stop the horse; you can only hope it will slow down by itself."

Riegle: 'Eau de Cover-Up'

Donald Riegle's actions and statements in the past month have made his own candor—or lack of it—almost as much of an issue for him as the Lincoln affair itself. "It's been an almost Nixonian performance," marvels William Ballenger, who publishes a newsletter, Inside Michigan Politics.

Sen. Riegle received $76,100 in Keating contributions to his 1988 campaign, which he returned in March 1988. When Common Cause called for an Ethics Committee investigation on Oct. 13, Mr. Riegle said all relevant facts about his involvement with Mr. Keating already had been disclosed. Five days later, he told the committee that "at no time did I initiate any contact with the regulators concerning Lincoln."



Donald Riegle Jr.

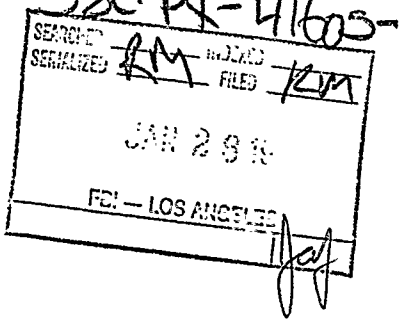
But soon after that, it came out that Mr. Riegle had met with a Lincoln auditor and Lincoln's general counsel in late February 1987—and that a week later he had suggested a senatorial meeting about Lincoln with the nation's top thrift regulator.

Sen. Riegle says those revelations weren't relevant to the ethics panel's narrow request. He emphasizes that he attended only one of the two meetings with regulators, and, like the other senators, says he did so because Arthur Young, Lincoln's auditor, had said the thrift was being harassed. Like Messrs. Glenn and McCain, Mr. Riegle ceased contact with regulators about Lincoln after hearing about the criminal referral.

The Grand Rapids Press, which endorsed Mr. Riegle for re-election last year, has blasted him. "Eau de Cover-Up is starting to drift home to Michigan in the wake of the latest revelations," it said. In response to such criticism, Mr. Riegle embarked on damage-control operation in Michigan last week, breaking his earlier silence to give interviews across the state.

While the Keating Five sweat out the ethics and Justice Department investigations, present and former colleagues are wondering what good can come out of the Keating affair. "When something like this hits, it leaves everyone shaken," says former Sen. William Proxmire of Wisconsin, a longtime advocate of reform in campaign finance and Mr. Riegle's predecessor as Banking Committee chairman. "Maybe they'll get serious about doing something."

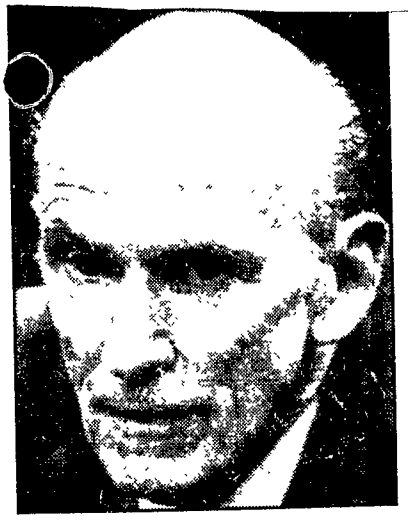
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Cranston dogged by Lincoln

Senator defends self while traveling state

By Chris Knap
The Register



Sen. Alan Cranston
Coming to OC today

■ **PICTURE:** How the Cranston-Keating relationship unfolded/**4**

For Sen. Alan Cranston, Lincoln Savings & Loan is the problem that will not go away.

As he crisscrosses the state this month, seeking to re-establish his credentials as a leader on national issues, his involvement in the collapse of the Irvine-based thrift continues to bedevil him.

Monday, in Marin County, schoolchildren at Davidson Middle School asked him to explain. Later that day in a forum on women's issues at San Rafael City Hall, a man who would identify himself only as "not in politics" also demanded an explanation.

"I think that somewhere down the line, you're going to have to respond to the American public as to why you continued to stay involved with (Lincoln owner) Charles Keating," the man said.

Alan Cranston accepted nearly $1 million from Keating for his re-election campaign and other political causes. Eight times, he called or met with federal regulators to discuss Lincoln Savings & Loan.

Please see **SCRUTINY/6**

The bond holders and many longtime Cranston supporters are angry at the senior senator for his involvement in the case. Even those who believe he has done no wrong say his career has been badly damaged.

Now Cranston, 75, a champion of liberal causes through four US Senate terms, is having to answer the questions he had hoped would go away. He schedules community forums on toxic pollution, offshore oil drilling and abortion rights. But the reporters — and invariably, someone in the audience — wants to know about Lincoln.

Today, Cranston visits Orange County to discuss open space, the homeless and women's issues. One woman who has become an unofficial leader among those who lost money at Lincoln has promised to picket.

Earlier this week, in a Volkswagen van bobbing over Highway 101 between Sausalito and San Rafael, Cranston talked with a Register reporter.

Interventions by him and four other senators on behalf of Keating had no effect on the decisions of regulators, he said. He violated no ethical rules of conduct. In short, he may have made a political mistake, but he did nothing wrong.

"When I get the facts through the press to the public I think the people of California are very fair and will decide I did not commit any impropriety," he said.

That is a view that some Cranston supporters don't share.

"Alan's been terribly hurt by even appearing with the other senators," said former California Gov. Edmund G. "Pat" Brown Sr., a longtime Cranston ally.

"(Cranston should) weigh very carefully whether to run again," said Rep. Nancy Pelosi, D-San Francisco, a former director of Cranston's voter-registration drive.

Lu Haas, a long-time Cranston strategist who served as the senator's press secretary from 1969 to 1981, is convinced Cranston did no wrong. But he reports, sadly, "Some of his old friends are absolutely disturbed by this."

As a former political insider, Haas believes he sees the situation clearly.

"If there's a right or wrong in this situation, I think it's in the system. It's not in what Alan actually did. Money is corrupting the system, not in the sense of bribes, but that to become an elected official, you have to become part of the big money machine. That, per se, is a corruption."

Cranston has always courted wealthy donors — virtually every federal politician does.

Haas even chuckled at the practice, describing "a sort of Robin Hood effect" from Cranston taking huge sums from wealthy conservatives and then using the money to advance liberal causes: abortion rights, nuclear disarmament, a ban on offshore oil drilling, dedications of huge sections of desert to the national park system.

But to liberals who prefer not to think about the role of money in the political system, the Lincoln case came as a shock.

"Voters avert their eyes from the blunt truth," Haas said. "Then they are disappointed when someone is exposed as having done this in the grand style."

Between 1985 and 1988, Cranston collected from Keating and his associates at least $35,000 in campaign contributions, $850,000 for his voter-registration efforts and $85,000 for the California Democratic party's statewide efforts.

"I don't think any politician can take $850,000 from a developer and then do favors for him and not expect eyebrows to be raised," Haas said. "It's an enormous amount of money."

And there are other, similar cases in Cranston's record, although not on such a scale.

Between 1986 and 1988, for instance, Cranston collected more than $50,000 from Drexel Burnham Lambert and its junk-bond chief, Michael Milken. Much of the money went into the voter projects, but Cranston collected $4,000 in honorariums in 1986 and 1987, according to public-disclosure forms.

In January, Cranston wrote the Securities and Exchange Commis-

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Page 2

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sion, asking the agency to drop its demand that Drexel move its junk-bond department from Beverly Hills to New York. After the lobbying by Cranston and other congressmen, the SEC did so.

The senator's Washington spokesman Murray Flander described the letter as "an effort to keep a local business here in California."

"Alan Cranston has finally been exposed for something he has been doing all along," Orange County Republican Party Chairman Thomas Fuentes said. "For years he has maintained a liaison with special interests on particular issues whereas overall his votes have been anti-business and pro-liberal."

Cranston does not deny that he solicited money from people with different political agendas.

"I live in a state where it costs more to run than anywhere else in the country," he said. "In the last race I had I set a record for what a Democratic candidate has raised, over $13 million, and I still got outspent by my opponent (Ed Zschau), who raised $15 million plus.

"It's a very unpleasant situation, and it leads to suggestions of impropriety, even if there are no improprieties committed. I worked to change this system long before this incident arose."

Cranston calls intervention with federal officials "constitutent services," and says he has helped thousands of people — contributors and non-contributors — in similar ways.

"I help anybody that seems to have a legitimate problem with the government," he said.

Cranston said Lincoln had more than 700 employees and 140,000 depositors.

"You can't ignore it when somebody with that big an operation says he's got an unfair problem," he said. "If I took the position that because somebody has contributed to me I can't lift a finger for them, even if they seem to have or may have a just case, I would not be a very worthy senator. Out of political cowardice, I would avoid taking a look at the (complaints) of a constituent that seemed to have some difficulties — I'm not going to ever take that wimpishlike position."

But Sherry Bebitch Jeffe, senior political scientest at Claremont Graduate School's Center for Politics and Policy, said Cranston's actions cannot be excused as part of the system.

"It has always been the case that some constituents, mostly large contributors, are more equal than others. But ... what Cranston did for Keating is not the same as helping an old lady cut through red tape," Jeffe said.

Shirley Lampel, of Tustin, a widow who is losing her sight to diabetes, agreed.

Lampel, 58, took $30,000 from her husband's life insurance settlement out of a savings account and purchased junk bonds at Lincoln, chiefly for the monthly income they promised. She thought it was guaranteed.

"I trusted the FSLIC (federal deposit insurance sticker) on the door of Lincoln Savings," Lampel said. "I was cheated. This Keating took my $30,000 and he was off. But Charles Keating could have never done what he did without Cranston and the help of the four other senators.

"They opened the hen-house door to this fox."

As Cranston has traveled the state this month, he repeatedly has said he will run for re-election in 1992.

"I believe that the people who have been with me will be with me when the election comes. And it's a long way off, fortunately." he said.

Lampel is doing everything she can to ensure that does not happen.

"I have been Paul Revere-ing this story. Whoever I can tell, I do. As long as I have someone who will drive me, I will be there with my picket sign wherever Alan Cranston appears.

"He can run for president or for dogcatcher — but he'll never be elected."

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Cranston's involvement with Keating began at 1985 fund-raiser in Phoenix

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By Chris Knap
The Register

Sen. Alan Cranston and Charles H. Keating Jr. met at a 1985 Phoenix fund-raiser set up by one of Keating's attorneys.

The two men had little in common politically. Cranston, a liberal Democrat, campaigned for a nuclear freeze and abortion rights. Keating, an archconservative Republican, launched into politics with a stern anti-pornography crusade that alarmed defenders of the First Amendment.

Keating and his associates subsequently gave $970,000 to Cranston's re-election campaign, to his voter-registration causes and to the California Democratic Party.

Cranston phoned or met with federal thrift regulators eight times to discuss Lincoln Savings & Loan, a troubled, Irvine-based thrift owned by Keating.

In April, Keating's American Continental Corporation went bankrupt; Lincoln was seized the next day.

The bailout is expected to cost taxpayers more than $2 billion.

Intervention by a senator on behalf of a supporter is not unusual in Washington. If Lincoln had not gone under in such spectacular fashion, Cranston's actions might never have drawn such attention.

Through Federal Home Loan Bank Board documents, transcripts of testimony before the House Banking Committee, interviews with regulators and with Cranston, the Register was able to put together a picture of Cranston's involvement in the case.

It begins with the 1985 Phoenix fund-raiser and other efforts by Keating that netted at least $35,000 for Cranston's 1986 re-election campaign.

Afterward, Keating remained in touch. A favorite topic of conversation was the thrift regulators who were criticizing Lincoln's investment and lending practices.

"(Keating) would call me to complain about how he was being abused by the regulators, and go into tirades on the subject," Cranston said.

Cranston said Lincoln had more than 700 employees in California and 140,000 depositors.

"I was concerned about it," he said. "You can't ignore it when somebody with that big an operation says he's got an unfair problem."

On April 2, 1987, Cranston and Sens. Dennis DeConcini and John McCain of Arizona and John Glenn of Ohio met with Federal Home Loan Bank Board Chairman Edwin Gray in DeConcini's office.

Cranston said his only involvement in the meeting was to call for a quick decision on the Lincoln audit.

"I was doing my best to get a decision — if it was made like the other decisions — that would have kept Lincoln out of business," he said.

In a telephone interview from Miami, where Gray now runs Chase Federal Savings, the former thrift regulator disputed Cranston's account.

"I was told to come to a meeting and bring no staff. The senators had no staff present. Things like this just don't happen in Washington. Here we had a situation where a show of force was the intent. Built into that meeting was the kind of deniability that people seek in case these things get out."

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Gray said DeConcini opened the meeting by saying, "We're here on behalf of our friend at Lincoln." Gray said Deconcini then proposed a deal: Lincoln would make more home loans if Gray would back off on a new rule that restricted other, more risky investments.

If Cranston wanted a decision that would have closed Lincoln, "Why did he not object to the DeConcini proposal?" Gray asked.

"My feeling was that the meeting was called to bring pressure on me to exclude Lincoln from the rules. My feeling was that Cranston was every bit as much a part of that meeting as the other three."

The four senators, as well as Donald Riegle, D-Mich., later met with top regulators from the San Francisco office of the bank board. The regulators said they believed that Lincoln and its parent had committed fraudulent acts. They said they were sending a criminal referral to the FBI.

Those comments prompted Riegle, Glenn and McCain to cease intervening on Keating's behalf.

Cranston said the withdrawal of the other senators only "made it more urgent" for him to continue helping Keating. He noted that Keating had complained that regulators were harassing him and leaking inside information.

"I know that people in the executive branch sometimes make criminal referrals that are groundless and lead to nothing; so, given the adversarial relationship and the harassment and the leaking of damaging information, I was not totally convinced that it meant much," Cranston said.

According to Federal Home Loan Bank Board memos and testimony to the House Banking Committee, Cranston called or met with regulators at least six more times to discuss the Lincoln case.

In July 1987, he urged the new bank board chairman, M. Danny Wall, to act quickly on the Lincoln case. Wall and the bank board did so, removing the San Francisco office from the case and opening a new investigation in Washington. Lincoln used that time until it was seized to sell more uninsured notes.

In the ensuing year, Cranston solicited $850,000 from Keating for three voter-registration projects he sponsored; $725,000 of it ended up with institutions run by Cranston's son, Kim.

Cranston repeatedly has insisted that he got no financial benefit from those contributions.

But financial-disclosure forms filed by Cranston show that two of the voter projects reimbursed him for 43 airplane flights, 25 nights of lodging and an unspecified number of meals in 1987 and 1988.

By early 1989, federal regulators from other branches had begun another examination of Lincoln. Keating was trying to get federal approval for a sale that would keep regulators from seizing Lincoln.

Cranston called or met with Wall four times in 1989 to promote the sale, and made one call to Roger Martin, another bank board member, for the same purpose.

"I suggested that if they could approve the sale, get (Keating) out of the business and end this adversarial relationship, that would be good for all concerned," Cranston said.

But the proposals were rejected, the regulators terming them "sham sales" to business associates that would result in Keating retaining control of Lincoln.

American Continental filed for bankruptcy April 13. Federal regulators seized Lincoln the next day. Wall called Cranston to tell him of the seizure.

"I recall him saying something to (the) effect — he hoped that it was not a mistake," Wall told the House Banking Committee.

In September, thrift regulators filed a civil-racketeering suit against Keating. The suit alleges that he stripped Lincoln of its assets, engaged in fraudulent transactions to inflate profits, and paid himself and his family members huge salaries and bonuses.

"If (Keating) was doing all those things, he was obviously engaged in a great deal of wrongdoing and it's outrageous," Cranston said.

"But I didn't know about it at the time — if he was a crook. I had the statements by Alan Greenspan (an economist hired by Keating) and Arthur Young (an accounting firm hired by Keating) indicating that he was a solvent, steady entity.

"I still feel that, given what I knew at the time — and that's all I could go on — I behaved in an appropriate way."

Register staff writer Jonathan Lansner contributed to this report.

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More evidence of Lincoln-Silverado links reported

San Francisco Chronicle

WASHINGTON — Executives and associates of Colorado's collapsed Silverado Savings and Loan and its controversial major investor contributed $10,000 to Michigan Sen. Don Riegle — a key figure in the Lincoln Savings and Loan scandal — one day before Lincoln directed a huge cash infusion to the Silverado investor, The Chronicle has learned.

Campaign finance reports show that 16 Colorado residents with financial ties to Silverado or MDC Holdings, its major backer, all contributed to Riegle on Sept. 29, 1987, the day before MDC received a $75 million line of credit as part of a land-swap deal with Lincoln. That deal has been labeled a "sham" in a racketeering lawsuit filed by federal regulators.

The documents are the latest evidence of links between Lincoln and Silverado.

President Bush's son Neil was at the time a director of the Colorado firm, which is expected to be the next focus of congressional hearings in the S&L scandal. Bush resigned from the board four months before the government closed Silverado in December 1988, at a cost to taxpayers of as high as $1 billion.

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Cranston's explanations seem more and more bankrupt

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By Chris Matthews

WASHINGTON — As democracy is launched in Eastern Europe, it is being sabotaged here at home by the most brazen case of corruption ever documented.

Measured in damage to the public, the Lincoln Savings and Loan scandal makes the Brink's robbery look like a five-and-dime shoplifting case. When the California S&L chain went under this April, 22,000 depositors were left holding $200 million in worthless bonds. The taxpayer was stuck with a $2.5 billion bill for Lincoln's insured accounts. It was as if every man, woman and child in the United States had been mugged for $10.

The decay which led to this multibillion dollar catastrophe was as much political as financial. Five US senators who should have been protecting the interests of average citizens, depositors, and taxpayers were seen using their offices instead to protect the interests of the owner of Lincoln Savings and Loan, Charles Keating.

One of the senators, Democrat Alan Cranston of California, has spent the past week defending his actions on TV talk shows. He's made three arguments: that his intervention on behalf of Lincoln was the standard service he would give any "constituent"; that it's not his responsibility to know someone's motives in giving him money; and lastly, that the whole episode is simply a case study in how the "system" works in this country.

Cranston's first two arguments are easily dismissed.

Standard "constituent" service?

On April 2, 1987, Cranston and three other senators — Dennis DeConcini, D-Ariz., John McCain, R-Ariz., John Glenn, D-Ohio — called Federal Home Loan Bank Board chairman Edwin Gray to a private, after-hours meeting on Capitol Hill. Gray has testified under oath he was told to come to the meeting alone; he was not to bring his staff. The senators also came without staff.

A week later, the same four senators met with the board's San Francisco-based examiners. This time they were joined by a fifth senator, Don Riegle, D-Mich., chairman of the Senate Banking Committee. Again the senators attended without their staffs.

To call this show of senatorial force standard "constituent" service, as Cranston did this past week on "CBS This Morning" and "Good Morning America," is laughable. This was made clear by the senator hosting the meeting, Dennis DeConcini. "We're here on behalf of our friend at Lincoln Savings," he began the first meeting.

Having broken the ice, DeConcini brazenly asked Gray to change a Federal Home Loan Bank Board regulation that his unnamed "friend" Keating found restrictive.

Understandably, the five senators wanted to keep meetings with the bank regulators a private affair. Normally, constituent services are dispatched to the attention of the senator's casework staff. In the case of twin Keating meetings, it was the staff itself that was dispatched.

Sen. Cranston's second argument defending his ties to Keating is weak. "It's not my responsibility," he says, "to figure out what's in somebody else's head when they're making contributions." This is an odd point to make given that he solicited and received more than $800,000 from Keating, for groups that Cranston controlled, after attending the two meetings with federal banking regulators.

He's latched onto a thin reed of truth as to his third point. There's an expression on the Hill for senators or congressmen who have taken so much money from a special interest that they cease judging an issue on its merits. One lawmaker described to me the heart-stopping experience of sitting at a meeting and suddenly realizing that a colleague is "tanked," that he's no longer doing his congressional job but merely running an errand for one of the Charles Keatings of this world.

In the parlance of Capitol Hill, all five senators who attended those twin after-hours meetings with the banking regulators were "tanked."

If this is the system of democracy we are hoping to export to East Europe, maybe we should keep it to ourselves.

Mr. Matthews, a former aide to onetime House Speaker Tip O'Neill, is Washington bureau chief for the *San Francisco Examiner.*

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'Keating 5' Senators Activate Damage Control

■ Thrifts: Riegle and DeConcini pay for ads in home states while Cranston, McCain and Glenn respond to scandal over Irvine-based Lincoln S&L.

By JOHN FLESHER
ASSOCIATED PRESS

WASHINGTON—Senate Banking Committee Chairman Donald W. Riegle Jr., one of five lawmakers facing ethics investigations in the scandal involving Irvine-based Lincoln Savings & Loan, is starting a TV campaign aimed at limiting political damage back home in Michigan.

Sen. Dennis DeConcini, D-Ariz., is shelling out $190,000 for newspaper and TV ads in his state.

The other three senators, including California's Sen. Alan Cranston, are defending themselves in varied forums but have yet to pay for newspaper or broadcast access to voters, according to staff members.

Riegle aide David Krawitz said Monday, "There have been inaccurate and sensational news stories about this matter, and in order to get the full and accurate story out, we're showing this program on cable."

Krawitz said the Michigan Democrat would use campaign money to rebroadcast a 30-minute TV interview in which he responded to questions about his involvement with Charles H. Keating Jr., head of the failed thrift. The program will air on cable stations throughout Michigan, possibly this week. Aides said they do not know how much the broadcast will cost.

DeConcini announced his ad blitz Friday at a press conference in Phoenix, saying he would run newspaper ads and commercials of two to five minutes on TV to tell his side.

"I have decided to take my case directly to the people of Arizona," DeConcini said. "I do this not as a criticism of the press, but because I do not believe that the facts have been adequately heard and understood."

At the center of the controversy are two meetings senators had on Keating's behalf with federal regulators. The first, on April 2, 1987, involved Edwin J. Gray, then chairman of the Federal Home Loan Bank Board, and all the senators except Riegle. The second, seven days later, involved the five senators and bank board examiners from San Francisco. The regulatory examination of Lincoln was discussed at the latter meeting.

The government seized control of Lincoln on April 14, 1989. The eventual cost to taxpayers is expected to reach a record $2 billion.

Riegle, DeConcini and Cranston—as well as Sens. John McCain, R-Ariz., and John Glenn, D-Ohio—are subjects of a Senate Ethics Committee inquiry.

The five received a total of more than $1.3 million in campaign contributions from Keating, who headed the Irvine thrift, and his family and business associates.

Riegle, who later returned the money he received from the Keating group, avoided public comment on the controversy for much of last year. He began granting interviews on the subject in November to home-state reporters, saying he wanted to set the record straight.

He discussed the Lincoln affair in many interviews while traveling across Michigan during the holiday recess, Krawitz said. One of those was a Dec. 10 appearance on a half-hour program on Detroit station WXYZ, during which he was questioned by two reporters and a moderator.

Riegle is paying to rebroadcast that interview, which aide Karolyn Wallace described as "a fair presentation . . . a tough and frank discussion, and because it's a half-hour and provides a more complete picture" than the typical news story.

Money for the broadcast will come from Riegle's campaign treasury, Wallace said.

"The goal is to start this week, but it's not certain," she said.

Glenn has held lengthy press conferences and interviews, including meetings with newspaper editorial boards in Ohio, but has no plans to advertise, spokeswoman Rebecca Bell said.

Cranston has attended public meetings at which questions were raised about his involvement in the Lincoln case. "He took them as they came," said Victoria Lion, a spokeswoman for the California Democrat. "He has been very accessible to the press."

Last month, an angry bondholder in Lincoln's parent firm, American Continental Corp., interrupted a panel discussion on women's rights in Santa Ana to criticize Cranston for soliciting money from Keating and for being insensitive to the plight of victims. A staff aide said that throughout his tour of California last month, reporters and others quizzed him repeatedly about his role in the scandal.

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Former Regulator of S&L Industry Assails Cranston

By SARA FRITZ
TIMES STAFF WRITER

WASHINGTON—Edwin J. Gray, former chief regulator of the savings and loan industry, said Tuesday that recent attacks on him by Sen. Alan Cranston (D-Calif.) in connection with the Lincoln Savings & Loan failure are the acts of "a desperate, panic-stricken officeholder."

Gray, who headed the Federal Home Loan Bank Board from May, 1983, to June, 1987, released a letter he sent to Cranston, rejecting the senator's efforts to blame him for the $2-billion collapse of the Irvine thrift.

"I am sorry, frankly, for my fellow Californians, your constituents, because of your intemperate and abusive outbursts," Gray wrote in an eight-page, single-spaced letter to Cranston. "Your shrill statements strike me as those of a desperate, panic-stricken officeholder. . . . The truth is, I am not your problem, Sen. Cranston. You are."

Gray, who has been Cranston's chief accuser in the Lincoln affair, was responding to a series of California press conferences held by Cranston over the past week in which the senator characterized the former bank board chairman as "a publicity-hungry political hack" who is trying to mask his own culpability by pointing a finger at members of Congress.

Cranston is one of five senators under investigation by the Justice Department and the Senate Ethics Committee for intervening with federal regulators on behalf of Lincoln chief Charles J. Keating Jr. Voter-registration drives supported by Cranston received $850,000 in contributions from Keating, and the financier also contributed $47,000 to the senator's campaign coffers.

Adverse publicity from the Lincoln scandal has caused Cranston's popularity in California to plummet, putting his 1992 reelection bid in jeopardy.

In response to Cranston's charge that Gray should have closed Lincoln in 1987, the former regulator noted that he had no statutory power to do so because Congress at that point had allowed a law governing thrift regulation to lapse.

Gray, who left the bank board one month after regional thrift regulators in San Francisco recommended federal seizure of Lincoln in May, 1987, also suggested that Cranston was being "disingenuous" in criticizing Gray for failing to act on the recommendation.

If he had acted, Gray said, Cranston and other Keating supporters "would have personally run me out of town."

After the government finally stepped in and seized Lincoln in April, 1989, Gray noted, Cranston was quoted by the San Francisco Chronicle as saying: "I think they made a very unwise decision in shutting them down when they did."

Gray said Cranston opposed his regulatory efforts to clamp down on high-flying thrifts such as Lincoln. "The fact that it happened partially on my watch is as much a reflection on your failure, yes, on your

Please see CRANSTON, A19

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unwillingness to help me obtain the reforms I went up to the Hill and asked to be passed," he said.

In the Senate, meanwhile, Cranston introduced a bill that would allow bondholders hurt by Lincoln's collapse to sue the federal government for negligence in approving the sale of high-risk bonds to Lincoln customers.

The legislation seeks to help 22,000 small investors, most of them elderly Southern Californians, who purchased $200 million in now-worthless junk bonds at Lincoln branches. Many investors mistakenly believed the bonds, issued by Lincoln's parent firm, American Continental Corp., were insured by the government.

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Former S&L regulator denounces Cranston

Man senator blames for Lincoln debacle calls charge outrageous

By Chris Knap
The Register

In an eight-page letter to US Sen. Alan Cranston, former federal thrift supervisor Edwin Gray called it "disingenuous and outrageous" for California's senior senator to blame him for the collapse of Lincoln Savings and Loan.

Cranston met at least eight times with federal regulators to discuss the government's attempts to control the Irvine-based savings and loan. The Democratic senator also solicited $970,000 for political causes from Lincoln owner Charles H. Keating Jr. and his associates.

"You and Charlie Keating and (Arizona Democrat Sen.) Dennis DeConcini — arm in arm — would have personally run me out of town ... if I had (closed Lincoln)", Gray wrote Cranston.

In Washington, Cranston spokesman Murray Flander said a response was being prepared to Gray's "rambling, repetitious" letter, which Flander dismissed as "more lies."

Gray, the nation's top thrift regulator from 1983 to 1987, was in Spain last week when Cranston conducted a series of California news conferences proclaiming his innocence in the Lincoln debacle and placing the blame on Gray.

Gray, now president of the Chase Federal Bank in Miami, responded with a letter faxed to Cranston's Washington office late Monday.

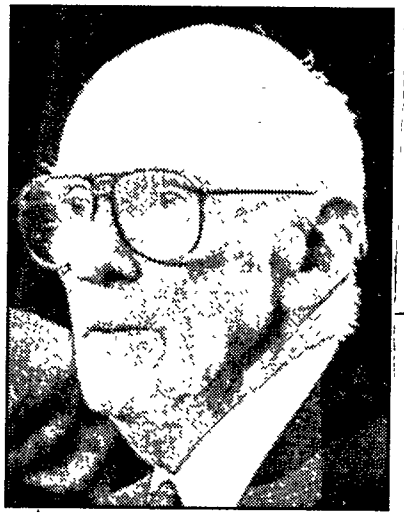
Gray told Cranston that his "shrill statements" of last week "strike me as those of a desperate, panic-stricken officeholder."

Specifically, Gray said, Cranston:

- Never called for action on the stalled audit of Lincoln, as Cranston now says that he did.
- Did not object when DeConcini asked Gray, in an April 2, 1987, meeting, to revoke a rule limiting risky investments by savings and loans.
- Did not "lift a finger to help" with the statutory reforms Gray sought in the US Senate, including extension of federal authority over state thrifts and savings and loans and stricter regulation of brokered funds and direct investments by thrifts and savings and loans.

Gray said the Federal Home Loan Bank Board could not have seized Lincoln at the end of his tenure in mid-1987 because Congress had allowed the bank board's preemptive authority over state savings and loans to expire.

Gray's successor, M. Danny Wall, subsequently was granted such authority in September 1987, yet Wall called off the audit of Lincoln after he met and talked several times with Cranston, Gray said.



Sen. Alan Cranston
Called 'panic-stricken officeholder'

"Isn't it interesting that (Cranston) didn't say anything about Danny Wall?" Gray said in a telephone interview Tuesday. "It wasn't me that kept [illegible] for two more
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Cranston Goes on the Offensive

■ **Politics:** The senator changes his tactics and attacks his chief accuser in the Lincoln Savings & Loan scandal.

By JOHN BALZAR
TIMES POLITICAL WRITER

Protesting his innocence and proclaiming his good intentions have not succeeded in clearing his name. And neither has lying low, waiting for the storm clouds of scandal to blow over. So reelection-minded U.S. Sen. Alan Cranston changed his tactics Wednesday and hurled a fuming broadside against his prime tormentor—former federal bank board chief Edwin J. Gray.

"A publicity-hungry political hack . . . Gray lies . . . lies over and over in the Hitlerian technique of the Big Lie," Cranston said.

This was the opening, and certainly the most lively, move in yet another attempt by the beleaguered Cranston to save his political future from the angry backlash over Lincoln Savings & Loan's collapse.

Cranston said that as his new political offensive develops in the days ahead, he will offer something to try to help those 23,000 or so Californians who lost their savings when they bought uninsured bonds at Lincoln branches. Details will come soon, he said.

His goal is to redefine just what the fuss is all about with Lincoln, its chairman, Charles Keating, and California's senior senator in America's most expensive—$2 billion—S&L failure.

Don't blame me, Cranston said at his Wednesday press conferences in Los Angeles, San Francisco and Sacramento. Blame Ed Gray, the senator said.

"Gray was the man in charge when savings and loan institutions throughout the nation were heading into disaster, and he shares responsibility for a scandal that will probably cost taxpayers upward of $250 billion," Cranston said.

So far in the long-running debate over his role in Lincoln's crash, Cranston and four other U.S. senators have shouldered plenty of the blame. The five accepted Keating's generous political contributions and then went to federal regulators on Keating's behalf in the midst of a federal investigation of Lincoln. Cranston accepted more than any of them—$850,000 in contributions for three voter registration groups and $47,000 in direct contributions.

The rub comes in what Cranston and the other senators did when they intervened for Keating at a pair of meetings in April, 1987.

Cranston has repeatedly said he did nothing more than prod the Federal Home Loan Bank Board under Gray to speed up a long-running audit of Lincoln. This is the kind of help he gives constituents and California businesses regardless of whether they are contributors, Cranston insisted.

Gray, however, charged that Cranston and the other senators joined in pressuring him to withdraw a regulation restricting how much an S&L could invest in things like junk bonds and real estate developments rather than home mortgages. The regulation was opposed by Keating. And instead of a routine inquiry by senators on behalf of constituents, Gray has called the episode tense and awkward and altogether extraordinary.

The Senate Ethics Committee is now reviewing the case.

Politics-minded Californians are keenly aware, though, that Cranston's helping hand for Keating has grown into a larger

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FBI — LOS ANGELES

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and stickier image problem for the venerable senator, long the champion of the "little guy." Now, he stands accused of having helped a "big guy," a big contributor, in a sequence of events that ended up costing many ordinary Californians their savings and their jobs.

Cranston bored in Wednesday on the narrower issues of how he disagreed with Gray's version of their encounters and select events, casting the matter as a debate between two politicians—a test of credibility between Cranston and Gray, a Democrat vs. a Republican, a senator against a former press aide to Ronald Reagan. In short, an old-fashioned political spat.

"This investigation is basically premised on the falsehoods of one Ed Gray. When it becomes clear that he is not a man to be relied upon in word or in deed, I expect that the charges against myself, [and Sens.] John Glenn, John McCain, Dennis DeConcini and Don Riegle will be looked upon in a very different light," Cranston said.

"Gray is a public relations expert by profession. He knows he can tell just about any kind of lie about a politician these days and be believed—especially if he repeats those lies over and over in the Hitlerian technique of the Big Lie."

Gray, who is now a Florida savings and loan executive, was on vacation, reportedly out of the country, and could not be reached for comment.

In his broadside, Cranston blamed Gray for six "lies" that have misshapen public perceptions about the events.

Cranston said it is a "lie" that he pressured Gray. Gray has said he felt pressured.

The senator said it is a "lie" that meeting with senators was anything but routine. "Gray preverts that meeting, making it sound like a sinister cabal," said Cranston. Indeed, Gray does. "I felt a tenseness in the air, an awkwardness that was overwhelming. Just me and five senators in a room. Nobody else to record what was said," he has said.

Cranston said it is a "lie" that his intervention delayed federal regulators in acting. Among those who have made this suggestion is House Banking Committee Chairman Henry Gonzalez (D-Tex.).

Cranston said it was a "lie" when Gray allegedly told an interviewer that the $850,000 in Keating contributions were to help Cranston get reelected. Actually, the contributions were for voter registration drives during the 1988 presidential race, not Cranston's 1986 reelection. Gray reportedly described the voter registration groups as "phony," which Cranston said was another "lie."

The senator plans to spend this week and next trying to regain the offensive and to discourage a growing number of fellow Democrats who are stepping all over each other—half a dozen or more of them—to test the idea of running against him in the 1992 senate primary. Cranston accused them of "ghoulishness."

One of the keys to his plan apparently is to offer help of some sort for those Californians who bought bonds at Lincoln branches. Many of the buyers now say they believed the bonds were backed by government deposit insurance. They were not, and are now without value.

"When the facts get known to them, and when it becomes apparent to the bond holders what I have sought to do, and am seeking to do, and am about to do more for them than any other single person, expect perhaps the attorneys representing them, I think their attitudes will change," Cranston said.

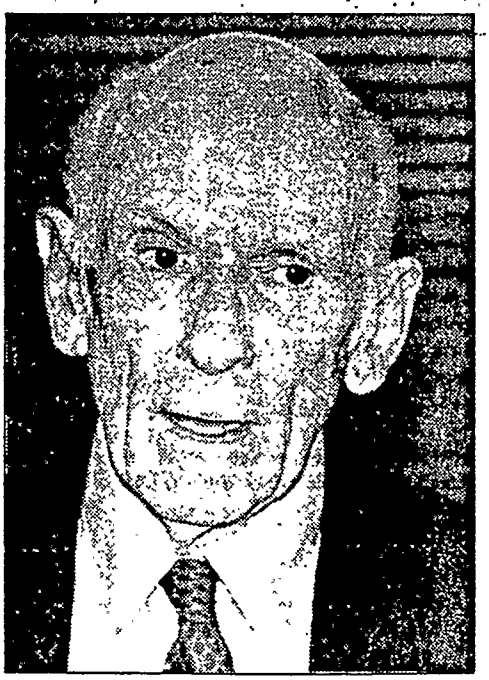
Polls in the state show a profound plunge in Cranston's popularity ever since his role in Lincoln was disclosed. But he gave no quarter Wednesday, after two weeks on vacation to brood over it.

"I come before you bloodied but unbowed," he declared. "I assure you I have just begun to fight."

And then the 75-year-old Cranston told a fable. It was about three elderly gentlemen who were talking about where they would like to be buried. One wanted to be buried next to Cleopatra. Another said he wanted to be buried next to Marilyn Monroe. The third said he wanted a plot beside Elizabeth Taylor.

" 'But wait a minute,' the others shouted. 'She's not dead yet,' " Cranston continued. " 'Neither am I, the third one said.' "

Times staff writer Sara Fritz in Washington contributed to this story



MICHAEL EDWARDS / Los Angeles Times

U.S. Sen. Alan Cranston appears at press conference Wednesday morning.

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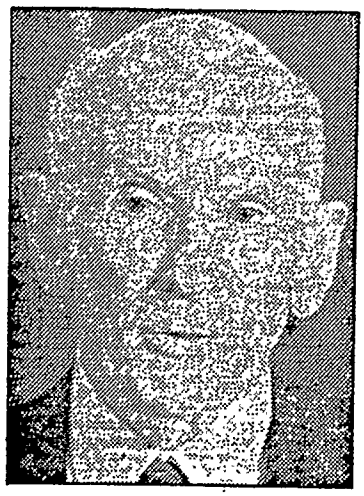
Cranston takes case to the public

Calls his accuser a 'Hitlerian' liar

By PATRICK McGREEVY and MARK BARNHILL
Daily News Staff Writers

Escalating his defense against misconduct charges, Sen. Alan Cranston bitterly accused former U.S. banking regulator Edwin J. Gray on Wednesday of lying with a "Hitlerian technique" to implicate him in the collapse of Lincoln Savings.

At press conferences in Los Angeles, San Francisco and Sacramento, Cranston called the former Federal Home Loan Bank Board chairman a "political hack" who falsely portrayed Cranston as responsible for delaying government action against Lincoln.



Alan Cranston
Mounts defense in scandal

Cranston, who has previously attacked Gray, stepped up his rhetoric in comparing him to Adolf Hitler.

"He knows he can tell just about any kind of lies about a politician these days and be believed, especially if he repeats those lies over and over in the Hitlerian technique of the Big Lie," Cranston said.

Gray was vacationing in Europe and could not be reached for comment.

In testimony before the House Banking Committee in November, Gray accused Cranston and four other senators of trying to "subvert the regulatory process" on behalf of Charles H. Keating Jr., chairman of Lincoln's parent company.

Keating and his associates steered a combined $1.3 million in political contributions to the senators, including $897,000 that went directly to Cranston's campaign or political groups that he controlled. The Senate Ethics Committee has opened an inquiry into the senators' actions.

Cranston — faced with growing political damage from his intervention with regulators on behalf of the failed thrift — sidestepped questions about Keating during his press conferences on Wednesday, saying, "I want a chance to have people hear about Mr. Gray."

Asked if he had become an advocate of Keating, the senator replied, "I was asking in behalf of Lincoln, Mr. Keating, stockholders, 23,000 employees of Lincoln and people who made deposits there."

Acknowledging that some observers are already writing his political obituary, Cranston vowed to

> ***"He knows he can tell just about any kind of lies about a politician these days and be believed, especially if he repeats those lies over and over in the Hitlerian technique of the Big Lie."***
> **— Sen. Alan Cranston**
> criticizing former banking regulator Edwin J. Gray

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run for re-election and win in 1992.

"I'm not dead yet," he said. "I come before you bloody but unbowed, and I assure you I have just begun to fight.

"I've had an unchallenged, unblemished record of integrity during my more than 20 years in the Senate, and I'm not about to let one man get away with destroying that record and ending my career in public life," he said.

Cranston's approval rating and political credibility have plummeted since his links to Keating and Lincoln Savings were disclosed last year.

Potential challengers have begun lining up to run against him in 1992, and at least one colleague has announced he will challenge Cranston for the job of Democratic whip, the second-ranking leadership position in the Senate.

At the same time, the Senate Ethics Committee is conducting a preliminary inquiry into the conduct of Cranston and Sens. Dennis DeConcini, D-Ariz; John McCain, R-Ariz.; John Glenn, D-Ohio and Donald W. Riegle, D-Mich.

At the center of the controversy are two meetings the senators had on Keating's behalf with federal regulators who wanted to close down Lincoln Savings.

The first, on April 2, 1987, involved Gray and all the senators except Riegle. The second, seven days later, involved the five senators and bank board examiners from the regional office in San Francisco.

Gray, in testimony before the Banking Committee, accused the senators of trying to "subvert the regulatory process" by summoning him to explain the Lincoln examination. During the meeting, Gray said, DeConcini offered a "quid pro quo" deal on behalf of Keating, and "none of the other senators objected."

All five senators disputed Gray's assertion that a deal was offered, but Gray testified that their denial "is simply not credible."

Cranston complained Wednesday that Gray's account "perverts that meeting, making it sound like a sinister cabal.

"Each senator had his own reason for going to that meeting," Cranston added. "I went solely to get a speedier decision on the audit, one way or another."

Gray's description of the meeting and his allegation that pressure was exerted are among several "outright lies" by the former banking regulator, Cranston said.

Others include the implication that the senators' intervention delayed bank board action against Lincoln, when in fact Gray testified that he took no action as a result of the meeting.

Gray also lied, Cranston said, by declaring in a television interview that Cranston "got $850,000 from Keating for some phony voter registration groups to help him win his election."

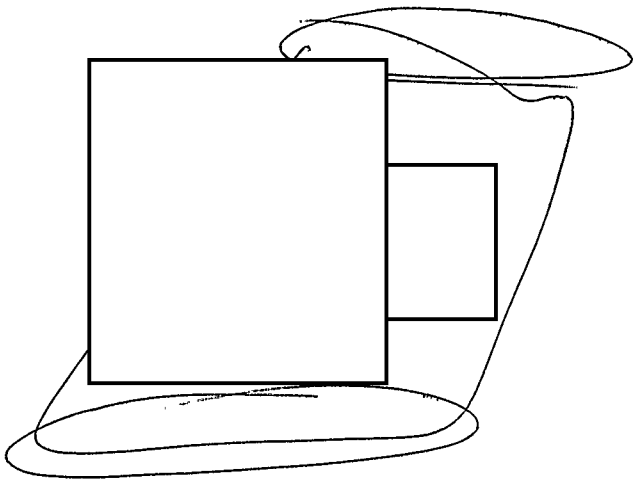
"Those were not 'phony' voter registration groups," Cranston said, describing them as "bona fide nonpartisan organizations" that were certified by the IRS.

Although the voter-registration drives were billed as non-partisan in tax records, The San Francisco Chronicle has quoted several recruiters for the groups who said they were instructed to register only Democrats, a charge being investigated by the FBI.

Cranston also said the money was donated during the 1988 presidential campaign, "and had nothing to do with my Senate election two years earlier."

Cranston accused Gray of trying to avoid blame for the $250 billion S&L collapse and in particular the Lincoln failure, which is expected to cost taxpayers $2.5 billion.

This story was reported by Patrick McGreevy in Los Angeles and Mark Barnhill in the Daily News Washington Bureau. James W. Sweeney contributed from the Daily News Sacramento Bureau.



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Van de Kamp's S&L role hit

By BETH BARRETT
Daily News Staff Writer

In one of the first jabs of her gubernatorial campaign, former San Francisco Mayor Dianne Feinstein charged Tuesday that Attorney General John Van de Kamp failed a year ago to halt the sale of $10 million in now-worthless junk bonds by Lincoln Savings and Loan's parent company.

Speaking at a fund-raising dinner in San Francisco held by the 49ers National Football League team, Feinstein said her opponent in the 1990 Democratic primary "dithered," rather than stop the sales to protect unsuspecting investors.

Feinstein was campaigning Wednesday in Los Angeles, but did not return phone calls. Her spokeswoman Dee Dee Myers said Feinstein was attending a private fundraiser.

"The point she wanted to raise was what John Van de Kamp knew, when he knew it and why he didn't move faster to stop it (the bond sales)," Myers said.

Van de Kamp declined, through a spokesman, to comment Wednesday.

"He's not interested," his spokesman Duane Peterson said.

Peterson said Feinstein's charge was not supported by state officials' statements.

"All I can say is, 'nice try,'" Peterson said. "The lawyer that handled the case for the state Department of Savings and Loan has said plainly that the enforcement action against Lincoln Savings and Loan was taken in accordance with the department's procedure and analysis, and that nothing in that action was changed at our office's request."

Feinstein's comments followed Department of Savings and Loan examiner Richard Newsom's accusation at a Nov. 29 Assembly committee hearing that a deputy attorney general weakened a cease-and-desist order in December 1988. Newsom said the original order could have halted the sale of American Continental Corp. bonds by exposing insider trading violations among Lincoln officials.

Peterson said the deputy, C.H. Rehm, was not requested by Department of Savings and Loan officials to act on the order. Further, Peterson said Newsom's information was second hand, because he was not directly involved in the conversation between Rehm and the thrift department's counsel Shirley Thayer.

Thayer has denied that language in the order was removed at Rehm's request.

Assemblywoman Cathie Wright, R-Simi Valley, on Tuesday said four state thrift regulators will be subpoenaed to testify to Newsom's charges during a Dec. 20 hearing before the Subcommittee on Savings and Loan Law and Regulation.

Wright said Tuesday that if Newsom's assertions are substantiated, she may ask that legislation be drafted to protect investors in the future, and to place stricter controls on the Justice Department.

One of the regulators who has been subpoenaed, counsel H.R. Harvey, said he is prepared to support Newsom's account.

Newsom, in a letter to the Assembly committee last week, claimed the Attorney General's Office and his own agency tried to cover up their roles in squelching the order.

Van de Kamp said his office's involvement is a "delicate matter," because it also is defending state officials in a civil lawsuit filed on behalf of 23,000 junk bond buyers who are claiming $250 million in losses.

The estimated $2.5 billion collapse of Irvine-based Lincoln and the bankruptcy of American Continental last April are the subject of a federal $1.1 billion civil racketeering lawsuit, and a federal criminal investigation.

The activities of American Continental's chairman Charles H. Keating Jr. and other company executives also are being scrutinized by the Federal Bureau of Investigation, the Internal Revenue Service and the Securities and Exchange Commission.

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SAN FERNANDO, CA

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Ex-Aide to Riegle Received $85,000 From Bank Group

By Paul Duke Jr.
Staff Reporter of The Wall Street Journal

WASHINGTON—The staff director of the Senate Banking Committee said he received $85,000 in consulting fees from the American Bankers Association between the time he resigned from the staff of Sen. Donald Riegle (D., Mich.) and the time he took his current post, 18 months later.

While the director, Kevin Gottlieb, hasn't been accused of violating any ethics rules, the disclosure of the contract comes at a time of heightened sensitivity to congressional influence on banking regulation. Sen. Riegle, who became chairman of the banking committee and hired Mr. Gottlieb in January, is among five senators under investigation by the Senate Ethics Committee for their intervention with regulators on behalf of Lincoln Savings & Loan Association of Irvine, Calif.

Mr. Gottlieb said the American Bankers Association contract didn't entail any lobbying. He said he receives honoraria for some of the 60 or so speeches he makes a year, but that none of this money comes from anyone with business before the committee.

The staff director said he has asked the ethics committee for direction in reporting this money. In required financial disclosures, Mr. Gottlieb said, he followed instructions he received from the ethics committee in 1982 in lumping his honoraria—sometimes more than $50,000, as in 1986—together as income from his consulting firm, Kevin Gottlieb & Associates Inc. Most staffers don't have incorporated consulting firms and are required to itemize such payments.

Mr. Gottlieb disclosed the 17-month consulting contract and his contact with the ethics committee in an interview with the Detroit Free Press over the weekend. In an interview with The Wall Street Journal yesterday, he said the American Bankers Association contract was the only one he had with any financial trade group or institution in the period between his Senate jobs.

He said he did receive $535,000 as head of the Outdoor Advertising Association, the billboard trade group, during the same period, as well as $105,000 from Sen. Riegle's re-election campaign, of which he was chairman.

It was after winning the election that Sen. Riegle became banking committee chairman and Mr. Gottlieb assumed the committee's top staff post.

Under the American Bankers Association consulting contract, Mr. Gottlieb "took a look at their communications" with member banks and with Congress, he said. He said he advised the group on its "generic" exchanges with its members and congressmen, not on specific contacts with individuals. The American Bankers Association confirmed that the contract was for "consulting on grass-roots communications and grass-roots development activity."

Mr. Gottlieb said the ABA couldn't have known that he would become staff director of the banking committee when the contract was initiated in mid-1987. Former Sen. William Proxmire (D., Wis.), then chairman of the banking committee, hadn't yet announced his resignation, which opened the path for Sen. Riegle to become chairman. "And it was unclear whether the Democrats would even be in the majority," and thus in control of chairmanships, Mr. Gottlieb said.

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Keating blames regulators

Ex-owner says he could save Lincoln

By Elaine S. Povich
Chicago Tribune



Charles Keating Jr.
'We were making money'

WASHINGTON — Charles Keating Jr., the Phoenix millionaire who headed the failed Lincoln Savings and Loan Association of Irvine, predicted Friday he could return the thrift to profitability if he wins his case against the government and regained control of Lincoln.

Testifying in US district court, Keating blamed hostile regulators for causing the collapse that led to the US takeover of Lincoln in April. Government officials predict the Lincoln failure eventually could cost taxpayers $2 billion, making it the most costly bailout of a savings and loan in the nation.

"We were making money right up until the end," Keating testified. "If they left us alone, we still would be making $100 million a year."

Keating is challenging the government's takeover. When regulators took over Lincoln, they contended the association's government-insured deposits had been used for risky land deals and other speculative investments. Investigators concluded the operation was being conducted in an "unsafe and unsound" manner.

Keating testified about his lengthy dealings and confrontations with US regulators throughout the late 1980s. He had an especially rocky relationship with regulators in the San Francisco office and eventually asked that he be regulated by someone else. That request was granted by the Federal Home Loan Bank Board in Washington.

US District Court Judge Stanley Sporkin, a former chief enforcement officer of the Securities and Exchange Commission, appeared

Please see **LINCOLN/26**

amazed at the change in regulation, calling Keating "lucky" to be able to pull it off.

"We (at the SEC) wouldn't have shifted people around at the request of someone under investigation," he said.

Sporkin is conducting the preliminary hearings to decide whether Keating should be granted a full trial in his suit to recover Lincoln. Regulators also are suing Keating, members of his family and other corporate officers to recover $1.1 billion allegedly lost through fraud and racketeering.

In court papers, the government questioned a "tax-sharing" deal between Lincoln and its parent company, American Continental Corp., also owned by Keating.

But Keating, sitting calmly on the witness stand and at times seeming to take control of the proceedings, denied "with all my heart and soul" using Lincoln assets to prop up American Continental and siphon off $94 million for the

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parent company. None of the money apparently went for taxes, according to regulators.

Sporkin, who prepared a lengthy list of questions for Keating, asked if Lincoln was being used as a "piggy bank," a place to get cash for Keating's other business interests.

"I had no concept remotely like that," Keating said.

Outside the courtroom, Keating spoke to reporters and predicted he could return Lincoln to profitability.

"Savings and loans, if regulations are properly applied, can operate profitably," he said.

Keating faced detailed and lengthy questions by Sporkin, who asked about a land deal of Keating's in which the true buyer of the land was not listed anywhere in the sale documents.

"The essence of the problem is that the regulators didn't like land syndications," Keating said, adding that "straw buyers" were common in such deals, in which real estate is sold to a group of investors. Government regulators contend the entire deal was a sham.

There was no indication when Sporkin would rule on Keating's legal motions. Keating's attorneys said they had at least nine days worth of testimony yet to present to Sporkin.

Keating also has become involved in a political scandal regarding his $1.3 million in contributions to five senators who intervened with regulators in an effort to slow the proceedings against Lincoln.

On Friday, Keating denied trying to "buy" the politicians.

"The answer is, I did not," Keating said.

After the Lincoln takeover in spring, Keating told reporters: "One question, among the many others raised in recent weeks, had to do with whether my financial support in any way influenced several political figures to take up my cause. I want to say, in the most forceful way I can: I certainly hope so."

FBI/D

The past's prologue for Sen. Cranston

By Harold Johnson

Maybe the most surprising thing about the influence-peddling scandal that seems to be closing in on Sen. Alan Cranston is that anyone is surprised.

Cranston is accused of selling his senatorial services by collaring regulators in behalf of Lincoln Savings & Loan, a go-go thrift whose owner was pointing a fire hose of cash in the senator's direction. What's so curious is that much of the press coverage implies that this affair is a startling anomaly, the first case of Cranston stumbling from the straight and narrow.

What a horselaugh. The truth is, Cranston's game of footsie with Lincoln's owner, Charles Keating, didn't represent anything new. In his fevered quest for greenbacks, the senator had long made a habit of contorting himself into compromising positions.

It's time for a history lesson hearkening back to the mid-1960s, when Cranston was state controller. While holding that office, he indulged in a fundraising orgy that reeked of possible payoffs and palm-greasing the same way his shenanigans with Keating do.

Nearly 80 percent of the state's 148 appraisers anted up for Cranston in 1964

Some background: Through most of the '60s, the controller had the job of appointing inheritance-tax appraisers who determined the assessments on estates. The appraisers made out nicely — by one estimate, pulling down between $40,000 and $62,000 annually by 1966, kingly sums in those days.

The rap against Cranston? He was accused of handing out those lucrative jobs in return for a cut of the action — a neat, clean kickback. At least one ex-appraiser aired that charge publicly in 1964, when Cranston was a candidate for the Democratic nomination for US senator. The accuser said he "in effect; bought my job as California State inheritance tax appraiser by contributing for the election of Alan Cranston ... ." After he was appointed, he claimed, he continued writing checks under the "impression ... that the unwritten and unspoken rule was that you contributed as requested or else."

Cranston cried foul, indignantly denying he had twisted any arms; and, indeed, he was never charged with any crime. But what he couldn't deny was that scores of appraisers had in fact lavished dollars on him, and he had accepted their offerings.

A political scientist who later studied the '64 senatorial campaign said that nearly 80 percent of the state's 148 appraisers anted up for Cranston that year, and that as much as 30 percent of his total campaign donations came from that source. In a study financed by the Ford Foundation, John R. Owens of UC Davis said that "the high rate of contribution" by appraisers indicated "there was little doubt in the minds of most (of them) that they were expected to give."

The issue was a bludgeon in the hands of Cranston's foes. Pierre Salinger, his opponent in the '64 senatorial primary, called it a "major scandal." One candidate for the GOP nomination derided Cranston for "lack of character" in accepting donations from people he appointed, and labeled him "a hypocrite who apparently observes no ethical standards but prescribes them for others."

Cranston lost to Salinger in the primary and was a loser again two years later when he sought re-election as controller. The appraiser controversy dominated both races.

But time proved his ally. When he ran for the Senate again in 1968, the furor had been largely forgotten, and he won.

The controversy shouldn't be allowed to rest in peace, because it offers valuable perspective on the S&L furor and points up a pattern in the senator's career. Don't let anyone tell you Cranston has never before been caught with his head jammed in the honey pot. He appears to have a sweet tooth that won't quit, and he's often seemed to show more imagination than scruples in finding ways to feed it.

Mr. Johnson writes for the *Register*'s Opinion pages.

(State page number and newspaper city and state)
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'Keating 5' Senators Activate Damage Control

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■ Thrifts: Riegle and DeConcini pay for ads in home states while Cranston, McCain and Glenn respond to scandal over Irvine-based Lincoln S&L.

By JOHN FLESHER
ASSOCIATED PRESS

WASHINGTON—Senate Banking Committee Chairman Donald W. Riegle Jr., one of five lawmakers facing ethics investigations in the scandal involving Irvine-based Lincoln Savings & Loan, is starting a TV campaign aimed at limiting political damage back home in Michigan.

Sen. Dennis DeConcini, D-Ariz., is shelling out $190,000 for newspaper and TV ads in his state.

The other three senators, including California's Sen. Alan Cranston, are defending themselves in varied forums but have yet to pay for newspaper or broadcast access to voters, according to staff members.

Riegle aide David Krawitz said Monday, "There have been inaccurate and sensational news stories about this matter, and in order to get the full and accurate story out, we're showing this program on cable."

Krawitz said the Michigan Democrat would use campaign money to rebroadcast a 30-minute TV interview in which he responded to questions about his involvement with Charles H. Keating Jr., head of the failed thrift. The program will air on cable stations throughout Michigan, possibly this week. Aides said they do not know how much the broadcast will cost.

DeConcini announced his ad blitz Friday at a press conference in Phoenix, saying he would run newspaper ads and commercials of two to five minutes on TV to tell his side.

"I have decided to take my case directly to the people of Arizona," DeConcini said. "I do this not as a criticism of the press, but because I do not believe that the facts have been adequately heard and understood."

At the center of the controversy are two meetings senators had on Keating's behalf with federal regulators. The first, on April 2, 1987, involved Edwin J. Gray, then chairman of the Federal Home Loan Bank Board, and all the senators except Riegle. The second, seven days later, involved the five senators and bank board examiners from San Francisco. The regulatory examination of Lincoln was discussed at the latter meeting.

The government seized control of Lincoln on April 14, 1989. The eventual cost to taxpayers is expected to reach a record $2 billion.

Riegle, DeConcini and Cranston—as well as Sens. John McCain, R-Ariz., and John Glenn, D-Ohio—are subjects of a Senate Ethics Committee inquiry.

The five received a total of more than $1.3 million in campaign contributions from Keating, who headed the Irvine thrift, and his family and business associates.

Riegle, who later returned the money he received from the Keating group, avoided public comment on the controversy for much of last year. He began granting interviews on the subject in November to home-state reporters, saying he wanted to set the record straight.

He discussed the Lincoln affair in many interviews while traveling across Michigan during the holiday recess, Krawitz said. One of those was a Dec. 10 appearance on a half-hour program on Detroit station WXYZ, during which he was questioned by two reporters and a moderator.

Riegle is paying to rebroadcast that interview, which aide Karolyn Wallace described as "a fair presentation . . . a tough and frank discussion, and because it's a half-hour and provides a more complete picture" than the typical news story.

Money for the broadcast will come from Riegle's campaign treasury, Wallace said.

"The goal is to start this week, but it's not certain," she said.

Glenn has held lengthy press conferences and interviews, including meetings with newspaper editorial boards in Ohio, but has no plans to advertise, spokeswoman Rebecca Bell said.

Cranston has attended public meetings at which questions were raised about his involvement in the Lincoln case. "He took them as they came," said Victoria Lion, a spokeswoman for the California Democrat. "He has been very accessible to the press."

Last month, an angry bondholder in Lincoln's parent firm, American Continental Corp., interrupted a panel discussion on women's rights in Santa Ana to criticize Cranston for soliciting money from Keating and for being insensitive to the plight of victims. A staff aide said that throughout his tour of California last month, reporters and others quizzed him repeatedly about his role in the scandal.

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Cranston wishes he hadn't met Keating

By Jerry Roberts
San Francisco Chronicle

SAN DIEGO — Saying he wishes he had "never met Charles Keating," Sen. Alan Cranston staunchly defends the propriety of his own actions in the Lincoln Savings scandal.

Delivering the keynote address Friday to a convention of the California Newspaper Publishers Association, the California Democrat struck a highly personal tone in explaining his actions in the Lincoln case, which threatens his long political career.

"Frankly, I wish I'd never met Charles Keating. I wish I'd never raised a dime from him," Cranston said.

"But I have faith in the capacity of the people of California to separate fact from fiction," he added. "I'm confident that in the course of time, they will know that Alan Cranston has not changed his stripes, and that the causes that have motivated my public service to California will continue to be my guiding compass."

Cranston is under fire for having accepted nearly $1 million for his campaigns and causes from Keating. Most of the money came after Cranston and four other senators interceded on Keating's behalf in 1987 with federal regulators who were conducting a lengthy probe of Lincoln's finances.

Losses at the thrift, seized by the government last April, might cost taxpayers $2.5 billion. Cranston and the other senators are now being investigated by the Senate Ethics Committee.

Friday, Cranston said he acted only after Keating came to him with what appeared to be a "legitimate complaint."

"What would you do if a businessman heading a very large operation in California came to you and said his business, with 740 California employees and more than 120,000 depositors, was being harassed and given the run-around by the federal bureaucracy?" he said.

As he has done previously, Cranston also attacked former chief thrift regulator Edwin Gray for making "wild charges to the press."

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Cranston tries to shift blame for Lincoln

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By Chris Knap
The Register

SACRAMENTO — Sen. Alan Cranston on Wednesday strove to shift public attention from his advocacy on behalf of Lincoln Savings and Loan to the inaction of a former federal regulator who has been his vocal critic.

During a three-city, damage-control blitz of news conferences, Cranston simultaneously criticized one-time thrift supervisor Edwin Gray for not seizing the Irvine-based chain in 1987 and suggested that it was unwise for regulators to take Lincoln "at any time." Lincoln was seized April 14, 1989.

Cranston minimized the effect that $970,000 in political donations he solicited from Lincoln owner Charles Keating and his associates might have had on the senator's numerous interventions on Lincoln's behalf.

And he insisted that his contacts with federal regulators were appropriate, although he confirmed that he was "acting as an advocate for Lincoln, Savings and Loan (and) for Mr. Keating."

Cranston said Gray, now a bank president in Florida, is attempting to destroy his political career with "the Hitlerian technique of the big lie" to cover up his own failings as a regulator.

The lie, Cranston said, is that the senators' advocacy delayed a regulatory decision on Lincoln's fate.

"I blame Gray for not seizing (Lincoln), since ultimately it was seized," Cranston said. "They should have either taken action or not have taken action. It was the inaction that permitted the (unsecured) bonds to be sold and the situation to get to the point that when it was closed, a major loss occurred."

Gray, a Cranston critic who has said that the senator's efforts were designed to pressure regulators, could not be reached for comment because he is on a two-week vacation to Spain. Cranston said he was unaware of that when he scheduled the news conferences.

But Orange attorney Ron Rus, who represents the 11,500 consumers who bought $192 million in now-worthless bonds sold at Lincoln, ridiculed Cranston's statements.

"What he's saying is if Gray had stopped the Ponzi (fraud) scheme before it started, Lincoln wouldn't have had to perpetuate it after it got going. It doesn't make any sense to me," Rus said.

"Any Ponzi type of scheme happens by getting the best lawyers and the best accountants on board. If you can add a cloak of legitimacy by getting the best politicians, you are facilitating the scheme.

"The unfortunate thing is that, knowingly or unknowingly, the senator had become part of Keating's air of legitimacy that helped bully the regulators. So it seems inappropriate for him to blame it on Gray."

The Lincoln collapse, which is expected to cost the federal government $2 billion, has become a major political liability for California's senior senator. Now, some of his fellow Democrats are saying Cranston should not run again in 1992 and several California congressmen have suggested that they will run for the seat he has held since 1969.

"I come before you bloodied but unbowed," Cranston told reporters in Los Angeles, San Francisco and the state Capitol. "I assure you I've only now begun to fight."

Cranston made no attempt to disguise what his 19-page press release clearly labeled an attack on Gray.

"I would like to have people focus on Mr. Gray," he told a Sacramento reporter who tried to question him on other aspects of the case. "I just want to discuss my topic today."

Cranston said Gray, as the chief thrift regulator from 1983 to 1987, shares responsibility for the $250 billion collapse of savings and loans across the country.

Under questioning by reporters, Cranston said other blame for the continuing savings-and-loan crisis should be distributed widely.

"The difficulty started with President Reagan, and deregulation. It goes on to Mr. Gray, and the people working under Mr. Gray in the Federal Home Loan Bank Board, and it goes on to savings-and-loan institutions themselves where graft and dishonesty and corruption was involved, and it certainly goes on the members of the US Senate and the Congress.

"Everybody shares some of the responsibility; there's no evading that fact."

But Cranston charged that Gray is motivated by "the time-honored practice of government bureaucrats to cover their behinds when they've goofed up."

Cranston conceded that his statements during an April 1987 meeting were "what (Keating) wanted." But he continued to deny that his own meetings — at least eight with Gray, Gray's successor M. Danny Wall, and other thrift regulators — constituted a lobbying effort to keep Lincoln free of regulatory control.

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(Mount Clipping in Space Below)

Cranston — California's master of political hardball



Dan Walters

A recent letter to the San Francisco Chronicle from a reader bemoaned the "current Cranston-bashing" stemming from U.S. Sen. Alan Cranston's questionable efforts on behalf of Lincoln Savings and its owner, Charles Keating.

The collapse of Lincoln is the nation's costliest thrift failure to date, and may cost taxpayers more than $2 billion.

Federal regulators have charged that the S&L was misused by Keating to prop up land developments and other shaky business ventures.

Keating, who showered campaign checks on politicians lavishly, enlisted the aid of Cranston and four other senators in his efforts to stave off a federal regulatory crackdown.

Cranston, who directly and indirectly received nearly $900,000 from Keating-connected sources, has seen his popularity among California voters plummet, and there are ever-stronger calls among Democratic Party leaders that he not run for a fifth-term re-election in 1992.

Cranston, however, has been stumping California in an effort to shore up his much-deteriorated political position, insisting that he did nothing legally or ethically wrong, and also insisting that he will run again.

"I think Alan Cranston is one of the finest U.S. senators in my lifetime," the Chronicle letter-writer said.

"His character has not suddenly, after all these years, become flawed. We must consider all of the good legislation he has supported, all of the good fights he has made.

"I'm certainly not willing to accept that he is tarnished, temporarily or permanently, and I certainly hope his political career is not finished."

The letter was so gushily pro-Cranston, it might have been

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written by one of his aides. The key phrase is the one that declares "his character has not suddenly, after all these years, become flawed . . . "

That is precisely what Cranston hopes will become the prevailing public attitude.

His political career dates back nearly a half-century, and until now, he has enjoyed consistently strong public credentials for character.

Cranston wants the perceived decades of good to outweigh the perceived moments of lapsed judgment. But is it really true that Cranston was a paragon of political virtue for all of those years?

The record indicates otherwise.

While he has enjoyed an extended honeymoon with the Washington media that has largely shielded his darker side from exposure, Cranston has been a political hardball player from the earliest days of his career, and one who, reformist rhetoric aside, was often cozy with special-interest pleaders.

It's not for nothing that Cranston evolved into one of Washington's — and one of California's — most productive harvesters of campaign checks.

For nearly two decades, until Pete Wilson won a Senate seat in 1982, California's other U.S. senator was an ineffective politician: George Murphy, John Tunney, or S.I. Hayakawa.

When aerospace executives, corporate farmers, Hollywood tycoons, savings and loan moguls, or other moneyed interests from California needed help in Washington, they went to Cranston. And as he helped them, they helped him with big campaign checks.

The Lincoln case was not even the first time Cranston had helped somebody from that industry, not by a long shot.

In 1979, at the behest of California savings and loan executives, Cranston carried legislation protecting them from having to offer interest-bearing checking accounts, to cite but one example.

While posturing publicly as an opponent of defense spending, Cranston carefully exempted California-built weapons systems, such as the B-1 bomber, from his criticism.

He reserved his dovish condemnation for such non-California weapons systems as the MX missile.

Nor has Cranston been as high-minded about politics as he portrays himself.

Tom Braden, a one-time California newspaper editor and now a nationally syndicated columnist, says that in 1964 Cranston tried to get him to publish a sexually explicit, highly compromising photo of a political opponent.

Braden said later, "I considered it slime."

These and other incidents from the Cranston past indicate that far from the temporarily tarnished angel that he and his supporters portray him as being, Cranston is a coldly calculating, money-conscious politician who helps his friends and hurts his enemies.

What he did for Lincoln wasn't unusual. What's different is that this one blew up in his face.

Dan Walters is a columnist for ***The Sacramento Bee.***

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(Mount Clipping in Space Below)

Keating adds ex-S&L regulator to suit, claims he had vendetta

Arizona Republic

WASHINGTON — Charles H. Keating Jr. on Thursday added former thrift regulator Edwin Gray as a defendant in a federal lawsuit, accusing him of leaking confidential information that led to the demise of Lincoln Savings and Loan.

The suit, brought by Keating, alleges that federal regulators waged a vendetta against Keating's Irvine-based thrift and leaked sensitive information about it to the press. Keating said regulators opposed Lincoln's investments in real estate and junk bonds.

"These improper leaks of confidential information have seriously damaged the reputations of Lincoln and American Continental Corp. and have damaged their existing and prospective business relationships," said a statement issued by American Continental, of which Keating is chairman.

Gray, the former head of the Federal Home Loan Bank Board, is vacationing in Europe and could not be reached for comment.

He is the chief accuser of the "Keating Five" senators, whose intervention with federal regulators on behalf of Keating in 1987 has come under Senate ethics scrutiny. Gray has come under increasing attack by two of the senators involved in the debacle — Democratic Sens. Dennis DeConcini of Arizona and Alan Cranston of California.

Most recently, Cranston in a series of appearances in California this week, branded Gray a "liar" and said he is "perpetuating an outrageous scam and getting away with it" in making false statements about the role of the five senators on behalf of Keating.

DeConcini earlier this month also lashed out at Gray during a series of public appearances.

Lincoln was seized by federal regulators last April and its failure is expected to become the nation's costliest S&L failure. Keating raised at least $1.3 million for the five senators who pressed his case before federal regulators.

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Cranston bill could let S&L losers sue US

Bad-bond holders cannot now apply for federal bailout

By Larry Peterson
The Register

LOS ANGELES — US Sen. Alan Cranston said Friday that he might try to clear the way for a federal bailout of the people who bought $192 million in now-worthless bonds through Lincoln Savings and Loan.

The beleaguered Democrat raised the possibility as he continued his campaign to make former bank official Edwin Gray rather than himself the goat for the financial havoc wreaked when Lincoln collapsed in April.

Attention since the closure has focused on charges that Cranston and four other senators intervened with federal regulators on behalf of former Lincoln owner Charles Keating, a major bankroller of the lawmakers' campaigns.

Cranston said at a news conference that the 11,500 bondholders do not have the right to sue the US government for their losses. Under most circumstances, the government cannot be sued without its consent.

"One way (to help bondholders) could be legislation to grant them that right," Cranston said. "I'm considering that. I'll have an announcement on that shortly."

Taxpayers already are paying a $2 billion bailout to cover losses on federally insured deposits at Lincoln.

Cranston released documents that he said show that Gray let Keating's American Continental Corp. sell uninsured bonds at Lincoln branches even though Gray's staff voiced concerns about the sales and about Lincoln's solvency.

Gray has blamed intervention by Cranston and the other senators for delays in stopping Lincoln bond sales.

The documents Cranston released are mostly reports by the Office of Thrift Supervision, the successor agency to the Federal Home Loan Bank Board, formerly headed by Gray.

The Gray-led bank board, the reports said, let American Continental "incur future indebtedness in any form" up to $366.5 million. Cranston called that a "green light" to sell uninsured bonds, one of several means the company used to raise money.

The documents also indicate that earlier the board staff voiced concerns about the financial condition of Lincoln and American Continental and that the bonds were being sold based on "false and misleading documents."

Cranston said the board's inaction establishes "responsibility of the US government ... for the plight of the bondholders..."

Gray, vacationing in Spain, could not be reached for comment.

But Ron Rus, an Orange lawyer representing the bondholders in a lawsuit against Keating, his accountants and lawyers, said Gray had little to do with the bonds sold by Lincoln.

Rus said the bonds were licensed by the California Department of Corporations and most of them did not go on the market until after Gray left the board.

But Rus said he would welcome legislation waiving federal immunity against lawsuits.

"We would be delighted, provided that he retains within the context of the bill that ... the responsible parties should be held accountable," Rus said. "It's all right as long the government goes after the parties who created the fraud."

There is no way of knowing whether Cranston could persuade Congress to approve relief for bondholders, said Shirley Lampel of Tustin, one of those who lost money when Lincoln collapsed. But Lampel, who met with Cranston on Thursday, believes Cranston is sincere.

Cranston, who solicited nearly $900,000 from Keating and his associates for his 1988 re-election campaign and voter-registration drives, is under a Senate ethics inquiry.

Cranston said it is unlikely that a suit against the government could proceed until the bondholders litigation against Keating and his associates is resolved, which he said could take years.

There is at least one precedent for holders of bonds being bailed out by federal taxpayers.

In 1985, the Federal Deposit Insurance Corp. refused to reimburse bondholders of Golden Pacific National Bank in New York after FDIC closed the bank. But a federal court ruled in 1986 that FDIC was required to honor the bonds, which totaled $16 million.

Register Staff Writer Jonathan Lansner contributed to this report

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Key Aide to Cranston Lobbied for Keating

■ Thrifts: Carolyn Jordan wields power as a member of the Senate's banking panel staff. Her role in the Lincoln affair has received little attention.

By SARA FRITZ
TIMES STAFF WRITER

WASHINGTON—If there is one key supporting player to Sen. Alan Cranston's role in the Lincoln Savings & Loan scandal, by all accounts it is Carolyn D. Jordan, an influential aide who serves as his alter ego on banking issues.

Jordan, who has worked for Cranston for 19 years, contacted state and federal regulators last year on behalf of Lincoln owner Charles H. Keating Jr. at a time when Keating was making a last-ditch effort to stave off the $2-billion collapse of his Irvine thrift. She also enjoyed Keating's hospitality during an all-expenses-paid trip to Lincoln headquarters in Phoenix in 1987, financial disclosure records show.

Moreover, Jordan clearly concurred in Cranston's decision to assist the owner of the Irving thrift in his battle against federal regulators—a decision he has since come to regret as "a pretty stupid thing, politically."

The 46-year old Jordan, a former Los Angeles attorney whose appointment to the Senate Banking Committee staff in 1974 was considered a breakthrough for blacks and women, is an example of the little-understood but important role played in Senate offices by an inner corps of senior aides. Working outside the glare of the public spotlight and largely unknown beyond the halls of Congress, these aides wield power and influence over the shaping of policy and the actions of the senators they work for.

These aides exist primarily because senators, each representing an entire state, must deal with a range of issues and constituencies so broad that no individual can master the details of all of them. The staffers called on to help meet this challenge then develop expertise and networks of operating relationships that make them formidable figures in their own right.

In the Senate, where Jordan ranks among the most powerful female staffers, she is admired for her extraordinary grasp of issues involving financial institutions. Cranston apparently values her banking expertise so much that he allows Jordan to speak for him without consulting him first.

But Jordan is also widely regarded as a hard-ball operative with a jaundiced view of the political process—"the most cynical person I've ever met," in the words of one acquaintance.

And outside the Senate, Jordan is known to dabble in local politics.

A longtime supporter of District of Columbia Mayor Marion Barry, she has been chosen as a minority partner—along with some of Barry's closest associates—in two major redevelopment projects in Washington. For an initial investment of only $11 of her own money and $250,000 in borrowed funds, according to city records, she was given a potentially profitable share in a multimillion-dollar deal.

Jordan's role in the Lincoln affair has received little attention so far.

Unlike Cranston, who frequently defends his involvement with Lincoln, Jordan does not discuss her actions on behalf of the Irvine thrift and insists that she has no obligation to answer reporters' questions because she is not an elected official.

Rejecting a Times request for an interview, she declared: "You can print anything you want."

Against Regulation

Over the past few years, Jordan made no secret of her disdain for government regulators who were trying to crack down on thrifts they thought were risking depositor funds in dangerously speculative investments.

Like Cranston, she was particularly critical of Edwin J. Gray, the former chairman of the Federal Home Loan Bank Board who sought to rein in the most aggressive thrifts and has since become Cranston's chief accuser in the Lincoln affair.

One former bank board employee during Gray's tenure recalls that Jordan, who had herself apparently been considered for a position on the bank board during the Jimmy Carter Administration, never missed an opportunity to ridicule Gray. "She thought he was a real dodo, a dumb jerk," the former employee recalled.

Jordan's views on federal regulation of the industry, according to acquaintances, were strongly influenced by executives of high-flying thrifts in California, such as Lincoln and Columbia Savings & Loan in Beverly Hills. As a result, her opinions sometimes diverged from those of the California League of Savings & Loans, which supported Gray.

Wields Influence

Clearly, Jordan has enjoyed Cranston's full confidence for many years. And like many Senate staffers who have been given wide latitude by powerful bosses, she

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58C-PX-41605-A 60

has never shown any reluctance to wield her considerable influence.

Indeed, Jordan's manner bears no resemblance to her nickname: Mousy.

"I felt like she maybe orchestrated a lot on her own hook," said a former federal regulator who recalled being "thrown out" of Cranston's office by Jordan. "Cranston gave her a long leash and she used it. . . . She wields authority and has a presence."

Gray recalled that whenever he testified before the Senate Banking Committee, Jordan was the aide who sat beside Cranston and consulted with him between virtually every question.

"She fed him all the questions," said Gray. "She's the current prince of the Senate. It's true."

Common Views

Cranston's involvement with Keating began in 1985, when the owner of the Irvine thrift held the first of two fund-raising events that raised a total of $39,000 for the senator's 1986 reelection campaign. Their meeting occurred at a time when Lincoln was under investigation by the bank board and Keating was battling efforts by Gray to crack down on aggressive thrifts.

Although Keating is a Republican, an aide to the Arizona businessman said, conversations between Keating and Cranston usually centered on their mutual support for deregulation and their low regard for Gray.

Jordan's free trip to Phoenix occurred in April, 1987, within a week after Cranston and four other senators summoned Gray to Capitol Hill to discuss the bank board's proceedings against Lincoln. Gray contends the senators sought to persuade him to withdraw a regulation opposed by Keating.

According to her annual financial disclosure report for that year, Jordan received free lodging in Phoenix from American Continental Corp., Lincoln's parent company, during the week of April 13. She reported that her round-trip air fare, which included a stop in California, was paid for by a California thrift industry association.

When asked about the trip by a reporter for the San Jose (Calif.) Mercury News last November, she was quoted as replying: "You think we paid ourselves—be serious. We do these things all the time. There's nothing unusual about it."

Indeed, Jordan's annual financial disclosure reports show that she took 10 trips in 1987 and 1988 that were paid for by banks, thrifts or financial groups, some of them to resorts such as Palm Springs, Calif., and Key Largo, Fla. Among the thrifts that paid for her travel was Columbia Savings & Loan, which shared her goal of deregulating the S&L industry.

Calls to Regulators

But it was not until early 1989, when Keating was seeking permission from state and federal regulators to sell his failing savings and loan, that Jordan became actively involved in lobbying on his behalf, according to the officials involved. Keating ultimately failed to win approval of the sale of Lincoln, which was seized by the government last April 14.

Darrell W. Dochow, executive director of the bank board's office of regulatory affairs, has said that he received a telephone call last Feb. 8 from Jordan, who demanded to know why the bank board had not approved the Lincoln sale.

"I informed Ms. Jordan that we did not have a complete application from the investor group and that from what we had seen, numerous questions remained to be answered," Dochow later wrote in a memo to his files about Jordan's inquiry, a copy of which was obtained by the Times.

"She inquired as to why we were so concerned with Lincoln, who had net worth of over 4% [a basic measure of financial soundness], and I responded that its reported net worth is significantly overstated . . . and that I had serious concerns over its operations."

The telephone call was one of two inquiries that Jordan made with Dochow about the proposed sale, according to the bank board official. He said she also approached him briefly to discuss the proposed Lincoln sale during a trip he made to Capitol Hill during that period to testify before the Senate Banking Committee.

Likewise, William Davis, deputy to California Savings and Loan Commissioner William Crawford, said he received a similar call from Jordan in March, 1989.

"She called and just informed me that Sen. Cranston's office thought a sale was a good idea," Davis recalled. "It certainly didn't mean much to us at the time."

Jordan previously has said that she does not remember telephoning Davis.

Highly Irregular

Although it is not unusual for congressional staffers to contact regulatory agencies on behalf of constituents, regulators said it is highly irregular for them to advocate a particular result. Normally, congressional aides only request information about regulatory matters.

Like Jordan, however, many members of the Senate Banking Committee staff are known to be close to the financial industry they oversee. Several of Jordan's partners in the real estate developments in which she has invested also have close ties to the banking industry. Others are government contractors or lobbyists.

Washington real estate industry officials said developers have routinely selected close friends and supporters of Mayor Barry to serve as limited partners in building projects that require city approval. These appointments satisfy a law requiring minority participation in all District of Columbia development projects.

City records show that Jordan became a limited partner in an office and shopping complex at the main downtown subway hub known as Metro Center in September, 1986, for an initial investment of $11. Her financial disclosure records show that she recently made an additional investment of at least $250,000, all of which she borrowed from one of her partners in the project with a promise to pay it back when the development is completed and begins to generate income for her.

In 1987, likewise, Jordan made an initial investment of $50 to become a limited partner in another big redevelopment project known as the Portals, according to city records. But when the minority investment was challenged as "window dressing" by another developer, the partnership arrangement was revamped to meet the approval of the Redevelopment Land Agency.

As a result, Jordan was required to make an additional contribution, which one official estimated to be between $6,000 and $13,000. In exchange, the developer promised the Redevelopment Land Agency that the seven minority investors would receive a total of at least $1.75 million over 10 years.

Memos indicate political pressure influenced Lincoln thrift inquiry

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By Ricardo Sandoval
The Register

Federal thrift regulators yielded to intense political pressure brought by Lincoln Savings and Loan owner Charles H. Keating Jr. in their oversight of the institution, according to documents obtained by the Register.

Regulators have said Keating's lobbying, which included millions of dollars in political donations as well as requests to US senators to intervene on his behalf, did not sway them.

But a letter to Keating from one of his company's outside attorneys and an internal memo back up complaints by lawmakers and Lincoln customers that the government gave in on one key decision: It rejected a 1987 recommendation by regulators in San Francisco to seize Lincoln.

The Federal Home Loan Bank Board, now the Office of Thrift Supervision, subsequently started a lengthy, Washington-based examination of the institution.

Regulators say their decision was based not on political efforts by Keating, who complained about the duration and tactics of the initial examination, but on problems they found with the work done by San Francisco regulators.

The delay of the takeover — Lincoln was seized April 14, 1989 — was critical because it allowed the continued sale of uninsured bonds. In all, 11,500 Lincoln customers invested $192 million in the bonds, which now are worthless. Lincoln's failure is expected to cost taxpayers as much as $2.5 billion in a federal bailout.

In a letter to Keating dated May 10, 1988, attorney Margery Waxman tells him: "You have the (federal bank) board right where you want them and you should be able to reach an agreement tomorrow which will completely satisfy you."

A day later, a preliminary agreement between Keating and bank-board chairman M. Danny Wall set the stage for transferring the Lincoln investigation to Washington-based examiners.

Wall, contacted at his Virginia home Wednesday night, denied having been influenced by Keating's lobbying, and said Waxman's letter "sounds like a lawyer trying to justify a fee."

"I know (Waxman), but I have no idea why she would come up with that letter. I don't recall ever having met with her in regards to Mr. Keating," he said.

Waxman was not available for comment.

Wall recently left his post as head of the federal Office of Thrift Supervision after criticism from Congress of his handling of the Lincoln case.

He has said the agreement with Keating was developed out of meetings between his staff and officials of Lincoln's parent company, Phoenix-based American Continental, and that its goal was to gain access to corporate files — not readily available to thrift regulators — and monitor its activities more closely.

The American Continental memo to Keating, marked "confidential," details conversations between regulators and Keating lawyers in which regulators appear to give American Continental a voice in how the examination will be run.

Peter Fishbein, Keating's outside counsel, says in the memo that the regulators would supply American Continental with the names of its examiners beforehand, "... and (bank regulator Daryl) Dochow said he would listen to any objections that we might have to the suggested people."

Regulators typically do not clear the names of examiners with the targeted institution.

One of those examiners, Kevin O'Connall, had raised objections to the terms of Keating's agreement with Wall. In the memo, Dochow is said to have told another regulator that O'Connall "will not be involved with this."

Dochow could not be reached for comment Wednesday. In past testimony before the House Banking Committee, however, Dochow acknowledged he made mistakes in the investigation into American Continental and Lincoln.

Subsequently, American Continental did violate its agreement, sparking increased scrutiny by regulators and the eventual seizure of Lincoln, said Karl Hoyle, a former bank-board official who said he was involved in the meeting that produced the agreement between Keating and the government.

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Jay

Hoyle said the confidential memo is untrue and overstates American Continental's influence. Hoyle said it was Wall's plan to gain Keating's confidence with the agreement, thereby allowing regulators a closer look at American Continental's records.

Waxman's letter uses strong language in advising Keating how to strike the most favorable deal:

"As you know, I have put pressure on Wall to work toward meeting your demands and he has so instructed his staff. They all know the Wednesday (May 11, 1988) meeting is crucial to their future. If they mess up this time, it is all over."

The letter instructs Keating to bring up specific points in his meeting with Wall and regulators. They include:

- That "San Francisco is finished. There is no going back to San Francisco and nothing can be done to follow up their exam."
- That "this is no 'monitor' on Lincoln. You will take responsibility for communicating with Daryl (Dochow) on a regular basis whenever there is something that he should be made aware of."
- And, that "nothing will be done in the exam that you are not aware of in advance."

Hoyle, who recently left his position as spokesman for the OTS, said that Wall never put any pressure on regulators to bend to Keating's demands.

Keating began to confront regulators in spring 1987, when he asked five US senators, including California's Alan Cranston, to meet with top banking regulator Edwin Gray, and challenge the government's long-running evaluation.

Then on Feb. 5, 1988, Keating proposed to Wall and Dochow, through Waxman, that Washington regulators take over the Lincoln examination.

The next month, officials at the State Department of Corporations gave American Continental a two-month extension to sell its bonds to the public, despite the concerns of other state regulators.

In May 1988, nine days after the formal agreement was reached between federal regulators and Keating, the state approved another extension of American Continental's bond sale.

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Date.
Edition:

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Submitting Office:

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> "You have the (federal bank) board right where you want them and you should be able to reach an agreement tomorrow which will completely satisfy you."
>
> **Attorney Margery Waxman**
> in May 10, 1988, letter to Keating

(Indicate page, name of newspaper city and state.)
ORANGE COUNTY REGISTER
pg B8
Date.
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EDITORIALS

Senator Moneybags

A few weeks back, that large-hearted servant of the public, Sen. Alan Cranston, introduced a bill to bail out the 23,000 people who bought uninsured and now-worthless bonds from Lincoln Savings & Loan before it was seized by the feds. How kind of the senator. As usual, however, it's with taxpayers' money that he's being generous.

What's his motive? He claims he's driven solely by concern for the investors holding empty bags. But some other possibilities also suggest themselves. Could his action have anything to do with the way he's been pummeled for playing footsie with Lincoln's owner, Charles Keating? You don't have to be a cynic to wonder.

However, now comes a report suggesting even another angle. It turns out that Mr. Cranston introduced the legislation after the bondholders' law firm donated $22,000 to his campaign fund. The *San Jose Mercury News* broke the story the other day: It seems the San Diego firm of Milberg Weiss Bershad Specthrie & Lerach gave most of the money to Mr. Cranston at a fundraiser hosted by one of its partners in early December. It was about six weeks later that the bill to aid their clients was unveiled.

Coincidence? Maybe. But as so often with Sen. Cranston, it's a coincidence that involves big dollars — and invites at least the suspicion of a quid pro quo.

If the legislation is a form of appeasement, or a variation on hush money, it may be working. Consider: In December, Shirley Lampel, an outspoken leader of the bondholders, made the senator squirm at an Orange County forum on women's issues by blasting him for his role in the Lincoln affair. Yet when Ms. Lampel emerged from a private session with the senator afterwards, her tune had changed: "He's on our side," she trilled. Meaning what? Perhaps an oily offer of a tax-supported bailout.

In this case "our side" doesn't mean the taxpayers' side. It's hardly a reassuring precedent to say that investors who took risks, or didn't read the small print, are entitled to panhandle the rest of us.

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TUCSON CITIZEN
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'Kids played games,' Keating aide says

Regulation by junior auditors described

The Associated Press

WASHINGTON — The chief aide to Phoenix millionaire Charles H Keating Jr. describes federal regulators who seized Keating's Lincoln Savings and Loan Association last year as "kids playing games."

Testifying on Keating's suit to overturn the takeover of the $5.5 billion S&L last April, Judith Wischer said the government put junior auditors in charge of reviewing the thrift's assets when Keating was trying to sell the institution in late 1988 and early 1989.

"We found that at this very serious time in our lives, we were assigned to kids who were playing games with us," Wischer, president of Lincoln's parent company, American Continental Corp., said in U.S. District Court yesterday. "But they had the upper hand."

For several hours yesterday, as Keating sat with his attorneys in the courtroom, Wischer recounted with frustration various events between 1985 and the government takeover of Lincoln four years later in what she described as an "escalating battle of experts."

In May 1988, when American Continental and the bank board signed a "memorandum of understanding" calling for a new audit, she said, "We thought for the first time since that we had a settlement . . . that was binding on both sides."

That memorandum was widely criticized in hearings before the House Banking Committee last fall. Among the provisions was the removal of jurisdiction over Lincoln from San Francisco regulators who in May 1987 recommended seizing the thrift then.

Regulators now in charge of the S&L bailout contend the two-year delay in closing Lincoln could cost taxpayers up to $2 billion.

Only four months after signing the May 1988 memorandum, however, Lincoln officials became disillusioned again when regulators raised new complaints about tax-sharing and other agreements that had been approved earlier, Wischer said.

As a result, Wischer said, Keating and his top advisers concluded they could never operate Lincoln successfully because of what he and some bank board officials have called a vendetta against them.

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Submitting Office: LA

Indexing:

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Corbin coy on campaign, Keating cash

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ARIZONA REPUBLIC
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Edition: 2/16/90

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I'm not trying to be coy," Bob Corbin told me Thursday afternoon.

I laughed. Saying that he is not trying to be coy is, of course, Bob Corbin's way of being coy.

It was a couple of hours after Democrat Terry Goddard officially announced that he was running for governor. I had called Corbin to ask him when he, too, would enter the race.

"I hope to make up my mind in the next couple of weeks," Corbin said, "but I've put no deadline on it.



E.J. MONTINI
Republic Columnist

"I've had a couple of occasions in the past where I've thought about it but decided to stay where I am. Now, I don't know."

On Tuesday, Corbin, a Republican, announced that he would not run for re-election as attorney general, a job he's had since 1978. He said that, among other things, he wanted to be able to spend more time in the Superstition Mountains, digging for gold.

Don't let that fool you.

The political mother lode, as far as Corbin is concerned, can be found on the ninth floor of the state Capitol's executive tower. For years, Corbin has waited for the right time to stake his claim to the Governor's Office. This election year is his best, and probably his last, chance.

"That's what everybody's telling me," he said. "I mean, I hear the polls, and they say I'm the only one who could give him (Goddard) a race."

Then he paused and added, "But I don't know."

He knows.

He knows that none of the announced Republican candidates has a chance against Goddard. Not Evan Mecham, who peaked four years ago. Not J. Fife Symington III, who peaked last year, about a day after he asked the press to start calling him plain old Fife Symington. Not Fred Koory, who has not peaked and never will.

Now is Corbin's time

If Corbin wants the job, and he does, now is the time to go for it. It's just a matter of picking the right time to make his own announcement.

"I didn't announce for this job back in '78 until very late," he said.

"I have an interest in Mayan and Incan history and such. And I told them then that I was going to Picchu, sitting up there on the tomb of a priest, in the rain, and I decided that I'd run for attorney general."

Corbin isn't planning any trips to Peru these days. This decision is a easier.

I asked him what he thought of Goddard.

He said, "I'll tell you a story. I use the airlines quite often, and I know they (Phoenix officials) have parking passes for people in government out at the airport. When we had a Republican mayor, I couldn't get a pass. With Goddard, I called and asked for one, and within a week I had it.

"I called him afterward and said, 'Thanks a lot, Terry. I couldn't even get this from my own party.' I bet he wouldn't even remember that. But it's a true story."

It is also a way — some would say a coy way — of not answering the question.

"There's still plenty of time to decide to run or not," Corbin said. "But in all fairness, I should make the decision soon. A matter of weeks, I'd guess."

Last year, Corbin's office filed new charges in the Don Bolles murder case. At the time, Corbin's critics said this was done to help him in his re-election campaign. Soon, they'll say it was done to bolster his gubernatorial campaign.

"Sure, they'll hit me on Bolles, but that's not the way that happened," he said. "You just have to live with that kind of criticism. I'm used to it."

$50,000 from Keating

Corbin also has $50,000 in campaign contributions from Charles H Keating Jr. and friends to answer for. Long after other politicians rushed to give Keating his money back, Corbin has kept the cash.

"I never promised him anything and have never done anything for him," Corbin said. "And I'm just hardheaded enough to think that if you give something back to the man, then it looks like you did something wrong."

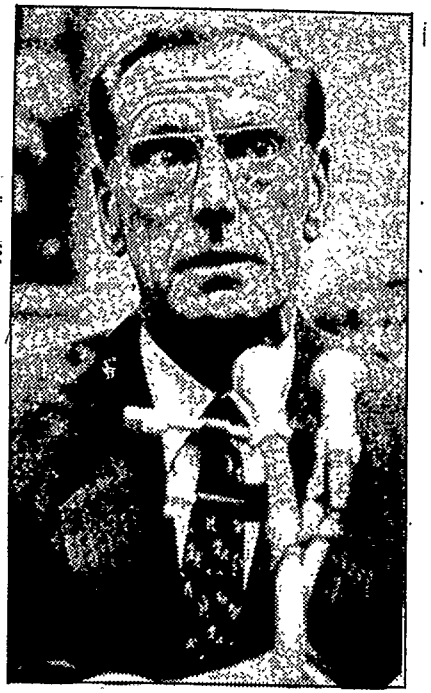
I asked Corbin what he plans to do with the money.

"I've been accused that, if I don't run (for office), I'm going to keep it for my own personal money," he said. "Well, I could that. It's legal. But I'd never do that."

If Corbin runs, however, he'll need a war chest. And Arizona law says that money collected during one campaign can be carried over to the next. Meaning that Corbin could, if he wanted to, take Keating's $50,000 and run for governor.

I'm not suggesting that Corbin would do such a thing, however. I wouldn't do that. That would be coy.

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Los Angeles Times

Charles H. Keating Jr.

Panel Cites Pressure From Keating

■ Lincoln S&L: The House banking committee chairman makes public a letter that he says suggests a 'fix was in at the Federal Home Loan Bank Board in 1988.'

By SARA FRITZ
TIMES STAFF WRITER

WASHINGTON—Congressional investigators Thursday disclosed what they said is evidence indicating that Lincoln Savings & Loan owner Charles H. Keating Jr. and top federal regulators had privately agreed to a plan in 1988 that helped the troubled Irvine thrift avoid government seizure for nearly a year.

House Banking Committee Chairman Henry B. Gonzalez (D-Tex.) said a letter written to Keating by one of his attorneys, Margery Waxman, on May 10, 1988, suggests that a "fix was in at the Federal Home Loan Bank Board in 1988 to protect Charles Keating and Lincoln Savings."

It was the first evidence uncovered by the committee that appears to support Gonzalez's allegations that M. Danny Wall, then bank board chairman, was responding to personal pressure from Keating when he declined to take aggressive action against Lincoln before April, 1989.

In an interview, Wall, who recently resigned as chairman of the bank board's successor agency under pressure from Gonzalez, strongly denied there was any private agreement or that he had succumbed to pressure from Keating and his attorneys. Wall said he never met with Waxman in her capacity as Keating's attorney.

Keating's spokesman, Bradley J. Boland, said that Wall was simply agreeing to a just resolution of the government's lengthy investigation of Lincoln's financial affairs. "We weren't conspiring with Danny Wall," he said.

The Office of Thrift Supervision, the bank board's successor agency, issued a statement saying that the Waxman letter "is riddled with errors and false conclusions."

Lincoln was not seized by the government until April 14, 1989, even though bank board regulators in San Francisco had recommended action against the Irvine thrift stemming from allegations of mismanagement as early as 1987. The San Francisco regulators were subsequently stripped of their regulatory responsibility over Lincoln.

Gonzalez and other critics have charged that by delaying strong enforcement action against Lincoln, the government drove up the cost to taxpayers of the thrift's collapse to an estimated $2

Please see LINCOLN, A29

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ORANGE COUNTY REGISTER
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Page A3
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LINCOLN

Continued from A3

billion. Lincoln is expected to be the most expensive thrift failure ever.

In her letter, Waxman told Keating that "you have the [bank] board right where you want them" and predicted that Wall would agree to Keating's demands during a telephone conversation between the two men later that day. Waxman indicated that Wall already had expressed a favorable attitude toward Keating's demands.

"As you know," she wrote, "I have put pressure on Wall to work toward meeting your demands, and he has so instructed his staff."

The letter was written five days after the bank board voted 2 to 1 to remove the Lincoln case from the jurisdiction of the San Francisco office. It outlined five demands that Keating was to make during his conversation with Wall, most of which eventually were accepted by the bank board.

Although the five steps previously have been portrayed by Wall as tough enforcement actions that were resisted by Keating, the Waxman letter suggests that Lincoln officials actually were pleased with the way the bank board had agreed to resolve the matter.

"The letter . . . tracks with amazing accuracy the actions taken by the board—actions which were interpreted publicly as clamping down on Lincoln," said Gonzalez. "In reality, as the letter carefully explains, the actions were to be shams designed not to punish but to allow Keating an escape route."

Wall has acknowledged that he met with Keating personally at least three times while Lincoln was under investigation by the bank board and also that he talked with him occasionally on the telephone. But Wall has denied that those contacts influenced his handling of the Lincoln case.

On Thursday, Wall said that he initiated the telephone call to Keating on May 10, 1988, to tell him what the board had decided five days earlier and "to tell Keating to take it or leave it."

At its May 5 meeting, the bank board decided to execute a so-called "supervisory agreement" against Lincoln, freezing the thrift's investments at their existing levels. In addition, the board decided to send a team of examiners to perform "on-site monitoring" of all important business decisions undertaken by Lincoln officials.

After the exam, the board agreed, Lincoln could apply to be permanently supervised by another district office besides San Francisco, but only if the allegations raised by the San Francisco office were proven false.

In her letter to Keating, however, Waxman said that Wall was prepared to agree that the San Francisco office would never again have jurisdiction over Lincoln. At the end of the examination, she said, Lincoln would be permitted to choose the district office that would oversee its operations in the future.

Indeed, San Francisco was permanently barred from investigating Lincoln, and bank board officials tried without success to assign the Irvine thrift to the Seattle district office, which Keating had chosen. The proposed transfer was blocked by Seattle officials.

Cranston protests too much

By Dan Walters

SACRAMENTO — Sen. Alan Cranston, whose political support is plummeting faster than a Sierra avalanche, desperately appealed for relief last week to California's newspaper publishers.

Cranston, once the state's most durable politician, has been undone by his efforts on behalf of bankrupt Lincoln Savings and Loan and its owner, Charles Keating. The latest statewide poll indicates that nearly 70 percent of California voters oppose his seeking a fifth term in 1992.

Cranston complained that media coverage had been unfairly slanted against him and asked the executives to place themselves in his position.

"What would you do if a businessman heading a very large operation in California came to you and said that his business, with 740 California employees and more than 120,00 depositors, was being harassed and given the runaround by the bureaucracy?" Cranston asked.

"Would you try to find out why the audit was taking so long? That in fact is all I did at the now-famous meetings of senators with Ed Gray, then head of the Federal Home Loan Bank Board," Cranston continued, insisting that Gray himself has not alleged anything more in sworn testimony.

And as for the hundreds of thousands of dollars that Lincoln and/or Keating gave to his political treasuries, Cranston said they had nothing to do with influencing his actions in the Lincoln affair, that he was just helping constituents.

It was a cleverly worded appeal, clearly designed to staunch the flood of negative media coverage of his actions on behalf of Lincoln, whose collapse last year left more than 20,000 Californians holding worthless junk bonds issued by Keating's parent company, American Continental.

But he ignored or glossed over some salient facts in his effort to portray himself as an innocent supporting player in the Lincoln drama.

Fact No. 1:

When Cranston joined other senators in 1987 to press Gray on regulators' handling of Lincoln, Keating already was a substantial campaign contributor, even though he is a self-proclaimed conservative Republican.

Keating directly and indirectly raised $40,000 for Cranston's very tough re-election battle in 1986 and contributed another $85,000 on his behalf to the state Democratic Party.

As *Business Week* later reported, on the night Cranston won re-election by a tissue-thin margin, "Keating was among the important contributors who were ushered into [Cranston's hotel suite] to offer their good wishes. The pair met seven times between July, 1985, and September, 1987, in [Cranston's] Washington office."

And in subsequent years, Keating or associates contributed another $850,000 to voter-registration committees founded by Cranston to boost the fortunes of himself and other Democratic politicians, one of which was headed by Kim Cranston, the senator's politically ambitious son.

For Cranston to imply that Keating was just a constituent ensnarled in red tape, like a Social Security beneficiary seeking a lost check, is ludicrous.

Fact No. 2:

Cranston did considerably more than merely "find out why the audit was taking so long."

Cranston was one of five senators who met with Edwin Gray on April 2, 1987, to press Keating's claims that regulators were unfairly harassing Lincoln.

As Gray said in a letter last month to Cranston, " ... you did not object even when your colleague, Sen. DeConcini, said he was speaking for all of you in his office that evening [and] sought to have me withdraw and therefore not enforce the very regulation against which Mr. Keating had sued us in federal court two weeks earlier."

Nor did Cranston merely attend a couple of meetings. He continued to promote Keating's interests, even after being told of a federal criminal investigation which scared off other senators.

As late as April, 1989, just days before Lincoln was seized by regulators, Cranston was continuing to press officials to allow a sale of the institution to a group headed by John Rousselot, a former Republican congressman. And Cranston's chief banking aide, Carolyn Jordan, repeatedly contacted state and federal regulators on Keating's behalf. She, in fact, was making the most strenuous efforts on behalf of Keating last year just before the collapse.

Alan Cranston helped a big campaign contributor and it blew up. For him to contend — or pretend — otherwise is insulting.

Mr. Walters is a political columnist for the *Sacramento Bee*.

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ORANGE COUNTY REGISTER
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Cranston aided Keating despite chance of probe

He suspected federal zeal, senator says

By Jerry Roberts
and Mark Z. Barabak
©1990 San Francisco Chronicle

Sen. Alan Cranston served as an intermediary between Charles Keating Jr. and the government even after he learned that federal regulators were seeking a criminal probe of Keating's Lincoln Savings, Cranston said in an interview.

Cranston said he was told by other senators after a controversial meeting April 9, 1987, that federal thrift regulators were making a confidential "criminal referral" about Lincoln to the Justice Department.

"There are constant times when criminal referrals are made by zealous or overzealous bureaucrats," Cranston said in explaining his continued involvement with Keating. "So you have to discount that kind of statement, and I did."

The senator's comments came in a lengthy interview with the San Francisco Chronicle, his most detailed yet on the Lincoln Savings failure.

In the interview, Cranston also:

■ Revealed that he was the first senator approached by a Keating lobbyist in 1987, when Keating wanted lawmakers to meet on his behalf with federal regulators. Cranston refused, saying he was too busy.

■ Said he could recall no other occasion when as many as five US senators met privately with a federal regulator, but said Lincoln presented an "extraordinary case justifying extraordinary steps."

■ Acknowledged that he sometimes discussed Lincoln's problems with Keating when Cranston solicited money for voter-registration projects. There was no quid pro quo, Cranston insisted.

■ Defended the operations of the nominally non-partisan voter-registration groups, now under federal investigation, as complying with the letter of the law. But he added, "We're not in the business of recruiting for the Republicans."

■ Said he understands how others see an appearance of impropriety in his relationship with Keating, who contributed nearly $1 million to Cranston's campaigns and causes. "In retrospect, I see how people can read things into that. That I regret."

The Senate Ethics Committee is investigating Cranston and four other senators who received more than $1.3 million in contributions from Keating.

The probe focuses on two meetings in April 1987 between federal thrift regulators and the five senators: Democrats Cranston of California, John Glenn of Ohio, Donald Riegle of Michigan and Dennis DeConcini of Arizona, and Republican John McCain of Arizona.

Cranston attended the first meeting with Edwin Gray, former head of the Federal Home Loan Bank Board, but appeared only briefly at the second meeting with regulators from the board's San Francisco office to say he shared "the concerns of the other senators on this subject."

Despite the suggestion of possible wrongdoing, he said his paramount concern was protecting thousands of Lincoln employees and depositors.

"I had concerns about (Lincoln) being driven into bankruptcy or driven out of business," he said. "That made it more important to get the matter wound up as far as I was concerned and to press for an end to the case."

After he learned about the criminal referral, Cranston said, he became a kind of mediator between Keating and federal regulators and sought to resolve quickly what had become a "very unpleasant situation."

The Irvine-based Lincoln was seized by federal regulators in April, a day after its parent company, American Continental Corp., filed for bankruptcy protection.

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ORANGE COUNTY REGISTER
pg A3

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Edition. 2/22/90

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ORANGE COUNTY REGISTER pg D1

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Squad investigates gifts by chairman of failed CenTrust

By Dave Skidmore
The Associated Press

WASHINGTON — A "fraud squad" is investigating the legality of $328,000 in political contributions by David Paul, free-spending chairman of failed CenTrust Savings Bank.

The propriety of meetings between Paul and politicians and regulators is also being examined, said L. William Seidman, chairman of the Federal Deposit Insurance Corp. and the Resolution Trust Corp.

Seidman estimated that the failure of the Miami-based CenTrust will cost taxpayers "probably in excess of $2 billion," making it a rival to Lincoln Savings and Loan Association of Irvine, which many analysts list as the nation's worst thrift collapse at a cost of about $2.5 billion.

"It's going to be a horse race, and I'm afraid that whoever the winner is, it's going to set a record," Seidman said after testifying to the House Banking Committee.

CenTrust, which spent millions of dollars on yachts, limousines and an art collection for Paul, was seized by the government Feb. 2. It made few residential mortgages and specialized in junk bond issues, many placed by Drexel Burnham Lambert Inc.

Seidman told the committee that a "fraud squad" from the RTC, which took responsibility for the thrift after its seizure, is combing corporate records for evidence of law breaking.

"We will look at it (CenTrust's political spending) to see if it was raised in accordance with the law and spent in accordance with the law. If it wasn't, we will turn it over to the Justice Department," Seidman said.

Rep. Chalmers Wylie of Ohio, the ranking Republican on the banking panel, released a list of Paul's political contacts, which included a luncheon with former President Carter in June 1988.

Paul met twice with Sen. Donald W. Riegle, D-Mich., chairman of the Senate Banking Committee, in November 1987 and August 1988. The second meeting was in the office of Sen. Alan Cranston, D-Calif.

Both Riegle and Cranston are among the so-called "Keating five" — senators who accepted political contributions from Lincoln S&L owner Charles Keating Jr.

Paul's desk calendar, according to Wylie, showed that Sens. Bob Graham, D-Fla., and Timothy Wirth, D-Colo., members of the Banking Committee, and John Kerry, D-Mass., later a member of

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CENTRUST: Taxpayers' loss might rival Lincoln S&L case

FROM 1

the committee, flew on CenTrust's corporate jet.

Paul held receptions aboard the "Grand Cru," his $7 million yacht maintained at company expense, in September 1988 for Sens. J. Bennett Johnston, D-La., and John Breaux, D-La.

"I am concerned that David Paul could have far outreached Charlie Keating in exercising political ties," Wylie said.

Atlanta-based federal regulators told the committee that they were not contacted by politicians on behalf of CenTrust, although Paul frequently bragged of his connections.

"He tended to be a name dropper. I don't think we took him too seriously," said Maria I. Richmond, deputy director of the thrift office's Atlanta office.

Rep. Henry B. Gonzalez, D-Texas, chairman of the banking panel, emphasized Paul's close relationship with Republican regulators. Paul met four times with M. Danny Wall, chairman of the Federal Home Loan Bank Board — in September and November 1987 and January and June 1988.

He also hired as consultants Richard Pratt, then-President Reagan's first bank board chairman, and Thomas Vartanian, former general counsel of the bank board.

"Neither Paul nor Keating were slouches when it came to revolving doors," Gonzalez said.

Paul had originally been scheduled to testify to the committee, but said through an attorney that he had not yet decided whether to appear. Gonzalez gave Paul two weeks to set a date and said he could be subpoenaed, if the committee approves.

According to a list of political contributions submitted by Seidman to the banking committee, most of Paul's contributions were to Democrats, although Republicans received some smaller donations.

Among contributions of $5,000 or more were:

- $5,000 in 1988 to Sen. Jim Sasser, D-Tenn., a member of the Senate Banking Committee and now chairman of the Senate Budget Committee.
- $10,000 in 1989 to Sen. Joseph Biden, D-Del., chairman of the Senate Judiciary Committee.
- $5,000 in 1988 to Sen. Frank Lautenberg, D-NJ.
- $12,000 from 1987 to 1989 to Rep. Larry Smith, D-Fla.
- $106,500 from 1987 through 1989 to Democratic fund-raising efforts.
- $50,000 in 1986 and 1988 to the Alliance for Capital Access, a pro-junk bond lobbying group.
- $5,000 in 1987 and 1988 to Rep. Richard Gephardt, D-Mo., who was running for president.
- $10,000 to former Gov. Reuben Askew, $15,000 to former Rep. Buddy McKay and $5,000 for Florida Insurance Commissioner Bob Gunter, all running for the Senate in 1988.

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American Continental siphoned tax funds from thrift, court told

U.S. lawyer says collectors never received money

By Anne Q. Hoy
Republic Washington Bureau

WASHINGTON — American Continental Corp. tapped its subsidiary, Lincoln Savings and Loan, for more than $14 million for taxes in 1987 but never passed the money on to federal or state tax collectors, government lawyers charged Monday.

The transaction is an example of what the government has been contending was a scheme by American Continental to use a tax-sharing agreement to siphon about $94 million in federally insured deposits from Lincoln. Abuses of the tax-sharing agreement were alleged by the government in its racketeering lawsuit filed last September against American Continental officials.

Details about alleged abuses of the agreement were described during a hearing before U.S. District Judge Stanley Sporkin in which Charles H. Keating Jr. is challenging the government's seizure of Lincoln in April.

The collapse of Lincoln is expected to cost taxpayers more than $2 billion.

On Monday, a key government lawyer produced a June 30, 1987, memorandum that he said showed that American Continental misused the tax-sharing agreement to siphon millions from Lincoln rather than to pay its tax liabilities, as intended.

In the memo, Andy Ligget, chief financial officer of American Continental, instructed his counterpart at Lincoln, Kathy Rubino, to forward $14.18 million a month earlier than was required to ease a cash crunch at the Phoenix-based parent.

"In light of AMCC's current cash needs, let's pay Lincoln's tax-sharing payment to AMCC on 7-1 or 7-2 (July 1 or 2)," the memo says.

It adds later, "Please arrange the cash transfer ASAP."

James Murphy, the government's lawyer, said the tax-sharing agreement did not require Lincoln to make such payments until the end of the month.

Under the tax-sharing agreement, which had been approved by the government, Lincoln was allowed to pay its tax liabilities to American Continental.

Murphy said American Continental never paid Lincoln's taxes and instead used millions from the federally insured thrift to finance its own far-flung business deals.

The disclosure came as the government continued to cross-examine Judy Wischer, American Continental president and a Lincoln officer.

Wischer disagreed with Murphy, saying the memo was only an attempt to notify Lincoln officials that such a payment was coming due.

In another development, Robert Wurzelbacher, once in charge of Lincoln's real-estate-development projects, testified that Keating had extensive experience in building successful master-planned communities in the Phoenix area.

Wurzelbacher sought to dismiss earlier testimony that land values at Keating's master-planned communities were inflated.

Outside the courthouse, Keating would not say what he told federal regulators during a 1986 meeting with regulators.

Murphy said that during the meeting, Keating threatened litigation on regulators who were about to launch a new examination of Lincoln and warned that he had an upcoming meeting with Rep. John Dingell, D-Mich., chairman of the House Energy and Commerce Committee.

Keating later said he met with Dingell but said it was about the savings and loan crisis in general, not Lincoln's problems in particular.

Dennis Fitzgibbons, a Dingell spokesman, said Keating met with Dingell to air "general complaints about thrift regulators."

FD-350 (Rev. 5-8-81)

(Mount Clipping in Space Below)

Keating witness rebuked

Judge calls view of expert 'bunk'

By Anne Q. Hoy
Republic Washington Bureau

WASHINGTON — U.S. District Judge Stanley Sporkin on Tuesday lashed out at an expert witness who sought to blunt government claims that Lincoln Savings & Loan relied on accounting gimmicks to funnel millions of dollars to its parent American Continental Corp.

"It's just bunk," Sporkin told the witness, John Buckley, at one point.

Buckley, an accounting scholar at UCLA, was called by Charles H Keating Jr.'s lawyers in an unusual hearing in which Keating is seeking to regain control of the thrift, based in Irvine, Calif.

Buckley testified that the thrift followed acceptable accounting procedures in valuing real estate in the Phoenix area.

But he attracted Sporkin's ire when he asserted that the best way to determine the financial ability of a real-estate syndicator is to study his "history of deal making" rather than to rely upon his financial documents. Land syndicators raise money from others to buy real estate.

"You may be telling your students this, but I wasn't born yesterday," Sporkin said. "I don't think this is sound. . . . It's just bunk."

Buckley was rebuked as he was discussing a March 1987 real-estate transaction involving Lincoln. In the deal, Ferdinand Acosta, president of Westcontinental Mortgage, a Tucson real-estate firm, acted as a "straw man" for Phoenix real-estate developer Ernest C. Garcia.

—See **WITNESS**, *page A8*

Witness for Keating rebuked

—**WITNESS**, *from page A1*

Buckley argued that Acosta had the capacity to shoulder the deal even if he was just standing in for Garcia.

Buckley said he based that assertion on his knowledge of just one prior instance in which Acosta had raised millions of dollars for a land deal.

Sporkin, rocking back in his black leather chair, asked Buckley whether he was suggesting that just because "an individual puts one deal together" that he can handle a $14 million transaction.

"Is that what you're teaching your students?" Sporkin asked.

In the deal, Garcia bought a 1,000-acre parcel from Lincoln for $14 million on March 30, 1987. But Garcia did not want the sale on his books so he turned to his friend Acosta and got him temporarily to put the deal on the books of his company, government lawyers said.

Acosta has testified that he had no financial stake in the deal, knew nothing about it and placed the transaction on his company's books only as a favor to his friend Garcia.

Government lawyers assert that Lincoln ended up on both ends of the transaction because it sold the land on the one hand and provided the $3.5 million down payment and a $10.5 million loan for the balance on the other.

The government has presented the deal as one of a series of "sham" transactions that show the federally insured thrift was being operated in such an "unsafe and unsound" manner that regulators were forced to seize it last April.

The collapse of Lincoln is expected to cost taxpayers more than $2 billion.

Earlier in the day, Buckley rejected a critical July 1989 audit of Lincoln's accounting practices that was prepared by the accounting firm of Kenneth Leventhal & Co.

The report claimed that Lincoln's loans were poorly underwritten. It said Lincoln "was made to function as an engine designed to funnel insured deposits to its parent."

Buckley dismissed the report as "marred by hyperbole, misrepresentations, innuendo, unfounded inferences and gross generalizations." He said the tone of the report was "unprofessional" and "flippant."

The testimony came on the 14th day of a mini trial in which Keating is seeking to show that regulators had no grounds to seize the thrift.

Keating, who joined his lawyers in the courtroom, is not expected to take the stand until next week.

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Jay

Alan Cranston's storied past

By Buck Long
and Lawrence V. Cott

On Feb. 2, 1983, Sen. Alan Cranston, in announcing his candidacy for the presidency, immediately fell back on an old habit of embellishing his personal history. He told reporters, "I covered Hitler and Mussolini in the dark days of conquest and appeasement that preceded the Second World War. ... The war came. I declined deferment and enlisted in the Army." Three years later, the "biographical sketch" distributed by his press office provided more information on how he "covered" Hitler and Mussolini. It seems he had "joined the staff" of the old International News Service (INS) and "served as a foreign correspondent in England, Germany, Italy, and Ethiopia from 1936-38."

The senior senator has a penchant for embellishment and the pursuit of hidden agendas

In truth, his "staff" position with INS was intermittent. At first he was unpaid; in fact, most of the time he spent in England was unremunerated. His trip to Germany took place in 1934, during his summer vacation after his sophomore year in college, and the only reporting he did from there was for his hometown weekly in Mountain View.

More important, in 1938, he went to Ethiopia — having "officially resigned" from the INS but staying on as an unpaid stringer — as a guest of the *Italian* government, two years after the Italo-Ethiopian war had effectively ended. He promptly landed INS in a libel suit when in the *London Evening Standard* he reported as fact an atrocity story concocted by the Italians to discredit Haile Selassie, the Ethiopian ruler deposed by Mussolini's forces. The emperor sued INS in a London court and won $80,000, a huge sum for the time. Cranston has yet to explain why, at least in this case, he evidently sided with fascist aggressors rather than their victims.

Please see CRANSTON/O2

The Hitler suit

Cranston has instead preferred to draw attention to another outgrowth of his journalistic career: his oft-repeated claim that he was sued by Adolf Hitler for publishing a pulp edition of *Mein Kampf*. His 1986 press biography describes the incident as follows: "In 1939, Cranston, who had read *Mein Kampf* in the original when he was in Germany, discovered that a version being distributed in the United States had been carefully edited to delete sections that would arouse Americans to the Nazi threat. Cranston wrote an abridged but accurate tabloid version, interspersed with anti-Nazi explanatory notes. ... [S]ued in a Connecticut court for copyright infringement, [he and a partner] ceased publication." In earlier versions of his biography, he described his opponents in the suit as "Hitler's agents."

In fact, Cranston was sued for copyright infringement by the old-line firm of Houghton Mifflin, which had already published a translation of *Mein Kampf* replete with footnotes warning American readers of Hitler's aggressive intentions. Yet as late as April 1986, an article in *California* magazine described Cranston as "the only US Senator to have been sued by Hitler (for an unauthorized translation of *Mein Kampf* calling attention to the Fuhrer's anti-Semitism)," adding: "He also tried to help Jews fleeing Nazi Germany" (presumably during his brief summer visit). So much for Cranston the journalistic opponent of fascism.

What about his contribution to the real war against fascism, in which he supposedly turned down a deferment and enlisted in the Army? The war came in 1941. Cranston did not reject deferment and enlist until 1944. In the meantime he held a job at the Office of War Information, where his tenure as chief of OWI's Foreign Languages Division was marred by controversies that remain unresolved but bear unmistakable signs of what today is called a hidden agenda.

Cranston and Katyn

At OWI Cranston was responsible for distributing OWI press releases to foreign-language newspapers and radio stations in the United States. According to Cranston, his main achievement at OWI was to coordinate the renaming of a Chicago suburb in honor of Lidice, the Czech village wiped out by Nazi troops in 1942. However, Cranston's critics have long asserted that his work at OWI essentially centered on suppressing any news seen as unflattering to Stalin's Soviet Union. The most famous such case involved the Soviet massacre of Polish military officers in the Katyn forest.

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pg O-1

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When, in April 1943, the mass grave at Katyn, near Smolensk, was pointed out to Nazi authorities then controlling the area, they were quick to identify the Soviet secret police as the murderers. The victims had not been seen since 1940, when they were still in Soviet hands as prisoners of war following the 1939 destruction of Poland by the then cooperating Nazi and Stalinist regimes. (Today, the Soviet press admits Soviet responsibility for the massacre.) When the story of Katyn emerged in April 1943, Poles could not bring themselves to lie about the character of the Soviet Union and Soviet designs on Poland, notwithstanding their desire for an Allied victory in the war.

News of Katyn arrived in the United States at a time when American liberals and social democrats were expressing doubts of their own about Stalin's Russia. One month before the Katyn story broke, the Soviets had baldly announced the execution in the Soviet Union of Henryk Alter and Viktor Ehrlich, two well-known leaders of the Bund, the Jewish labor organization active for decades in Poland and, naturally, suppressed in Russia. The Soviets and their American Communist pawns denounced Alter and Ehrlich as agents in a US-Polish plot against Moscow. The ghastly effrontery of this charge was greeted with protest by liberals and labor leaders in the United States, none of whom could be considered pro-Hitler, headed by such men as New York Mayor Fiorello LaGuardia, AFL President William Green, and Republican leader Wendell Willkie.

Indeed, the London-based Polish government in exile rejected the Soviet explanation of the Alter-Ehrlich crime the very weekend that news of the Katyn massacre broke. Nobody had more to gain from a victory over Hitler than the Poles and Jews; but at the same time, few in their ranks wanted to see such a victory turn into a victory for Stalin.

Out of this maelstrom comes the figure of Alan Cranston. Although his work did not involve him in the debates over Ehrlich and Alter, he was quick to interject himself into the Katyn controversy. As the official responsible for feeding war news to the ethnic press, Cranston responded to Katyn by trying to suppress the topic. Backed by OWI director Elmer Davis, Cranston committed the US government to the position that Katyn could only be a Nazi crime.

At WJBK, a Detroit-area radio station, two Polish-language commentators clashed bitterly: one repeated the "official" line of the OWI, while the other read accounts from the Polish representatives in London. Cranston acted quickly to muzzle the latter speaker. At a meeting of broadcast executives shortly thereafter in New York, Cranston defended his decision and used the presence of a representative from the Federal Communications Commission to hint that conflicts over broadcasting content could lead to cancellation of licenses (even though the FCC has never had jurisdiction over content). One radio station manager subsequently confirmed in congressional testimony in 1952 that Cranston had attempted to "try to convince station WJBK ... not to permit those comments which would indicate Russian guilt."

Cranston himself testified in 1952 that he had only been trying to support the war effort, and had merely asked the offending broadcaster to limit himself to dispatches from "reputable American wire services" — meaning those approved by the Soviet government and the OWI. The 1952 congressional hearings turned up other examples of Cranston's mendacity. Cranston claimed the broadcaster in question was not fired; his contract, however, was not renewed. Calling all wartime warnings about Stalin's plans for Eastern Europe "divisive," Cranston impugned the patriotism of a principal writer for the largest Polish-language paper published in the United States.

What was Cranston up to in defending the Soviet version of Katyn? Herbert Romerstein and Stanislav Levchenko, authors of *The KGB Against the "Main Enemy,"* a reference volume on Soviet secret police activity in the United States, cautiously declare, "It is hard to tell whether this was overzealous patriotism (on behalf of a US wartime ally), but it served its purpose in covering up a Soviet atrocity."

Tresca and Karr

The problem is that Cranston's ingenuousness over Katyn was not an isolated incident. In 1943 his work at OWI also embroiled him in a controversy over the assassination of an Italian-American anti-Communist labor leader, Carlo Tresca. As pointed out most recently by Stephen Schwartz in *Commentary* (October 1988), much suspicion about Tresca's murder (which remains unresolved) devolved on the communists. Cranston's contribution to the case was to attempt to steer attention away from the communists with the outlandish claim that Tresca had come to favor collaboration with them. For this he was denounced by no less a figure than Norman Thomas, America's most respected radical elder, as well as by Max Eastman and other anti-communist intellectuals, and by Italian-American labor leaders.

Then there was Cranston's friendship with David Karr, with whom he had fallen in in the late 1930s. Karr was a free-lance writer for the Communist *Daily Worker* and Cranston brought him to OWI. Although Romerstein and Levchenko say "there is no evidence [Cranston] understood he was being used by Karr," Karr was no innocent. He had been involved in NKVD activities in the United States at the side of a particularly nasty Soviet agent named Albert E. Kahn. After World War II, Karr became a major player in US-Soviet commercial activities. One of his last ventures involved him in the sale of Soviet gold commemorative coins, with the profits split with Armand Hammer's Occidental Petroleum. Following his death in 1979, *Fortune* magazine commented, "Whispers of a KGB connection followed Karr everywhere." Cranston said, "He has a strong social conscience that made him an intense promoter of detente."

In 1944, Cranston left the OWI. It was then that he turned down — or lost, according to at least one source — his latest deferment and enlisted. The time he says he spent in "the infantry" actually amounted to six weeks of basic training and living off-base with his wife. Soon enough he was reassigned to an information and education unit that produced lecture materials on Allied war aims.

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After the war

In the decade following the war, Cranston was known mainly as national head of the United World Federalists. There is no evidence he supported the pro-Soviet campaign of Henry Wallace, the 1948 Progressive Party presidential candidate. However, in the early 1950s, he returned to governmental politics as a founder of the California Democratic Council, an organization rather similar to the Reform Democratic clubs then favored by "progressive" Democrats in New York. One element in the founding of the CDC was the collapse of the Independent Progressive Party (IPP), the California wing of Henry Wallace's party. By 1952 it was clear that the Progressives' day had passed, and hundreds of California communists and communist sympathizers made their way into the Democratic ranks. Thus, it was no accident that the CDC early on adopted a position in favor of Red China, or that a later leader, Simon Casady, wound up a leading New Left figure in the sixties.

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The disappearance of the IPP and rise of the CDC had something in common with the demise of the old American Labor Party (ALP) in New York, a local body under communist control. There was a marked difference, however, in the success each had in infiltrating the Democratic Party of their respective states. The New York ALP and the state's relatively large communist organization were based mainly in the remnants of communist-controlled or -influenced labor and ethnic groups, with slight representation among teachers, government employees, and other white collars. By contrast, the California left had its labor and ethnic allies, but it also enjoyed much greater support among the new intelligentsia and other elements of the Golden State's burgeoning middle class. Cranston emerged in the 1950s as a standard-bearer of this new-style "progressivism."

In some ways, he was an ideal choice. To die-hard fellow travelers, he could speak of peace and disarmament, and of his storied career as an anti-fascist. To the rest of the state's voters he would come to stress his local roots, his labor and civil-rights alliances, and, eventually, his age and physical fitness. He was elected state controller in 1958 (the first Democrat in that post in 72 years) and re-elected in 1962. Turned out in the 1966 Reagan sweep, he quickly regrouped and in 1968 won election to the US Senate, where he still sits.

Back in government

From the beginning of his second career in government, Cranston showed a curious addiction to the political methods he displayed during his tenure at OWI. Writing in the *San Jose Mercury News* in 1983, Carl M. Cannon described the senator as one who "since his early days in California ... has shown carelessness in his comments about opponents. He has been willing to attack them on grounds that have nothing to do with substantive issues — grounds, in fact, that are sometimes untrue."

One such incident involved a well-known liberal and potential rival for the 1964 Senate race whose service to the party dated from the New Deal. Cranston reportedly obtained a photograph of the individual in a sexually compromising position. He offered the photo to Tom Braden, the television commentator who was then editor of the *Oceanside Blade-Tribune*, a local daily. Braden, who has "reluctantly" confirmed the truth of the story, added that he did not choose to go public with it for fear of harming the person in the photograph. "I considered it slime," commented Braden. "If I wrote about it, I would be the same as [Cranston]."

Braden added that he found it impossible to trust Cranston after this incident. "I considered it amusingly evil," Braden said.

Cranston has denied showing the photograph to Braden, but acknowledged that "somebody on my staff" may have done so. During his brief presidential campaign Cranston visited Braden's home and begged him to keep silent about the matter. (The individual in the photo has declined all comment.)

Cranston has employed similar tactics against Republican opponents. In 1966 he issued a document labeling gubernatorial candidate Ronald Reagan a "front man" for the John Birch Society. In 1983 he called Reagan a "tyrant." During confirmation hearings that year on Kenneth Adelman's nomination to head the Arms Control and Disarmament Agency, he charged Adelman with believing that "it would be helpful to the United States ... if South Africa were to use nuclear weapons against their own blacks or against neighboring blacks."

Cranston again used South Africa to sling mud at Republican opponent Ed Zschau in the 1986 Senate race. David Johnston, a political reporter for the *San Francisco Examiner*, saw links here to the old Cranston. "He and Zschau disagreed on a deep philosophical level," Johnston wrote. "He really sees South Africa as like Germany in the early '30, what he had seen as a young man, and [he believes] that the Reagan attitude is the same as that of the United States and the western allies in the early '30s — an attitude of tolerance."

The big lie

With polls in mid-February showing Cranston with a 69 percent disapproval rating among California voters, political journalists in his state now regard Cranston as the politician most damaged by the Lincoln Savings and Loan scandal. Ostensibly, the case amounts to nothing more than political corruption, which saw five US senators — the fabled Keating Five — putting possibly undue pressure on federal bank regulators on behalf of Lincoln head Charles Keating in return for the more than $1.3 million he'd contributed to their campaigns and political causes. But as *San Francisco Chronicle* reporter Mark Z. Barabak reminded readers in January, more than $900,000 of those funds was solicited by Cranston. Although Cranston now claims to have had "an unchallenged and unblemished record of integrity during my more than 20 years in the Senate," he again is engaging in some dissembling. In 1983 the *New Republic* identified Cranston as controller of the largest secret slush fund in the Senate, which saw him transfer $66,000 in campaign monies to a private account that went to cover travel and lodging for his wife as well as the services of speech-writers, a voice coach, and other personnel for his presidential run. Cranston refused to respond to the revelation other than to allow an aide to release only a select number of relevant documents.

Cranston is finding it more difficult to evade the charges raised in the Lincoln case. As his chances for re-election to the Senate in 1992 all but vanish, Cranston has fallen back on an old method of damage control and lashed out at the Keating Five's nemesis, former Federal Home Loan Bank Board chairman Edwin Gray, calling him an expert in "the Hitlerian technique of the Big Lie." Like a California Ceausescu, Alan Cranston intends to remain defiant to the end. Old habits die hard.

Buck Long is the pen name of a writer for a California newspaper. Mr. Cott is a free-lance writer in San Francisco. This is reprinted with permission from the April issue of *The American Spectator*.

290-PX-41605-A-72.

Cranston arranged credit with Lincoln

By George Williamson
San Francisco Chronicle

Sen. Alan Cranston, D-Calif., arranged a standby $300,000 line of credit with Charles Keating's scandal-plagued Lincoln Savings & Loan during the crucial home stretch of the senator's 1986 reelection campaign.

No funds were drawn on the credit line, but it served as insurance for a campaign that he ended up winning by a single percentage point while going $375,000 into debt from other sources.

Cranston

Keating

The Lincoln credit line shows a deeper connection between Keating and Cranston than previously known — Cranston and his aides have insisted that the senator's political connections to Keating were minimal at the time of the 1986 campaign.

It is also the first evidence that Irvine-based Lincoln, the bailout of which is expected to cost taxpayers up to $2.5 billion, had direct dealings in Cranston's political affairs. Lincoln's parent company, American Continental Corp., was the source of previously disclosed financial backing.

Arrangements for the credit line, which did not violate any law, were made late in the campaign when polls indicated that Cranston was slightly behind Republican Ed Zschau. Five months after his narrow victory, Cranston joined four other senators in intervening with regulators who were trying to close Lincoln. The Senate ethics committee is investigating what role Keating's large contributions to all five senators may have played in their actions.

It was disclosed early last sum-

Please see CREDIT/22

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mer that Keating contributed $85,000 to an 11th-hour state Democratic Party get-out-the-vote drive that Cranston and others have credited with rescuing his campaign. That contribution was made near the time that the Lincoln credit line was set up. Cranston said two months ago that he presumed he or his campaign fund-raiser solicited that contribution.

Keating and his associates also gave $39,000 directly to the Cranston campaign, and American Continental Corp. later contributed $850,000 to voter registration groups affiliated with Cranston.

Dary Sragow, Cranston's 1986 campaign manager, said although he had no recollection of what specific thrift issued the credit line, he does recall "a sense" that arrangements had been made for last-minute borrowed funds to be available "if we absolutely needed them."

Backup money was arranged out of "an abundance of caution, so you don't lose even more sleep," said Sragow, who added that he was not directly involved in raising money or arranging loans. "You don't want to be in a situation where your last bank account is drawn down and, hypothetically, your pollster tells you you need to spend $50,000 right now or lose."

Cranston spokesman Murray Flanders said Wednesday that it was his understanding that the credit line "was there if we needed it. But we didn't, and we let it drop."

Keating spokesman Brad Boland said Wednesday the credit line was "agreed on in principle" and could have been executed within a day if the Cranston campaign had made final application. It was set up in October 1986, the same month that the Cranston campaign got a $348,250 loan from another now-insolvent California thrift, Deauville S&L, which has since changed its name to First Network.

S&L sources said a line of credit can be pledged as a backup to insure repayment of a follow-up loan from another thrift. But Cranston representatives and other sources in the trade said there was no connection between the Lincoln and Deauville arrangements.

Deauville was headed by Carl Rheuban, a heavy financial contributor to Cranston and other Democrats.

Rheuban's thrift charged the Cranston campaign $1,750 in loan fees, about half what normally would be charged for a $348,250 secured loan. The loan originally was due Jan. 6, 1987, but Cranston's Federal Election Commission filings indicate it was reissued on that date. The loan was paid off in nine subsequent installments, ending with a $25,000 payment on June 18.

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Opened Lincoln S&L Line of Credit, Cranston Admits

By SARA FRITZ
TIMES STAFF WRITER

Sen. Alan Cranston (D-Calif.), currently under investigation for his dealings with financier Charles H. Keating Jr., acknowledged Thursday that he opened a $300,000 line of credit from Keating's Lincoln Savings & Loan shortly before his reelection in November, 1986.

Murray Flander, spokesman for Cranston, said the line of credit was arranged by Cranston because he felt he was being outspent by his opponent, Republican Ed Zhau. But Flander added that Cranston never needed to use the credit.

Although Keating played no role in arranging the deal, Flander said Cranston went to Lincoln for the line of credit because he knew the thrift owner, who had raised $39,000 for the Cranston campaign. He said Cranston "felt he could get quick action through Lincoln because of the Keating connection."

In addition to the 1986 campaign contributions and the line of credit, Keating also contributed $85,000 solicited by Cranston for the California Democratic Party and later gave more than $800,000 to voter registration drives supported by Cranston.

The Senate Ethics Committee and the Justice Department currently are investigating allegations that Cranston and four other senators, all of whom received donations from Keating, intervened improperly on Lincoln's behalf with federal regulators who were investigating the Irvine thrift.

Critics have charged that the influence of Cranston and the other senators helped to dissuade federal regulators from seizing Lincoln in 1987. When it was finally seized by the government for mismanagement in April, 1989, it became the biggest thrift failure in U.S. history, costing American taxpayers an estimated $2.5 billion.

Although Flander dismissed it as a "non-story," the line of credit—first disclosed by the San Francisco Chronicle—demonstrates another close tie between Cranston and Keating, who has admitted that he tried to buy influence with politicians in Washington to assist him in his battle against federal savings and loan regulators.

Cranston was one of five senators who summoned Edwin J. Gray, then chairman of the Federal Home Loan Bank Board, to the Capitol to discuss Keating's complaints against the regulators. Although the senators deny it, Gray insists they asked him to withdraw a regulator opposed by Keating.

Cranston has strongly denied any wrongdoing in the matter. He contends that he was involved in representing Lincoln in dealings with federal regulators because the thrift employs hundreds of people in Southern California.

The senator also has denied that the campaign contributions and other money he solicited from Keating in any way influenced his decision to contact federal regulators on Lincoln's behalf. He cites a Supreme Court decision saying that members of Congress are expected to cajole federal officials on behalf of constituents.

According to Flander, Cranston pledged some of his vast real estate holdings to Lincoln as collateral for the $300,000 line of credit he negotiated with Lincoln.

In Phoenix, Bradley Boland, spokesman for Keating's company, American Continental Corp., acknowledged that the line of credit was agreed upon in principle in October, 1986, and could have been executed by Cranston at any time.

Under investigation along with Cranston are Sens. Donald W. Riegle Jr. (D-Mich.), Dennis DeConcini (D-Ariz.), John McCain (R-Ariz.) and John Glenn (D-Ohio). It is not known when the Senate Ethics Committee or the Justice Department inquiries will be completed.

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McCarthy defaults on loan from failed S&L

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$300,000 political campaign loan secured with list of contributors

By George Williamson
San Francisco Chronicle

Lt. Gov. Leo McCarthy is in default on a political campaign loan from a now-insolvent California savings and loan whose losses are being absorbed by taxpayers.

He has missed the deadline to repay the last $125,000 of a $300,000 note he took out in 1988 and secured with his campaign committee's list of 27,000 potential contributors.

Campaign officials acknowledged Monday that the list could not be sold for anything approaching the value of the original loan — or even the remaining balance — but they said the lieutenant governor had personally guaranteed the note.

McCarthy said he had every intention of paying the balance on the loan, even though he must also raise money for his current reelection bid in November.

But the situation has raised new questions about the propriety of thrifts using federally insured deposits for loans to campaign committees that often go into limbo or simply dissolve after failed campaigns.

"A mailing list that had a very limited group of people who would ever consider purchasing it was extraordinarily dubious security for a loan from an S&L, and something that could expose the S&L to serious losses," said Bill Black, chief counsel for the San Francisco district of the federal Office of Thrift Supervision.

The original $300,000 loan was made to McCarthy's unsuccessful 1988 campaign to unseat Sen. Pete Wilson by First Network, a Los Angeles thrift headed by Carl Rheuban, a heavy contributor to various politicians. Rheuban gave $1,000 to the Wilson campaign in 1987.

First Network is now in federal receivership, and its failure is expected to cost the government $100 million.

The federal government's Resolution Trust Corp., which is now running the thrift, could file a lawsuit demanding that McCarthy's personal assets be sold to pay the loan, but foreclosure could be made only against the campaign contributors list.

A McCarthy campaign spokesman said the government, if it forecloses, could rent the mailing lists to other organizations for about $1,900 each.

Final payment on the loan was due last Friday, but McCarthy made a payment of only about $37,500, which left him owing $125,000.

In a statement released though

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Lt. Gov. Leo McCarthy
Says he will repay balance

his campaign manager, Roy Behr, McCarthy said a request has been made for a second extension on the loan. "We won't let them write off that loan. I insist on paying it," he said.

Behr emphasized that along with the direct security of the contributor lists, the loan contract also included a personal guarantee from McCarthy.

He said McCarthy has ample assets to cover the loan, including his house in San Francisco, and signed the guarantee "with full knowledge" that he would be personally liable for repayment.

Behr acknowledged, however, that the contributors list alone was not adequate security — "that's why the bank insisted on a personal guarantee from Leo McCarthy."

He said all interest payments, totaling about $50,000, have been made on the loan, "so it's been a profitable loan for the shareholders."

Officials in charge of First Network would not comment Monday on its plans to collect the balance of the loan or say whether an extension is being granted.

The loan came to light after The Chronicle disclosed last week that the same S&L lent $350,000 to Sen. Alan Cranston's 1986 re-election campaign. Cranston paid off that debt in 1987 after his narrow election victory.

California Savings and Loan Commissioner Bill Davis, upon learning of the Cranston loans last week, expressed concern that thrifts made loans to political campaigns. In his 28 years in the S&L business, he said, "I've never run across it before."

Both Cranston and McCarthy reported the loans as secured in their filings with the Federal Election Commission. Cranston's listed himself as the guarantor of the loan, and his spokesman has said the senator's real estate holdings were used as security.

But McCarthy listed his old 1988 campaign committee, McCarthy for U.S. Senator, as the guarantor.

Behr said Monday that, contrary to the filing, McCarthy is the guarantor named on the loan contract. He said a campaign lawyer advised that it was not necessary to list McCarthy as the guarantor on the FEC filing.

Earlier in his senatorial campaign, McCarthy obtained a $200,000 loan from Sovran Bank of Washington, D.C. His FEC filings list no guarantor on that loan, which also was reported as secured. The Sovran loan was paid off by its Aug. 31, 1988, deadline.

The payment McCarthy made to First Network on Friday was his first on the loan's principal this year. The loan was made on Oct. 27, 1988, with an original due date of April 27, 1989.

McCarthy obtained a year's extension that ran to 5 p.m. last Friday. He had paid $132,500 by December 31 of last year.

First Network owner Rheuban and his wife contributed $4,000 to Cranston's 1986 campaign, $50,000 to a voter registration program founded by Cranston's son, Kim — who is currently chief of staff in McCarthy's office — and various sums to numerous other politicians, mostly Democrats.

But he is not listed as a contributor to McCarthy's senatorial campaign. FEC records show he made a $1,000 campaign contribution in May 1987 to Republican Sen. Wilson who beat McCarthy the following year.

Cranston Raises $105,510 for Defense in Keating Inquiry

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LOS ANGELES TIMES
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By SARA FRITZ
TIMES STAFF WRITER

WASHINGTON—Sen. Alan Cranston (D-Calif.), whose fund-raising and lobbying activities are under investigation by the Senate Ethics Committee, has begun soliciting contributions of as much as $10,000 from political supporters for a legal defense fund.

Cranston raised $105,510 for the newly created defense fund between Jan. 1 and March 31, according to documents filed recently with the secretary of the Senate. His aides said that the senator personally solicited the contributions.

Most donors to Cranston's legal defense fund—such as fashion designer Liz Claiborne and her husband, Arthur Ortenberg—previously had contributed the maximum amount permitted under law to the senator's 1992 reelection campaign committee.

The most generous of these contributors was the Sheetmetal Workers Union political action committee. Since December, the union committee has given $10,000 to Cranston's 1992 reelection campaign, $10,000 to the legal defense fund and $10,000 to Cranston's personal PAC, the Committee for a Democratic Consensus. In each case, $10,000 was the maximum gift permitted under law.

Sheetmetal Workers officials declined to comment on the contributions. But union sources said that the $30,000 represents a decision on the part of Edward J. Carlough, president of the 108,000-member union, to support the liberal Democratic senator as much as possible at a critical point in his career in return for Cranston's past backing of labor causes.

Cranston has been invited by Carlough to be a speaker at the Sheetmetal Workers' annual convention in Las Vegas in September.

The Ethics Committee is investigating allegations that Cranston and four other senators intervened improperly with federal regulators on behalf of a big contributor, Charles H. Keating Jr., owner of Lincoln Savings & Loan.

The case involves contributions solicited by Cranston from Keating—$39,000 for his 1986 reelection campaign, $85,000 for the California Democratic Party and $850,000 for voter registration groups supported by the senator.

Although Cranston reported the creation of his legal defense fund to the Senate secretary on Jan. 8, he did not announce it publicly. It was first reported Thursday in Roll Call, a newspaper specializing in congressional news.

Under Senate rules, a senator under investigation may pay his legal expenses from personal funds, from his campaign coffers or from a legal defense fund. Individual donations may not exceed $10,000 to such defense funds.

Cranston apparently is the only senator among the "Keating Five" who has created a legal defense fund. The other senators under investigation are John H. Glenn Jr. (D-Ohio), Dennis DeConcini (D-Ariz.), John McCain (R-Ariz.) and Donald W. Riegle Jr. (D-Mich.).

According to Senate records, Cranston spent $98,022 of the legal defense funds during the first three months of the year. He reported that $93,000 went to the law firm of William W. Taylor III, who is representing him before the Ethics Committee. The remainder went to two other law firms, one of which received $447 for administering the new fund.

Cranston's sister, Eleanor C. Cameron, and his brother-in-law, Donald Churchill Cameron, both of whom live in Los Altos Hills, Calif., each contributed $10,000 to the legal defense fund. In a telephone interview, Eleanor Cameron said that she gave the money because "I feel that he really is suffering a great deal more than is proper in this case."

Claiborne and her husband, who already had contributed $2,000 each to Cranston's reelection campaign, combined to contribute $10,000 to the legal

Please see CRANSTON, A39

defense fund.

Likewise, Nathan Shapiro, whose family controls the Chicago insurance firm of Baldwin & Lyons, gave $10,000 for Cranston's defense. Last year, Shapiro hosted a fund-raising dinner for Cranston and his family members contributed thousands of dollars to the senator's 1992 reelection effort.

Robert B. Egelston of Los Angeles contributed $5,000 to the legal defense fund; Aris and Carolyn S. Anagnos, also of Los Angeles, gave $2,500; Alejandro and Lyda Zaffaroni of Atherton gave $2,000, and Bernard and Audre Rapoport of Waco, Tex., gave $5,000. All of these donors also had contributed $2,000 each to Cranston's reelection drive.

The American Family Political Action Committee gave $5,000 to Cranston's reelection campaign and another $5,000 to his legal defense fund. American Family Corp. is based in Columbus, Ga., and its principal subsidiary is a health care insurance plan. Cranston also received $4,000 from the founder of the firm, John B. Amos, and his wife, Elena.

Other contributors to Cranston's legal defense fund include former Commerce Secretary and Chicago developer Philip Klutznick, $2,000; San Francisco developer Paul Sack, $5,000, and Sack's firm, R & S Associates, $5,000.

Cranston kicked in $10 himself.

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Metzenbaum and Keating

Now that the Savings and Loan crisis has reached the political boiling point with the American people, Members of Congress are desperately trying to shift the blame away from themselves and onto someone else. Often the same Members who are screaming for the Bush administration to "jail the S&L crooks" were at the center of the disastrous policies of the past decade.

The latest pass-the-buck exercise begins today when Ohio Senator Howard Metzenbaum convenes a hearing on the 1988 purchase of some Texas S&Ls by insurance executive James M. Fail. Mr. Fail and Robert Thompson, a lobbyist he retained, are accused of receiving sweetheart treatment from former thrift regulator Danny Wall. "It's the most abominable rip-off of the American taxpayer that I've ever experienced," thunders Mr. Metzenbaum. Last week, he issued subpoenas directing Messrs. Thompson and Fail to appear today. Mr. Thompson points out the Senator's subcommittee on antitrust policy has zero jurisdiction over S&Ls. He may contest the subpoena in court and not appear.

There are legitimate questions raised by the Fail deal, but we suspect they aren't the ones Senator Metzenbaum wants answered. There are, however, real questions about the apparently endless spectacle of sanctimonious Members of this Congress handing down judgments of other people's behavior while expecting no criticism of their own.

In probing Mr. Fail, for instance, Senator Metzenbaum can bring to bear his own knowledge of how to make big money without investing anything. In 1983, he collected a $250,000 "finder's fee" for making two phone calls to find a buyer for a Washington hotel. The seller was a contributor to the Senator's campaigns. After he was accused of using his office to reap a windfall profit, he returned the money. At the time, he expressed outrage at calls he be investigated by the Ethics Committee.

Moreover, Charles Keating, of Keating Five fame, told a meeting of Journal editors recently that Mr. Metzenbaum came to his Arizona office to ask for a political contribution. "He had been told by Senator Cranston that I was a soft touch for money," Mr. Keating recalls. Senator Alan Cranston, one of the Keating Five now under investigation by the Senate Ethics Committee, was given nearly $1 million by Mr. Keating for voter-registration programs. Mr. Metzenbaum was interested in setting up similar programs in Ohio before his 1988 re-election race. Employees of Senator Cranston's groups have since revealed that they were routinely pressured to register only Democrats.

Mr. Keating said, "I told Metzenbaum we had nothing in common, but he kept calling me asking for money." Mr. Keating finally told Mr. Metzenbaum he should ask for money from Senator Cranston's registration programs, and their talks ended. Mr. Metzenbaum's press secretary says the Senator has "no recollection" of meeting Mr. Keating, though she said "it's possible."

The tactics employed by Senator Metzenbaum's committee gumshoes also deserve attention. The Washington Post reports that CNN reporter Brooks Jackson was told by Senator Metzenbaum's staff that they had made an exclusive deal to share confidential investigative data with the New York Times in exchange for an agreement that the story would be held until the day before a hearing. Brian McTigue, the Metzenbaum staffer who gave the data to the Times, was fired last year from Rep. John Dingell's Energy and Commerce Committee for illegally taping a conversation with a witness.

We'll take Senator Metzenbaum's camera-mugging hearings more seriously when he matches his zealous pursuit of S&L "rip-offs" with his own hard-hitting probe into Congress's financial relationships with Charles Keating and other benefactors of Capitol Hill.

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Feinstein reveals letters Wilson sent regulators on behalf of some S&Ls

By Larry Peterson
The Orange County Register

US Sen. Pete Wilson wrote letters to federal regulators on behalf of at least 10 savings and loans, according to correspondence released Friday by his rival for governor.

"There is no evidence that I have intervened on behalf of anyone, because I haven't," Wilson had said Thursday in an angry response to a new 30-second television ad prepared by Democrat Dianne Feinstein.

The ad implies that Wilson voted and acted to boost the troubled thrift industry while becoming its top national recipient of campaign contributions.

On Friday, Feinstein's campaign released Wilson's correspondence to regulators.

Four of the thrifts on whose behalf Wilson corresponded were taken over by federal regulators. Another was a $1,000 contributor to his gubernatorial campaign.

"We're not saying Wilson did anything illegal," said Dee Dee Myers, Feinstein's campaign spokeswoman. "He agreed with them philosophically, he supported less regulation, and he was able to write regulators and get their attention."

Wilson strategist Otto Bos downplayed the letters' significance.

Feinstein's campaign spent the day trying to explain how and why her husband, financier Richard Blum, profited from a tax-paid federal bailout of an Oregon savings and loan.

The correspondence revealed that Wilson had written to expedite Federal Savings and Loan Insurance Corp. coverage for five thrift institutions, including a troubled one later seized by federal regulators.

He also wrote the Federal Home Loan Bank Board to oppose regulators' efforts to slow the approval of federal insurance of savings institutions newly chartered by the state after regulators questioned what they regarded as lax state supervision of thrifts.

To one Wilson letter, the board responded that he was "misinformed about the situation" and that "millions of dollars" were lost because of the "action or omissions" of Wilson's constituent, Mount Whitney Savings and Loan.

Meanwhile, Feinstein's husband acknowledged that he, his partners and clients put up about $8 million to buy the debt-ridden Jackson County Federal Savings and Loan in Medford, Ore.

He said federal banking officials pumped cash and guarantees to cover loans that might be bad and that he received a $325,000 consulting fee for putting the deal together. He said the terms were negotiated before he was involved.

Asked about a report by the San Jose Mercury-News that federal regulators paid $23 million in cash and put up an additional $35 million as a guarantee, Blum said, "those figures might be right."

Blum insisted that he ultimately might lose money on the deal because the price of the savings and loan's stock has plummeted. But its annual report said it made a profit of $594,000 in the first six months after the takeover.

Blum also insisted that the deal saved taxpayers money because it would have cost the government more to bail out depositors if the thrift had been allowed to collapse. The Mercury-News account quotes a federal regulator as sharing that view.

Wilson's campaign also cited campaign-finance reports showing that several executives of the bailed-out thrift contributed a total of $4,650 to Feinstein's campaign. It also cited $4,000 in contributions by two employees of Texas financier Robert Bass, with whom Blum was a minor participant in the takeover of a troubled savings and loan in Stockton.

Blum provided about half of the nearly $6 million that Feinstein, the former mayor of San Francisco, spent to win the June 5 primary election.

Register staff writer Chris Knap contributed to this report.

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Correspondence sent on behalf of 10 institutions

Correspondence between Sen. Pete Wilson and the Federal Home Loan Bank Board indicates that he wrote federal regulators regarding 10 savings and loan institutions.

In some cases, he sought to help aspiring institutions that had been refused federal charters. In others, he inquired on behalf of insolvent institutions seized by the federal government. The letters were released Friday by gubernatorial candidate Dianne Feinstein's campaign.:

Hacienda Federal Savings and Loan: Wilson wrote Federal Home Loan Bank Board Chairman Ed Gray in 1984, inquiring about the board's handling of the Oxnard institution. In a return letter, a bank board official noted that "violations of law and unsafe and unsound practices" at Hacienda had left it insolvent, causing the bank board to seize it Nov. 18, 1983.

San Marino Savings and Loan: Wilson wrote the Federal Home Loan Bank Board in April 1984 regarding the status of the troubled thrift, enclosing letters of complaint he had received from San Marino's chairman. A bank board official replied that the chairman's letter "contains factual assertions with which this agency strongly disagrees." The official noted that the thrift had been seized by the federal government in February of 1984 after "substantial dissipation of assets ... due to violations of law, rules, and regulations and unsafe and unsound practices."

Santa Barbara Savings: Wilson questioned the Office of Thrift Supervision about its regulatory efforts regarding the institution. In responding to Wilson on May 1, the office's deputy director noted that the institution was undercapitalized and had been placed under government conservatorship April 27.

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Regan defends deregulation policies

The New York Times

WASHINGTON — Donald T. Regan, an architect of the Reagan administration's deregulatory policies, told Congress on Monday that contrary to conventional wisdom, the savings and loan debacle resulted from too many restrictions on savings institutions, not too few.

The basic problem, he said, was that these institutions were limited to investments in their regions, which made them "extremely vulnerable to regional economic troubles."

Regan, who served as President Reagan's first Treasury secretary and then became White House chief of staff, told the House Banking Committee, "Better regulation and supervision by thrift regulators would not necessarily have prevented what ultimately happened."

Regan also said that in late 1986 Sen. Dennis DeConcini, D-Ariz., had lobbied him for a government appointment for Lee Henkel Jr. of Georgia, a business associate of Charles H. Keating Jr., the Phoenix financier who built and lost the Lincoln Savings and Loan Association.

Regan's defense of deregulation drew skepticism from some committee members. Rep. Henry B. Gonzalez, Texas Democrat and chairman of the banking committee, told Regan, "It is obvious that the Reagan administration put much faith in a deregulatory policy which handed the savings and loan industry new powers and a greater array of permissible investments for insured deposits, policies which the high-fliers interpreted as a green light for risky ventures."

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Counsel may have clearer proof Keating bought influence

By Larry Margasak
The Associated Press

WASHINGTON — A special counsel's report establishes crucial links between the timing of contributions by Charles H. Keating Jr. to three senators and specific actions the lawmakers took to help the former savings and loan executive, congressional sources said Monday.

The links were instrumental in the counsel's recommendation that a Senate Ethics Committee investigation proceed against Democratic Sens. Alan Cranston of California, Dennis DeConcini of Arizona and Donald W. Riegle Jr. of Michigan, the sources said.

However, Special Counsel Robert S. Bennett recommended that the committee dismiss Sens. John McCain, R-Ariz. and John Glenn, D-Ohio, from the probe, according to the sources.

The committee announced Monday that it has scheduled individual meetings with the senators during the next two weeks. Glenn and McCain are to appear before the six-member committee this week, the sources said.

"Under our existing practices, the committee must give each senator under investigation the opportunity to be heard by the committee in executive session before any decisions are made," a written statement said. "Following these meetings with the senators, the committee will meet to decide how it will proceed:"

The panel said Bennett's report totals 350 pages, plus thousands more pages of exhibits, including transcripts of interviews with senators and other witnesses.

The five senators received $1.3 million from Keating and his associates for their campaigns and causes, and intervened with US banking regulators on behalf of the former head of Irvine-based Lincoln.

The federal government seized Keating's S&L in April 1989 and it could cost taxpayers more than $2 billion to cover the losses.

The senators have said they intervened with regulators — especially in two key meetings in April 1987 — because Keating persuaded them that his thrift was being treated unfairly. All have denied that their intervention was driven by the donations.

Public documents and statements show some links between the contributions and contacts with regulators by Riegle, Cranston and DeConcini.

However, Bennett reportedly has identified much more precise connections involving the timing, while also focusing on the entire pattern of the senators' conduct.

The committee is still in the preliminary phase of its investigation and must decide whether to accept Bennett's report.

If the panel continues the probe against any of the senators, it could proceed to an interim phase called an "initial review".

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Senator sees no new S&L allegations

By Larry Margasak
The Associated Press

WASHINGTON — Senate Ethics Committee members, weighing a recommendation that Sen. John McCain be dropped from a savings and loan inquiry, brought up no new allegations last week when the panel met privately with the sole Republican being investigated.

A congressional source familiar with the testimony said the questions covered the same facts that led a special counsel to conclude that the committee should dismiss McCain, whose case is the most significant among five senators under investigation.

Dismissal of McCain would leave only Democrats in the inquiry and would seem to give the GOP a campaign issue to counter allegations of wrongdoing by Neil Bush, the president's son, when he served on the board of a Denver savings and loan association.

McCain is pressing hard to have the committee drop him from the investigation, as is Sen. John Glenn, D-Ohio, who also testified in closed session last week. Congressional sources said the committee's special counsel, Robert S. Bennett, proposed that the investigation end against both senators, a recommendation that could be acted upon late next week.

McCain and the four other senators are being investigated because of the assistance they gave savings and loan figure Charles H. Keating Jr., who contributed some $1.3 million to their campaigns and causes.

The five intervened with regulators when Keating's Lincoln Savings and Loan was heading toward failure. The federal government seized the institution in April 1989 and might have to spend $2 billion to cover its losses.

Bennett recommended that the investigation be expanded against three other senators: Democrats Alan Cranston of California, Dennis DeConcini of Arizona and Donald W. Riegle Jr. of Michigan. The committee is meeting privately with each of the senators before deciding whether to follow Bennett's recommendations.

McCain received $112,000 from Keating and his associates for his campaigns.

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Cranston Called to Discuss S&L Case

■ Thrifts: The senator is summoned to a closed session to discuss his ties with Charles Keating Jr. Charges against two others may be dropped.

By SARA FRITZ
TIMES STAFF WRITER

WASHINGTON—Sen. Alan Cranston (D-Calif.), one of five senators accused of improperly intervening with regulators on behalf of Lincoln Savings & Loan owner Charles H. Keating Jr., was summoned before the Senate Ethics Committee on Tuesday to review the case against him amid indications that the panel is on the verge of dropping charges against two of his colleagues.

The investigation of Cran[illegible] will continue, sources said, even if the panel soon votes—as expected—to clear Sens. John McCain (R-Ariz.) and John Glenn (D-Ohio) for lack of evidence.

Neither Cranston nor the committee members would disclose what was discussed in their private meeting, but sources said the session was designed to review the evidence the committee has gathered on the California senator.

Clearing McCain and Glenn would follow the recommendation of special counsel Robert S. Bennett, who told the Ethics Committee in a 350-page report last month that the evidence he had found would justify continuing the investigation only against Cranston and Sens. Donald W. Riegle Jr. (D-Mich.) and Dennis DeConcini (D-Ariz.).

According to these sources, Bennett's investigation found reason to suspect that the actions of Cranston, Riegle and DeConcini were directly linked to the campaign contributions they had received from Keating.

The committee voted earlier this year to authorize Bennett to conduct a preliminary inquiry into the charges against the senators, who have become known as the "Keating Five." They were accused of being influenced by Keating's campaign contributions to intervene in 1987 with Federal Home Loan Bank Board regulators who were investigating Lincoln and its

Continued from A3

owners.

Common Cause, the citizens lobbying group, has charged that Keating's influence delayed FHLBB action against fraud and mismanagement at Lincoln. The Irvine-based thrift eventually was seized by the government in April, 1989, and Keating since has been charged with fraud in the sale of junk bonds to Lincoln customers, most of them elderly Californians.

Like Riegle and DeConcini, Cranston solicited large contributions for his campaign and other causes from Keating while acting on behalf of the thrift owner. These contributions included $35,000 for his 1986 Senate campaign, $85,000 for the California Democratic Party and $850,000 for three voter registration groups identified with Cranston.

Committee investigators found that Cranston received a memo from his campaign aide, Joy Jacobson, in early January, 1987, telling him that Keating had contributed to his campaign and the state Democratic Party and advising him that Keating "rightfully expects some kind of resolution" to his complaints against the FHLBB.

The following April, Cranston attended two meetings in which he and the other four senators questioned bank board officials about Keating's complaints against the agency. These meetings are at the heart of the charges against the five senators.

In his own defense, Cranston has said that he only urged the regulators to bring their investigation of Keating to a close as quickly as possible. He has insisted that he never lobbied bank board officials to drop their investigation, as Keating was seeking.

Cranston met nine times with Keating between 1984 and 1988, according to Keating's travel logs and appointment books published this week in the National Mortgage News.

These included a trip to Keating's headquarters in Phoenix in February, 1988. Other meetings between Cranston and Keating occurred on Dec. 17, 1984; July 16, 1986; Aug. 12, 1986; Jan. 28, 1987, March 24, 1987, shortly before the April sessions with regulators; Sept. 4, 1987; Jan. 28, 1988, and at a Dec. 14, 1988, dinner at the Bel-Air Hotel in Los Angeles.

Cranston previously has acknowledged meeting with Keating on several occasions but has refused to say when those meetings occurred or what was discussed.

Members of the Senate Ethics Committee have been deeply divided over how to proceed with the investigation since receiving Bennett's report, according to sources. Sen. Howell Heflin (D-Ala.), who chairs the panel, has been accused by some members of delaying action on Bennett's recommendation because some Senate Democrats do not want to drop charges against McCain, the sole Republican among the Keating Five.

Heflin, who is well-known in the Senate for his slow, deliberate manner, has indicated that the committee will vote on Bennett's recommendation later this week after interviewing all five senators in separate closed sessions.

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HUGE LOBBYING EFFORT:

Keating Pursued Thirty For Help with Lincoln

By STEPHEN PIZZO and PAUL MUOLO

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WASHINGTON. — During a five-year period, Lincoln Savings and Loan Association owner Charles Keating Jr. scheduled 85 meetings with 30 elected officials and regulators in an apparent effort to shield his financial empire from regulatory scrutiny.

According to Mr. Keating's flight logs and appointments book, the indicted financier between 1984 and 1989 noted meetings on several occasions with members of the "Keating Five" (Sens. John Glenn, D., Ohio; Dennis DeConcini, D., Ariz.; John McCain, R., Ariz.; Donald Riegle, D., Mich.; and Alan Cranston, D., Calif.), as well as Sen. Paula Hawkins, R., Fla., Rep. Douglas Barnard, D., Ga., former Federal Home Loan Bank Board chairman M. Danny Wall, and former California Savings and Loan Commissioner Lawrence Taggart. *(Excerpts, page 22)*

Sen. Hawkins and Rep. Barnard, and members of the Keating Five all received sizeable campaign contributions from Mr. Keating, his employees and family.

The flight logs and agenda obtained by *National Mortgage News* show meetings also were scheduled with then-Vice President George Bush, White House chief of staff Donald Regan, and Sen. Terry Sanford, D., N.C. Mr. Keating's agendas — which include scheduled meetings and topics discussed — have been provided to the Senate Ethics Committee although the flight logs have not, sources told NMN.

Sources familiar with the agendas note that some of the meetings were on dates other than those listed but describe the agendas and logs as otherwise accurate.

The revelation of the scheduled meetings comes as the Senate Ethics Committee is considering dropping its

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investigation of Sens. McCain and Glenn.

The "Keating Five" is being investigated to see whether they used their power as senators to do political favors for the indicted thrift owner. All have denied wrongdoing.

During the next two weeks the five are scheduled to meet with the Ethics Committee to discuss the findings of special counsel Robert Bennett.

Logs Show Heavy Lobbying

The agendas and flight logs show intensive lobbying efforts in a number of key areas including actions by Irvine, Calif.-based Lincoln and its parent company American Continental Corp., Phoenix to block the FHLBB's restrictive direct investment rule; to obtain the appointment to the Bank Board of Lee H. Henkel, Jr., a Georgia attorney who had received sizable loans from ACC and its affiliates; and possible litigation against regulators and actions that resulted in the Bank Board removing the FHLB of San Francisco as Lincoln's primary regulator.

For example, the records show that on Dec. 17, 1984 Mr. Keating had dinner with Sen. DeConcini.

Earlier that month then-Bank Board chairman Edwin J. Gray proposed a new rule limiting direct investments to 10% of assets for state-chartered as well as Federal thrifts.

The multi-billion dollar Lincoln, which was heavily involved in direct investments many of which later resulted in enormous losses, opposed the limitation.

Only days after his dinner with Mr. Keating, Sen. DeConcini attached an amendment to a Senate bill (S. 2851) which would have restricted the Bank Board's ability to curb direct investments.

Mr. Gray's regulation was formally adopted in March 1985, but was retroactive to Dec. 10, 1984.

During 1985 Mr. Keating petitioned the Bank Board for $900 million in direct investment authority.

The records show that in 1985 he scheduled six meetings with Sen. McCain, including a one-week stay at Mr. Keating's home in the Bahamas.

Meetings also were scheduled with Vice President Bush and Rep. Jack Kemp, R., N.Y., now Secretary of the Department of Housing and Urban Development.

The records also show that in August 1984 Sen. McCain and his wife Cindy flew on an ACC jet to Mr. Keating's Bahamas estate. Also on the same trip were Mr. Henkel and his wife Barbara.

Mr. Henkel became a member of the Bank Board in late 1986. He was appointed while the Congress was in recess.

According to agendas and flight logs, Mr. Keating constantly lobbied members of Congress to get Mr. Henkel appointed to the position.

Once in office Mr. Henkel introduced a regulation that would have protected Lincoln's direct investments.

He later resigned under pressure as his business ties to Mr. Keating were revealed.

According to the records, in September 1986 Mr. Keating met with Sens. Cranston, McCain, Riegle, and Rep. Barnard.

The reason for the meetings was cited as "Henkel/Benston," a reference to economics professor George Benston who Mr. Keating also was trying to get appointed as the "Democratic" member of the Bank Board.

In 1986, according to Federal Elections Commission records, Mr. Keating and his employees contributed thousands of dollars to the campaigns of Messrs. McCain, Riegle and Barnard.

Pushing for the Henkel nomination, Mr. Keating also lobbied other politicians and officials, scheduling 25 different meetings that year, the records show.

In 1986 Mr. Keating scheduled four meetings with Sen. Hawkins; two with undersecretary of the Treasury George Gould; two each with Sens. Cranston, DeConcini, Glenn and Rep. John Dingell, D., Mich.

In 1987 the pace of lobbying continued as Mr. Keating scheduled 23 meetings with politicians, including three each with Sens. Cranston, DeConcini, McCain and Riegle.

In was in April 1987 that two different meetings occurred between various members of the Keating Five and regulators concerning the Bank Board's supervision of Lincoln.

During the first meeting on April 2, former Bank Board chairman Gray said Sen. DeConcini offered him a "quid pro quo" whereby Lincoln would increase its home mortgage lending if Mr. Gray dropped his direct investment restrictions.

That year Mr. Keating also scheduled separate meetings with Rep. Frank Annunzio, D., Ill.; Rep. Barnard; Sen. Robert Dole, R., Kan.; Sen. Phil Gramm, R., Tex.; Rep. Chip Payshan, R., Calif.; and others.

Over the years Rep. Annunzio, chairman of the House Banking Committee's subcommittee on financial institutions, has received $3,000 from Keating interests; Rep. Barnard $20,000; Sen. Gramm $1,000; and Rep. Payshan $23,000, according to a report in *Roll Call*, a weekly newspaper for Capitol Hill.

Rep. Barnard last week said he would return the money.

Mr. Keating's lobbying efforts continued in 1988 as he scheduled 15 meetings with politicians and regulators.

Sen. Sanford, a member of the Senate Ethics and Banking Committees was scheduled to meet with Mr. Keating on Feb. 18, 1987. No reason was given.

However, a spokesman said the senator has no recollection of Mr. Keating and that the scheduled meeting was probably just one of hundreds of "courtesy calls" for a freshman senator.

"For one reason or another the meeting didn't happen probably because one or the other was too busy," the spokesman said.

According to Common Cause, a public interest group, Sen. Sanford received $51,750 from S&L interests during the 1980s, although none of the money appears to have been given by Mr. Keating or any of his associates.

Little Response

Overall, the records show that from 1984 to 1988 Mr. Keating scheduled 11 personal meetings with Sen. Cranston; eight meetings with Sen. DeConcini; five with Sen. Glenn; 12 with Sen. McCain ; and nine with Sen. Riegle.

Sen. Hawkins, who received $14,000 in campaign contributions from Keating interests, met with Mr. Keating on at least five occasions in 1985 and 1986 records show.

Ms. Hawkins, who lost her re-election bid in 1986, chaired the Senate Banking Committee's subcommittee on consumer affairs.

According to the agendas, Mr. Keating met with Sen. Hawkins to discuss her endorsement of Mr. Henkel and "FHLB regulations and litigation."

The Senate, prior to last year's bailout bill, had to approve Bank Board nominees.

Anthony Thompson, executive assistant to Ms. Hawkins, said last week, "I do not think she will care to comment on the meetings" but forwarded an NMN request for an interview to the former Senator.

Spokespersons for all five Senators declined to discuss the scheduled meetings, saying that the Senate Ethics Committee has asked them to keep the matter confidential. However they did discuss the matter in general.

Scott Cellery, press secretary for Sen. McCain, said, "The Senator is confident the Ethics Committee will drop the investigation."

Mr. Cellery said Sen. McCain's belief is based on "evidence" that has been received by the Ethics Committee's special counsel Robert S. Bennett.

He said "Sen. McCain has violated no rules. When he met with Mr. Keating it was because Keating was a representative of a major company in his state."

Unlike other members of the Keating Five, Sen. McCain to date has refused to give back $112,000 in contributions given by Keating interests.

A year ago the senator ordered a FEC probe of the donations but has yet to hear a response.

Sen. McCain's wife invested $359,000 in a shopping center project with Mr. Keating.

According to Mr. Cellery, the partnership lost money.

Sen. Glenn, who received $34,000 from Keating interests, also has refused to return the money.

Sen. Riegle, who returned $76,000 in Keating-affiliated donations, declined comment on the flight logs, as did Sen. DeConcini's office.

Sen. DeConcini returned $55,000 in donations from Keating interests.

Murray Flander, Sen. Cranston's press secretary said he has no knowledge concerning the contents of any Keating flight logs or agendas.

He said sarcastically, "Oh boy. You have a big story there. Why don't you go and do a six-column spread on it."

Last week the Washington Post reported that in a January 1987 confidential memo to Sen. Cranston, a fundraiser wrote that Mr. Keating was among campaign supporters who "rightfully expect" some resolution of pending requests for help from the Senator.

Overall Keating associates gave Sen. Cranston $47,000 in campaign donations, and $850,000 to voter registration groups tied to the Senator.

Sen. Cranston, who has declined to return any of the money received from the indicted Mr. Keating, has said publicly on several occasions that his actions on Mr. Keating's behalf were motivated by concern that a constituent was not being treated fairly.

Mr. Flander declined to comment on the memo written by Cranston fundraiser Joy Jacobson.

Excerpts From Keating's 'Political Diaries'

The material in italics has been added by *NMN* to place events in context.

1984:

Jan. 12 - Meeting with Dick Pratt.
(Feb. 22 - ACC acquires Lincoln) (May - FHLBB chairman Ed Gray announces plans to issue new regulation restricting thrift direct investment authority.)
June 6 - Dinner in LA with Larry Taggart, California Savings and Loan commissioner.
(Aug. 20 FHLB begins examination of Lincoln Savings.)
Aug. 26 - Cat Cay (Keating's Bahama retreat) with Sen. John McCain of Arizona, Cindy McCain, Barbara & Lee Henkel.
Sept. 26 - Keating Dines in Washington with Sen. John McCain.
(Dec. 7 - California Commissioner Larry Taggart approves $900 million in direct investment authority for Lincoln Savings. Gray has let it be known that his new direct investment rule would be retroactive to Dec., 10, 1984.)
Dec. 17 - Keating travels to Washington to meet with: - Sen. Alan Cranston of California - Sen. John Glenn of Ohio - Sen. Mack Mattingly of Georgia - Sen. Paul Laxalt of Nevada - M. Danny Wall (then chief of staff, Senate Banking) - Alan Greenspan.
Dec. 17 - Dinner with Sen. Dennis DeConcini.
(Sen. DeConcini attaches an amendment to a Senate bill stating that "no regulation of the FHLBB shall impose greater limits on direct investments...until 12/31/86)
(Dec. 31 - Larry Taggart resigns as California S&L Commissioner and joins TCS Financial in San Diego.)

1985:

Jan. 2 - Cindy McCain flies to LA on ACC jet.
(Jan. 18 - Lincoln invests $2.9 million in TCS Financial stock.)
(Jan. - FHLBB passes new direct investment regulation - pending public comment for 90 days.)
Jan. 28 - CHK meets in Washington with: - Sen. John McCain - Rep. Jack Kemp of New York;
Jan. 29 - CHK meets with John McCain in Washington.
(Feb. 1 - Lincoln applies to FHLB for $900 million direct investment authority. Request denied.)
Feb. 13 - Meeting with Larry Taggart in Phoenix.
(Feb. 27 - Washington hearing begin on FHLBB direct investment rule - Dr. George Benston & Alan Greenspan to testify.)
Feb. 27 - Keating flies to DC and meets Greenspan.
April 2 - Keating flies from NY to DC for dinner with Sen. & Mrs. DeConcini.
April 3 - Keating meets at 10:30 AM with John McCain in McCain's office in DC.
April 4 - Sen. McCain flies back to Phoenix on ACC's plane with Keating.
(May 17 - FHLBB denies Lincoln's appeal on $900 million direct investment authority request.)
May 28 - Keating lunches with Alan Greenspan in NY.
Aug. 16 - Sen. John McCain & his wife take a flight to the Grand Canyon on ACC plane.
Aug. 22 - McCain takes trip to Cat Cay via helicopter with Keating & Kielty and C-III.
Aug. 29 - McCain returns on Lincoln's BAC jet to Phoenix.
Sept. 15 - John & Cindy McCain have dinner at Keating's house in Phoenix.
Sept. 17 - Keating meets with FHLB of SF president James M. Cirona and California Savings & Loan Commissioner William Crawford.
Sept. 18 - Dinner to review with Larry Taggart Lincoln's desire to purchase assets of failing S&Ls.
Sept. 23 - NY city - meeting with George Benston "to plan strategy through the balance of 1985 re: Lincoln Savings."
Oct. 30 - Phone conference with Bob Hubbard "re: Ed Gray..."
Oct. 31 - Meeting in Phoenix with Sen. John McCain and Larry Taggart.
(Nov. - Keating sends job offer to Ed Gray while Gray is testifying before Congress on direct investment rule. Offer reportedly is $300,000 a year for five years. Gray turns it down.)
(Dec. 3 - FHLB notifies Lincoln that they are in violation of the growth limitation regulation.)
Dec. 13 - Charles Keating and his brother, former Ohio Rep. William Keating, meet with Vice President George Bush.

1986:

Jan. 23 - Keating flies to California for a campaign luncheon for Calif. Gov. Deukmejian.
Feb. 6 - Phone conversation with Lee Henkel & Bill Keating.
Feb. 18 - Washington- Meeting with Larry White re: Phoenician, Memorex, Playtex and other deals.
Mar. 26 - Washington - 9:30 am meeting with Under Secretary of Treasury George Gould re: regulatory issues regarding FHLBB investment powers. Also discussed legislative issues regarding FHLBB.
•11:00 am meeting at the Rayburn House Office building, with Rep. John Dingell re: regulatory issues regarding FHLBB and investment powers.
•12:00 noon - Lunch with Sen. John Glenn. Discussed regulatory issues regarding FHLBB and investment powers.
•1:45 pm - Meeting with Jack Kemp regarding regulatory issues and investment powers
•2:30 pm - Meeting with Sen. Dennis DeConcini. Re: regulatory issues and investment powers.
• 3:30 pm - Meeting with Danny Wall, Chief of Staff; Senate Committee on Banking. Re: regulatory issues and investment powers.
•5:30 pm - Meeting with John Rousselot of NCSI. Re: regulatory issues and investment powers.
(April - Sen. John McCain's wife Cindy invests $360,000 in a Keating partnership in Phoenix. Rep. Doug Barnard comes to Arizona to attend an ACC political fundraiser.)
June 24 - New FHLB audit of Lincoln begins.
July 3 - Audit exit conference.
July 7 - Keating meets in his office with Sen. Paula Hawkins.
•12:00 - Lunch with Sen. Dennis DeConcini at ACC headquarters.
July 9 - Washington- 4 pm - Keating meets with George Gould again re: FHLBB regulations and litigation.
•4:30 pm - Keating meets with Sen. John Glenn, re: FHLBB regulations and litigation.
•7:30 pm - Dinner meeting in Washington with ACC officials to "review board candidacies, timing and approval for individual nominees, effect on proposed current legislation, status of the FHLBB nominations.
July 15 - 9:00 am - Virginia - Meeting with Keating and Rousselot, re: FHLBB proposed regulations, and ... FHLB board appointments."
•12:00 noon, White House Connection, 17th & G St - Luncheon with ACC officials "re: Benston nomination and status of Lincoln examination."
•4:00 pm - Meeting with Rep. John Dingell re: FHLBB proposed regulations and impact on current FHLB audits.
July 16 - 9:00 am - Meeting with Sen. Paula Hawkins re: FHLBB litigation and regulations; Hawkin's endorsement of Lee Henkel for FHLB.
•11:00 am - Meeting with Sen. Don Reigle re: FHLBB regs and Lee Henkel nomination to FHLB Board.
•11:30 am - Meeting with Sen. Alan Cranston re: FHLB regs and Lee Henkel nomination.
•12:00 - Fly to New York
•3:00 pm - Meetings with Gershon Kekst public relations re: public relations, recent new articles on Edwin Gray head of FHLB.
(Ed Gray told NMN that he believes that ACC was encouraging negative news stories about him during this period.)
July 18 - "Telephone conference with Norm Brownstein re: Grigsby, Hovde & Gray."
(Brownstein is a Denver attorney who represented ACC as well as a number of figures in the Silverado Savings collapse.)
July 20 - Dinner at a private home with Rep. Doug Barnard.
July 24 - Dinner with Lee Henkel.
July 25 - Meeting at ACC with Lee Henkel "re: Henkel's possible appointment to FHLBB, problems with FHLBB and ACC's savings and loan in California."
July 29 - 9:30 am - Meeting with Sen. Paula Hawkins at Hart Senate Office building: "re: new regulations for FHLB."
July 29 - 1:30 pm - Washington to Atlanta for a meeting with Lee Henkel.
Aug. 11 - 9:00 am - Washington meeting with Danny Wall "re: Democrats to win; chairmanship - Benston."
•3:30 - Meeting with Rep. Doug Barnard.
•7:00 pm - Private tour of White House for Keating, Hubbard, and Grogan.
Aug. 12 - 7:30 - Breakfast meeting with FHLB Board member Don Hovde "re: recess appointment."
•10 am - Meeting with Sen. Paula Hawkins.
•12 noon - Lunch with Sen. John McCain.
•3 pm - Meeting with Rep. Chip Pashayan.
Aug. 14 - Telephone conference with Sen. Hawkins "re: appointments of Henkel and Benston and discussed the situation with Gray, Garn and Danny Wall."
Aug. 19 - Meeting with Lee Henkel.
Sept. 10 - 9 am - Meeting with Marg Waxman re: Henkel/Benston.
•11 am - Meeting with Doug Barnard, re: Henkel/Benston.
•11:30 - Meeting with Alan Cranston, re: Henkel/Benston.
•12:00 - Lunch with Sen. John McCain, re: Henkel/Benston.
•2:00 - Meeting with Sen. Reigle.
•3:30 - Meeting with Don Regan re: FHLB matters pertaining to Lincoln examinations and nominations to the board (Henkel/Benston).
Sept. 10 - Washington to LA for Calif. Gov. Duekmejian campaign dinner.
Sept. 18 - ACC flight log for Sabre - Phoenix to LA to meet with Samuelian "re: ACC $100 million subordinated debenture."
Oct. 13 - Telephone conference with Lee Henkel re: FHLB.
Oct. 16 - Telephone conference with Mike Milken re: investments.
Oct. 17 - Telephone conference with Lee Henkel, re: FHLB.
Nov. 4 - To Los Angeles, "re: elections, Governor, Sen....."
(Nov. - Lee Henkel appointed to the FHLB Board.)
(Dec. 19 - FHLB examiners submit evidence of "file stuffing" at Lincoln in a 186-page report entitled "Significant Supervisory Concerns.")

1987:

(Jan. 2 - Cranston campaign aide Joy Jacobson sent a memo to Cranston indicating that Keating had contributed $40,000 to his campaign and another $85,000 to the California Democratic Party and that would "rightfully expect some kind of resolution" to matters he had pending before the Bank Board.)
Jan. 26 - 8:30 am - Washington - Meeting with White House economic advisor Dr. Beryl Sprinkel "re: FHLB and Lincoln Savings' relationship with Ed Gray. Chairman Gray is stepping down in June 1987."
•10 am - Meeting with Rep. Doug Barnard "re: FHLB and Lincoln Savings' relationship with Ed Gray; Ed Gray stepping down in June."
Jan. 27 - Meeting with Sen. Phil Gramm of Texas at Russel Senate Building.
•9:00 pm - Attend State of the Union Address.
Jan. 28 - 8:00 am - Breakfast with Sen. John McCain in Senate Dining room.
•9:45 - Democratic Whip Office in Capitol - Meeting with Sen. Alan Cranston.
•11:00 - Hart Building, Meeting with Sen. John Glenn.
•12:00 - Meeting with Rep. Chip Pashayan and Rep. Stan Parris of Virginia.
•1:00 - Meeting with John Rousselot.
•2 pm - Meeting with Sen. Dennis DeConcini.
•3 pm - Meeting with Sen. Don Riegle.
Jan. 29 - Meeting at her home with Sen. Paula Hawkins "re: position opening in June of 1987 for chairman of FHLBB to replace present chairman Ed Gray."
Feb. 18 - 12:15 pm - Meeting with Sen. John McCain.
•2 pm - Washington - meeting with Sen. Terry Sanford of North Carolina.
•4:30 pm - Meeting with Speaker of the House Jim Wright of Texas in Capitol Room 204
•5:30 - Meeting with Curtis Prins (aide to Rep. Frank Annunzio.)
March 9 - At ACC headquarters - Sen. Don Riegle speaks to key ACC executives.
March 24 - 9:30 am - Washington, Hart Building - Meeting with Sen. DeConcini "re: FHLBB regulations and possible litigation."
•10:30 - Meeting with Alan Cranston - same subject.
•1:30 - Meeting with Sen. John McCain - same subject.
•2:15 - Meeting with Sen. Bob Dole of Kansas - same subject.
(April 2 - Four senators, Cranston, McCain, Glenn and DeConcini meet with Ed Gray in DeConcini's office. DeConcini has a memo from ACC entitled, "What ACC wants from Gray in return for concessions," DeConcini says that if Gray will back off on his direct investment limits, Lincoln would make more home loans.)
(April 9 - Five senators, Cranston, DeConcini, Glenn, McCain and Riegle, meet for two hours with federal regulators from the FHLB in San Francisco grilling them about their aggressive and extended examination of Lincoln's books.)
(May - FHLB in San Francisco recommends a receivership.)
(June - Reporter Michael Binstein publishes excerpts from FHLB examination of Lincoln in Regardies Magazine. The article enrages Keating who blames the San Francisco regulators.)
(June 30 - Gray leaves the board, Wall assumes chairmanship.)
Sept. 24 - 7 am - Washington, FHLB - Meeting with Danny Wall and Rosemary Stewart "re: direct investments and R41C. Also discussed Bill Black; Disclosure; Five Senators; ...."
•8:30 am - Meeting with Rep. John Rhodes of Arizona.
•11:00 am - Meeting with Dennis DeConcini "re: FHLB examination of Lincoln."
•1:31 - Meeting with Sen. Don Riegle "re: Ford Motor Co.; Bill Keating; FHLB."
•2:30 - Meeting with Alan Cranston "re: FHLBB; America votes ACC participation in program."
(Nov. - Cranston is advised by campaign aide to meet with Keating and ask for more money. Cranston did and collected $250,000 for his voter registration drive.)

1988:

(Jan. 6 - Keating meets with FHLB-Cincinnatti and seeks transfer of supervision to that district and out of San Francisco-FHLB.)
(Jan. 7 - ACC reportedly presents a secret file to FHLB Board member Roger Martin allegedly containing negative information about FHLB-SF President James Cirona.)
Jan. 7 - Dinner with Anne Scully - Senate Banking Committee legislative assistant to Sen. John Heinz of Pennsylvania "to familiarize Scully with our operations and the impact and interface those operations have with current regulatory and congressional enactments so that they might ensure our interests are protected through those enactments."
Jan. 27 - 4 pm Meeting with Rep. Doug Barnard.
•5:50 - Meeting with Sen. Howard Metzenbaum of Ohio.
•6:00 - Meeting in Jim Wright's office with George Mehr.
Jan. 26 - 8 am - Meeting with Roger Martin.
•10:30 - Meeting with Sen. Don Riegle.
•11:00 - Meeting with Sen. Dennis DeConcini.
•12:00 - Lunch with Sen. John Glenn.
•1:30 - Meeting with Sen. Alan Cranston.
•2:30 - Meeting with Danny Wall (CHK & Wall).
Feb. 4 - 8:30 am - Meeting with FHLB - Darrel Dochow, Richard Sanchez, Mike Patriarca and Steve Hershowitz.
•5:00 pm - Meeting with Sen. Don Riegle.
Feb. 9 - Sen. Alan Cranston arrives in Phoenix - pick up by ACC at gate and "take directly to CHK's House."
•9:30 am - Meetings with Sen. Alan Cranston in ACC offices followed by helicopter tour of Phoenix properties.
•12:00 - Lunch with Sen. Alan Cranston and his son Kim Cranston (Keating presents Cranston with two ACC checks totalling $500,000 for Cranston's voter registration drive.)
April 8 - Crescent Hotel - Sen. Orrin Hatch of Utah cocktail reception & fundraiser.
May 18 - Dinner with Karl Samuelian and Franklin Tom.
(May 20 - FHLBB enters into Memorandum of Understanding with Lincoln in lieu of conservatorship.)
(June 20 - Keating writes to Dallas FHLB chairman George Barclay regarding Southwest Plan acquisitions and moving Lincoln supervision to Dallas.)
(July 11 - New FHLB exam of Lincoln begins, discovers Lincoln violating terms of Memorandum of Understanding. Regulators ask for a cease and desist order.)
(Dec. 12 - FHLB Office of Enforcement notifies San Francisco examiners it will not issue a cease and desist order against Lincoln.)
Dec. 14 - Keating dines with Sen. Alan Cranston at the BelAir in Los Angeles.

1989:

Mar. 31 - Phone calls made to Federal Reserve Chairman Alan Greenspan's general counsel regarding Lincoln situation with FHLBB; Bob Kielty regarding press coverage of Lincoln sale.
(April 11 - Keating phones Danny Wall. Leaves message "My life, maybe my fortune" at risk.)
April 14 - FHLBB orders conservatorship for Lincoln.

3 SENATORS MADE EXTREME EFFORTS FOR S.& L. FIGURE

EVIDENCE IN KEATING CASE

Documents Illustrate a Close Relationship With Riegle, DeConcini, Cranston

By RICHARD L. BERKE
Special to The New York Times

WASHINGTON, Oct. 17 — Three United States Senators made extraordinary efforts to help Charles H. Keating Jr. protect his failing savings and loan institution and had more frequent contact with him over a longer period than had been thought, documents being examined by the Senate Ethics Committee show.

The three Senators are Donald W. Riegle Jr. of Michigan, Alan Cranston of California and Dennis DeConcini of Arizona, all Democrats. Mr. Cranston, the party whip, and Mr. Riegle, the chairman of the Banking Committee, are among the Senate's most powerful members.

The documents show that Senators Cranston and DeConcini used their elected positions to perform such favors for Mr. Keating, an important political supporter, as making early-morning and late-night telephone calls to Federal regulators on his behalf and urging the White House to name an associate of Mr. Keating to a Federal banking agency. The efforts continued even after he became the subject of Federal enforcement actions. Senator Riegle was portrayed in the documents as the chief arranger of the meetings between the Senators and Mr. Keating.

The three are among five Senators who have been under investigation in connection with Mr. Keating. The others are John Glenn of Ohio, a Democrat, and John McCain of Arizona, a Republican. The Ethics Committee's special counsel, Robert S. Bennett, has recommended dropping the investigation of Mr. Glenn and Mr. McCain, according to Congressional officials.

All Five Deny Wrongdoing

All five Senators have consistently denied any wrongdoing. Aides to some of the Senators under scrutiny said it was unfair to draw conclusions based on documents which, they contended, were leaked to discredit their bosses for political reasons.

The case has been particularly difficult for the panel because the rules are murky in guiding what is proper behavior for Senators working on behalf of constituents. No single document or event has thus far stood out as a "smoking gun," according to people familiar with the investigation. But congressional officials said that the committee was examining the broad pattern of what the Senators did for Mr. Keating, who donated more than a

...ued on Page A1

$1 million to their campaigns or their causes.

Experts on Congressional rules issued a report recently concluding that a member of Congress's performing an offical act beneficial to an individual who made a donation to the member would not in itself indicate a rules violation. The report said whether a violation occurred would depend on whether there was a "linkage" between the donations and assistance.

Vote May Be Near

The confidential documents are among the materials subpoenaed by the Ethics Committee investigating whether the five Senators broke Senate rules that prohibit lawmakers from stepping over the bounds of appropriate conduct in helping their supporters.

These materials, made available on the condition they remain anonymous by people involved in the investigation, are said to be typical of the documents before the committee, which is preparing to vote on the recommendation to procede to a full-scale investigation of the three Senators. The action could come this week.

The material is the first detailed look, following the inital nine months of an inquiry, of how the Senators performed favors for Mr. Keating, who headed the failed Lincoln Savings and Loan Association of Irvine, Calif. Mr Keating has been in a Los Angeles jail since his indictment last month on charges of misleading investors about the security of high-yield, high-risk "junk bonds" sold at Lincoln.

According to the documents, the most aggressive efforts to assist Mr Keating were made by Mr. Cranston and Mr. Deconcini.

Behind-the-Scenes Glimpse

The documents open an extraordinary window into the behavior of some of the most powerful members of Congress, and the steps they took to counter the negative publicity about their ties to Mr. Keating, whom some of the Senators called "Charlie" in personal letters to him.

In a handwritten memo to his two senior aides in June 1989, for example, Senator Deconcini outlined a plan to counter the negative publicity over the Keating affair. "I think sometimes the best defense is an aggressive offense," he wrote. "This is not going to go away, so we need to be aggressive," he wrote. His first suggestion was to "discredit Gray," referring to his chief accuser, Edwin J. Gray, then chairman of the Federal Home Loan Bank Board.

The five Senators contend that they helped Mr. Keating as they would any constituent. Asked for comment today, aides to some of the Senators said it was improper to draw conclusions from isolated documents before the committee.

"Not only do these leaks violate ethics rules," said Robert W. Maynes, press secretary to Mr. DeConcini, "but since they are frequently wrong, out of context, they violate average Americans' sense of fair play, since Senator DeConcini is not in a position to defend himself."

Murray S. Flander, the press secretary to Mr. Cranston, said, "These leaks were deliberately made to damage Cranston." He went on to say that "there's a presumption that runs through this that every time Cranston got a memo from someone that he immediately did something. He gets memos all the time. All it proves is that Keating sent him memos."

Mr. Riegle was meeting tonight with the six-member Ethics Committee, and his aides said they could not comment until they speak to him.

Inquiry 10 Months Old

The documents have been distributed to all five Senators under investigation and to members of the Ethics Committee.

Most of the materials made available focused on Senators Riegle, Cranston DeConcini.

The Ethics Committee began an inquiry last December of the actions of the five Senators. According to Congressional officials, the committee's special counsel, Mr. Bennett, has found

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page A1

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The New York Times

Robert S. Bennett, the Senate Ethics Committee's special counsel, was said to have found evidence to warrant investigation of Senators' efforts on behalf of Charles H. Keating Jr.

evidence to warrant a full-scale investigation of whether Mr. Cranston, Mr. Riegle and Mr. DeConcini broke Senate rules in unduly intervening on behalf of Mr. Keating. But the officials said that Mr. Bennett found there is not as much evidence on the other two lawmakers.

The documents obtained by the committee showed examples of how Mr. DeConcini, Mr. Riegle and Mr. Cranston or their aides kept in close and frequent contact with Mr. Keating through letters, memorandums and personal meetings. The documents show that the lawmakers were kept apprised of Mr. Keating's fund raising for them, and they were told what help Mr. Keating expected from them. In fact, several memos includes references to both political favors done for Mr. Keating and fund raising.

The documents show many links between the three Senators and Mr. Keating long before, and as long as two years after, the much-publicized April 1987 meetings with Federal regulators.

In a sworn affidavit to Senate investigators, Roger F. Martin, then a member of the Federal Home Loan Bank Bord, said that as recently as March or April of 1989, Mr. Cranston and Mr. DeConcini called him to express concern that an investor group led by former Representative John H. Rousselot, a California Republican, that wanted to take over Lincoln before it went under, was not getting fair hearing from the board's Office of Regulatory Affairs.

Mr. Martin said that he keeps an unlisted number at his home in Virginia but that Mr. Cranston tracked him down late one night. At 5:30 the next morning, he said, he received a similar call at home from Mr. DeConcini.

Timing 'Highly Unusual'

He said that neither Senator said whether the acquisition should be approved. But, he said, "The unexplained urgency of the Senators' telephone calls was, in my experience, highly unusual, as was their timing very late at night and very early in the morning," Mr. Martin said in the affidavit. "Further, while members of Congress occassionally attempted to call me at my office, I have never, either before or since this incident, received a telephone call at home from any Senator or Representative regarding a board matter."

Mr. Martin said Mr. Cranston urged the board to meet with Mr. Rousselot "immediately, because he was concerned that the collapse of Lincoln would have a serious impact on the Arizona real estate market."

He went on to say, "I informed Senator Cranston that the board's procedures would not permit a full meeting of the board to be arranged on an urgent basis." When Mr. DeConcini called him the next morning, Mr. Martin said, "he used almost exactly the same words as were used by Senator Cranston the night before."

Elise Paylan, who was the chief assistant to Mr. Martin, said in another affidavit that her boss told her that "it was his impression that Senator Cranston wanted him to support the Rousselot acquisition, and that he felt that the political heat was on with regard to the proposal."

The board later rejected the acquisition, and the Government soon after seized Lincoln.

Appointment Is Urged

While it had been known that Mr. Keating had championed the appointment of Lee Henkel, a business associate, for an opening on the Federal Home Loan Bank Board, the documents show that Mr. DeConcini encouraged the White House to make the appointment. On June 6, 1986, Mr. DeConcini wrote to Donald Regan, then White House chief of staff, urging the appointment because of Mr. Henkel's record as a lawyer and former offical of the Internal Revenue Service.

"I would appreciate an opportunity to talk to you about Mr. Henkel in the very near future," he wrote, "and would be pleased if you would be so kind to call me."

On Oct. 7, 1986, one of Mr. DeConcini's top aides, Laurie A. Sedlmayr, wrote her boss of the news. "The White House called this morning to say that the President will be nominating Lee Henkel for a seat on the Federal Home Loan Bank Board," she wrote. "You wrote a letter to the White House earlier this year in support of Henkel. Gene Karp is going to call Keating, though we are fairly sure he already knows." Mr. Karp is Mr. DeConcini's administrative assistant.

In another example of possible favors, memos show that in 1985 Mr. Keating's aides asked that Mr. DeConcini convince Senator Jake Garn, a Utah Republican who was then chairman of the Senate Banking Committee, to do his part "to prevent the implementation" of regulations that could restrict savings and loan institutions. Mr. DeConcini scribbled on a memo that he had acceeded to Mr. Keating's request: "I spoke to Senator Garn and then to Keating," he wrote. "For information only. Dennis."

In his correspondence to the Senators, Mr. Keating seemed to go out of his way to attack Mr. Gray, who was the bank board head and one of his chief accusers.

'Jupiter Eating His Children'

Mr. Keating wrote to Mr. McCain on July 1, 1986, that the Federal Home Loan Bank Board under Edwin Gray is "diametrically opposed to everything your administration stands for." He said he was enclosing a memo from Mr. Gray's law firm and added, "Can you read the enclosed memorandum and not be horrified at the police state Edwin Gray has created? Like Jupiter eating his children."

In another letter, marked confidential and dated July 31, 1986, Mr. Keating continued his caustic remarks about Mr. Gray. "The FHLB, under Edwin Gray, is a 'Mad Dog' turned loose in a police state effort," Mr. Keating wrote to Mr. McCain. "May I suggest a rat hole costing billions of dollars is a reason to investigate the actions and the results of FHLB policies."

The documents show how Senators and their aides assiduously courted Mr. Keating and his aides, seemingly as much as Mr. Keating courted them. The Senators seemed to have been very much involved, and kept informed, of Mr. Keating's financial efforts on their behalf.

'I Need Contributions'

Mr. Keating wrote a letter to a friend in 1987 that he had "a very serious task to raise funds" for Mr. Riegle, who will be "the next chairman of the Senate Banking Committee — this is extremely important. I need invitees. I need contributions."

Mr. DeConcini took an active personal role in having Mr. Keating's people raise money for Riegle. Mr. DeConcini would write Mr. Riegle personal notes with checks that Keating's people gave him to pass on to his Senate colleagues. A Riegle aide wrote to the Senator that a fund-raising appearance in Arizona, apparently for DeConcini, "will add to your stash."

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Appointment Logs Suggest Sen. Riegle Had Extensive Dealings With Keating

By JILL ABRAMSON
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—New disclosures suggest that two senators involved in the so-called Keating Five case may have had more extensive dealings with former savings-and-loan executive Charles Keating than was previously known.

Appointment logs kept by Mr. Keating show that three previously undisclosed meetings were scheduled between the jailed former thrift executive and Sen. Donald Riegle (D., Mich.). The meetings were set for dates after April 1987, when federal regulators told the Michigan Democrat and four other senators that they were seeking a criminal investigation of Mr. Keating.

Excerpts from the appointment logs were published in the National Mortgage News, a trade publication. The three meetings they list between Mr. Keating and Sen. Riegle, chairman of the Senate Banking Committee, were scheduled for the fall of 1987 and early 1988.

It isn't clear whether the previously undisclosed meetings actually were held, although Mr. Keating has been quoted as saying he met "many times" with Sen. Riegle "to well past 1987." Nor is it clear whether the meetings resulted in any further communication between Sen. Riegle and regulators.

Sen. Riegle has denied wrongdoing. He previously told the Senate Ethics Committee that he had no contact with federal regulators concerning Mr. Keating's Lincoln Savings and Loan Association, which was seized by the government last year, after the April 1987 warning from regulators.

Yesterday, a Riegle spokesperson said the senator wouldn't comment out of respect for the ethics panel's request that "confidentiality of material" be maintained until the committee completes its investigation.

Sen. Riegle spent much of yesterday in a closed-door meeting with the ethics committee, which has been investigating five senators' intervention with federal regulators on behalf of Mr. Keating. The five senators received $1.3 million in political contributions from Mr. Keating, his family and business associates.

Separately, a person close to the investigation said the ethics committee is "taking a fresh look" at lobbying efforts by Sen. Riegle and Sen. Dennis DeConcini (D., Ariz.) to secure the nomination of a Keating business associate, Lee Henkel, to the Federal Home Loan Bank Board in 1986.

A spokesman for Sen. DeConcini denied a published report in the Washington Times yesterday that said the senator had helped push through a controversial judicial nominee in return for a pledge from the White House that Mr. Henkel would be named to the board. The spokesman, Robert Maynes, said Sen. DeConcini had voted against the judicial nominee, Daniel Manion.

Mr. Henkel was appointed to the bank board in 1986, but resigned the next year under criticism about his financial ties to Mr. Keating.

Mr. Riegle's aide declined comment on the senator's efforts on behalf of Mr. Henkel.

WSJ pg A18 10/18/90

58C-PX-41605-A 84

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New Cranston, Keating links discovered

Senator's congressional statement assisted Lincoln in major lawsuit

By George Williamson
San Francisco Chronicle

WASHINGTON — Prodded by Lincoln Savings, Sen. Alan Cranston, D-Calif., took extraordinary steps in 1987 to insert into the Congressional Record a key statement that helped Charles Keating's lawyers in a major lawsuit, the San Francisco Chronicle has learned.

Cranston inserted into the record March 27, 1987, a strong rebuttal to a move by Sen. William Proxmire, who had tried to clarify the authority of the Federal Home Loan Bank Board to regulate savings and loan investment practices.

Cranston, a member of the Senate Banking Committee, wrote his statement without informing Proxmire, then chairman of the panel, or any of his staff. The document went virtually unnoticed because it was written and inserted into the Congressional Record after the completion of oral discussion on the Senate floor.

Cranston's action was described in detail in a memo dated April 7, 1987, from a top Lincoln lobbyist to Lincoln attorneys.

Because of Cranston's work, the memo said, "actions by the Congress in the past two weeks appear, on balance, to be quite helpful to Lincoln's position in the pending direct investment litigation."

Lincoln's lawyers cited Cranston's statement of March 27, 1987, as a key argument in support of their lawsuit against the government, which had been filed 10 days earlier.

When informed of Cranston's statement, former Federal Home Loan Bank Board Chairman Ed Gray said: "It's unbelievable that the second-highest-ranking member of the Senate Banking Committee would go as far as he did and work against the federal regulators and taxpayers in such a crass way.

"This has all the appearance of being done for the sole purpose of pleasing and aiding Keating's lawyers in the lawsuit against the direct investment regulation."

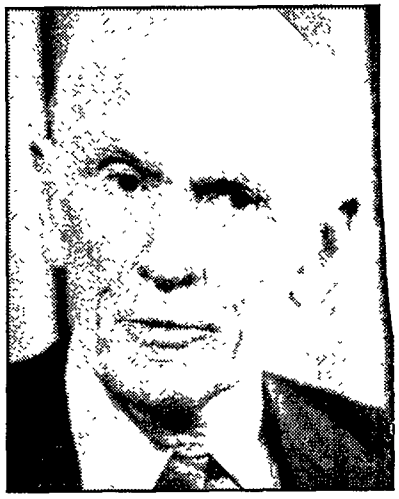
Cranston spokesman Murray Flander referred an inquiry to Washington lawyer Bill Taylor, who is representing Cranston in Senate Ethics Committee hearings that begin Thursday on the relationship between former Lincoln Savings & Loan owner Keating and five US senators, including Cranston. Taylor did not return telephone calls.

Cranston announced Tuesday that he will miss most of the Senate Ethics Committee's public hearings because he will be undergoing radiation therapy for prostate cancer.

He plans to deliver his opening statement after the committee opens its hearings Thursday.

But Cranston said he won't attend the hearings after Monday, when he will begin a seven-week course of radiation therapy at Stanford University School of Medicine. Cranston said medical experts at several leading hospitals told him his cancer can "best be treated by radiation therapy."

A spokesman for Sen. Warren Rudman, Senate Ethics Committee co-chairman, said Cranston's absence won't delay or disrupt the hearings.



Sen. Alan Cranston
He helped Keating's lawyers

The New York Times contributed to this report.

Lawmakers parroted Lincoln

Statements written by S&L appeared in the official record

(Mount Clipping in Space Below)

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By George Williamson
San Francisco Chronicle

WASHINGTON — Four influential congressmen read statements helpful to Charles Keating Jr. into the Congressional Record in 1987 that were "drafted" for them by representatives of Irvine-based Lincoln Savings & Loan, according to a memo obtained by the San Francisco Chronicle.

The statements intimidated top regulators charged with enforcing new investment laws and added to Keating's legal arsenal in his war against governmental restraints on thrifts, two top regulators said in separate interviews.

The four congressmen were Charles Pashayan, R-Fresno, who was denied re-election last week in a campaign marked by his ties to Keating; Doug Barnard, D-Ga., a former banker and powerful head of the Government Operations Subcommittee that oversees federal S&L regulators; and House Banking Committee members Paul Kanjorski, D-Pa., and Thomas Manton, D-NY.

Barnard, Kanjorski and Manton denied knowledge of any Lincoln involvement in their statements, which they said were their own. Pashayan did not return phone calls left over a period of five days.

According to a Lincoln memo written Aug. 21, 1987, the statements were part of an effort orchestrated by the high-flying thrift "to stop the Federal Home Loan Bank Board's temporary rule-

Please see KEATING/26

FROM 1

making efforts."

The memo, written from the thrift's top Capitol Hill liaison to the head of the company's legal department, included the statements entered by the four congressmen on Aug. 3, 1987. The memo termed them, "Congressional Record statements we drafted."

"There is a possibility that our efforts will result in a decision by the board (Federal Home Loan Bank Board) not to implement a temporary regulation," concluded the memo, written under the letterhead of Lincoln's parent company.

The regulation allowed federal regulators to require individual S&Ls involved in high-risk investments to put up more of their own money than was required for more cautious thrifts. The board ended up not enforcing that authority, according to sworn testimony last year in House Banking Committee hearings held on Lincoln.

All four statements appear in the Congressional Record exactly as they are written in the memo.

The memo, however, included a statement supposedly written for House Banking Committee member Caroll Hubbard, D-Ky., but Hubbard did not deliver it and said he had never seen it.

William Black, a top lawyer for the Federal Home Loan Bank Board and its current successor agency, said in a telephone interview that the statements were "clearly designed to aid a legal challenge against any use of the minimum-capital requirement against institutions like Lincoln that were state chartered. Another purpose was to require very time-consuming rule making before the power could be used at all."

Former bank board Chairman Ed Gray, upon being shown the statements, said, "I'm appalled. Those statements sound like they were meant to aid and abet Keating and his causes and even his lawyers. If they (the congressmen) didn't know that, they sure should have."

Gray said the congressmen's statements seemed to have had "at least a dual purpose. Along with potential use in law cases, they sound like a show of force to intimidate the bank board."

With the exception of Manton's, the statements were inserted into the record as part of analyses of a larger bill the representatives offered for the record.

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Cranston admits Keating involvement was 'stupid, unwise'

The New York Times

WASHINGTON — Sen. Alan Cranston conceded to the Senate Ethics Committee in a deposition made public Thursday that his involvement with Charles H. Keating Jr. was "politically stupid and unwise," although he insisted that he did nothing improper in exchange for contributions from the savings and loan executive.

But the California Democrat, under closed-door questioning last April by the Senate Ethics Committee, acknowledged that major donors to his campaigns like Keating, who sought help from Cranston and four other senators to save his collapsing Lincoln Savings and Loan Association of Irvine, got greater access than most citizens.

"The only thing I will grant is that a person who makes a contribution has a better chance to get access than someone who does not," Cranston said.

"All senators know you may get 10, 20, 30, 50 phone calls a day, people trying to reach you, and you cannot answer all those phone calls. So you answer those from those whose names you recognize and who you think you have some obligation to at least hear out.

"I don't think that is particularly fair," said Cranston, who has annonced that he is not running for re-election , "but that is the way it works."

Under intense questioning by the panel's special counsel, Robert S. Bennett, Cranston also disclosed many new details about his contacts with Keating, such as how he encouraged him to press Michael R. Milken, the former junk bond financier who was sentenced last week to 10 years in prison for securities law violations, to give more money to the senator's voter registration groups.

So far, Cranston is the only one of the five senators under scrutiny by the Ethics Committee to tell the panel that his contacts with Keating, who faces criminal fraud charges in California, were a mistake.

He also distanced himself from his four colleagues — John McCain, R-Ariz., Dennis DeConcini, D-Ariz., John Glenn, D-Ohio and Donald Riegle Jr., D-Mich. — in saying that big donors got greater access.

Cranston and DeConcini have been identified by the committee's special counsel, Robert S. Bennett, as the lawmakers who were most deeply involved with Keating, who was seeking help in fending off regulators from his savings and loan, which the government seized last year.



Sen. Alan Cranston
Disputes chief regulator's charges

The 270-page deposition, released Thursday, is the first public document in which Cranston details his contacts with Keating.

In the deposition, Cranston explained that in a conversation with Keating, the topic turncd to Milken after Keating asked him who was donating to his voter registration drives.

Cranston said he first mentioned the Rockefeller family, and then told Keating that Milken's firm, Drexel, Burnham Lambert, had given $25,000.

"He was outraged," Cranston recalled, "that he was giving me large sums and Milken, who has earned a lot more and is worth a lot more, had only given $25,000, and he said, 'I'm going to call him up and tell him he ought to give you a half million dollars or something like that.' And I thought that would be great."

Milken never came through with more money, Cranston said, although the senator thanked Keating for his efforts.

In the deposition, Cranston disputed assertions repeated this week by Edwin J. Gray, the former chairman of the Federal Home Loan Bank Board, that he was among senators who were pressuring him to help Keating.

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Los Angeles, California
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Ethics Action Set After Election in 'Keating 5' Case

By ROBERT L. JACKSON
and MICHAEL ROSS
TIMES STAFF WRITERS

WASHINGTON—The Senate Ethics Committee on Tuesday set public hearings Nov. 15 on ties between savings and loan magnate Charles H. Keating Jr. and five senators.

In deciding on the hearings, the panel reportedly rejected a recommendation by special counsel Robert S. Bennett to launch a full-scale inquiry into the actions of Sen. Alan Cranston (D-Calif.) and two of his Democratic colleagues and to drop charges against two others, one a Democrat and the other a Republican.

The action was viewed by some Republicans as an effort to ensure that their party—not just the Democrats—is left on the hook through the Nov. 6 congressional elections.

Emerging from closed-door deliberations, Ethics Committee Chairman Howell Heflin (D-Ala.) and Vice Chairman Warren B. Rudman (R-N.H.) released a panel resolution stating that next month's hearings will provide "a full exposition of the facts, so that each of the five members can respond to the allegations made against him."

The resolution said that in the open hearings the panel will be

Please see ETHICS, A10

Continued from A1

able to "judge credibility and determine whether there is reason to believe any improper conduct may have occurred, and the American people can hear all the evidence."

The committee said that "except in extraordinary circumstances" it would conclude its proceedings before the end of the year.

In a report to the committee Sept. 10, Bennett reportedly had recommended that the panel drop cases against Sen. John McCain (R-Ariz.) and Sen. John Glenn (D-Ohio).

Bennett had recommended an intensified investigation of Cranston and Sens. Dennis DeConcini (D-Ariz.) and Donald W. Riegle Jr. (D-Mich.) on grounds that they had much more extensive dealings with Keating in trying to help him resolve his problems with federal thrift regulators.

All five senators intervened with regulators on behalf of Keating and his ailing Lincoln Savings & Loan Assn. In addition, they received a total of $1.3 million in contributions from Keating for their campaigns and other causes. All have denied any wrongdoing.

Cranston hailed the committee's action Tuesday, saying that "the public is entitled to get beyond the malicious rumors and selective leaks and to know all the facts. I see this as an opportunity to achieve the public vindication I know I deserve."

Cranston's reference to leaks involved confidential committee documents that surfaced last week showing extensive actions that he, DeConcini and Riegle had taken to help Keating.

Among the information in the documents were references to late-night and early-morning telephone calls placed by Cranston and DeConcini to the unlisted home number of a federal regulator, Roger F. Martin.

In an affidavit, Martin said the senators used "almost exactly the same words," urging him and his colleagues on the Federal Home Loan Bank Board to meet with an investor group that could have taken Lincoln off Keating's hands at a time when it was on the verge of collapse.

The Irvine-based thrift ultimately was seized by the government in April, 1989, at a potential cost to taxpayers of more than $2 billion.

Although the committee did not disclose its votes, sources said Bennett's proposal to dismiss McCain and Glenn from further investigation failed to win approval on a tie vote, with the panel's three Republicans voting in favor and Heflin and two other Democrats voting against.

Such action would have left only Cranston, DeConcini and Riegle—all Democrats—under a cloud, giving Republicans a potential campaign issue, even though none of the three is up for reelection this year. In addition, some Democrats suspect McCain's office of having instigated the leaks of committee documents.

The resolution calling for hearings next month into the actions of all five senators was approved

58C-PX-41605 - 88

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DEC 17 1990
FBI — LOS ANGELES

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unanimously, the sources said.

Glenn and McCain bitterly criticized the committee's refusal to drop them from the investigation.

McCain said the committee's failure to act was "an outrage" and called its refusal to make the special counsel's report public "an act of political cowardice."

"I am incredibly puzzled by this bizarre and clearly unprecedented decision by the Ethics Committee," he said.

Senate Minority Leader Bob Dole (R-Kan.) and other Republicans had demanded earlier that the committee act on the recommendations before Congress adjourns, accusing the panel of inexcusable delays.

Glenn declined to attack the committee's motives but said the panel was going back on a guarantee it made to handle the charges against him and the other senators on an individual basis.

Instead, he said angrily, "all five of us will be lined up at the same table" at the Nov. 15 hearing, and "all of you [the media] will have a field day."

"I wanted to be treated as an individual, not as part of a group," Glenn said, suggesting that he does not want to be tarred with the same brush as senators who may be faced with more damaging evidence.

Heflin said the unusual decision to depart from the customary secrecy that surrounds the committee's deliberations was motivated by a need to "promote public confidence in the integrity of the Senate."

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(Mount Clipping in Space Below)

Slow pace of 'Keating Five' probe attacked

By Nolan Walters
Knight-Ridder Newspapers

WASHINGTON — In an unusual attack from the floor, Senate Republicans criticized the Senate Ethics Committee on Monday for its slow investigation of the "Keating Five" savings and loan scandal.

The committee's own independent special counsel has recommended that charges be dropped against Sens. John Glenn, D-Ohio, and John McCain, R-Ariz.

The Republican critics spoke carefully, but raised the question of whether Democrats want to keep open the charges against McCain, the only GOP senator under investigation, through the November election.

"I do not deserve to be strung out for week after week, and month after month," McCain said, calling the "system incredibly and inexcusably delayed."

The Ethics Committee's chairman, Sen. Howell Heflin, D-Ala., quickly counterattacked — charging that there's been an "an organized campaign of leaks" designed to undermine the committee's investigation and credibility.

"I have done everything that I possibly can to keep the work of the committee from becoming partisan," Heflin said.

The exchange was the latest skirmish over which party will

Please see **ETHICS/2**

ETHICS

FROM 1

bear the blame for the S&L disaster.

S&L magnate Charles H. Keating Jr. — and his cozy relationship and hefty $1.3 million in politically related contributions to the so-called "Keating Five" senators — has come to symbolize that debacle.

Six weeks ago, the committee's special counsel recommended that the investigation be expanded against Sens. Alan Cranston, D-Calif., Dennis DeConcini, D-Ariz., and Donald W. Riegle Jr., D-Mich., for their efforts to intervene with regulators on Keatings' behalf.

But he recommended dropping the probe of both McCain, a former Vietnam prisoner-of-war, and Glenn, the former astronaut.

"In the case of Sen. McCain, he's been held hostage before under very difficult circumstances. So let's not keep him hostage here in the Senate," Republican Minority Leader Robert Dole of Kansas said Monday.

Sens. Slade Gorton, R-Wash., and John Danforth, R-Mo., also criticized the Ethics Committee.

Glenn later released a statement asking the committee to either act or release its evidence.

"I am fully prepared to let the public make its own judgment on the facts," Glenn said.

Heflin blamed an end-of-session crush for the committee's inaction, but he suggested a decision could come Tuesday.

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Washington, D.C.
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The Washington Times

MONDAY, DECEMBER 3, 1990 ☆☆ WASHINGTON, D.C.

FBI probes at least 2 on Times of 'Keating Five'

By Paul M. Rodriguez
and George Archibald
THE WASHINGTON TIMES

The FBI has begun a wide-ranging investigation that could lead to the filing of criminal charges against at least two and perhaps three of the "Keating Five" senators, The Washington Times has learned.

Congressional and law enforcement sources say the criminal investigation grows out of the FBI's inquiry into the dealings of savings-and-loan kingpin Charles H. Keating Jr.

The focus of the FBI investigation are allegations of vote trading and bribery involving Democratic Sens. Dennis DeConcini and Alan Cranston, according to current and former congressional, White House and federal regulatory officials interviewed by FBI agents, some as recently as last week.

The FBI investigation parallels the inquiry of the Senate Ethics Committee's special counsel, Robert Bennett, who uncovered "credible evidence" that Mr. DeConcini, Mr. Cranston — and possibly Sen. Donald Riegle, Michigan Democrat — may have been involved in illegal activities, said congressional sources who are cooperating with the FBI and the committee.

The Times has been told that a federal grand jury sitting in Southern California is reviewing the evidence involving the senators, but additional details were not forthcoming.

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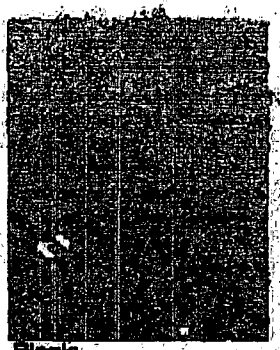
Although the financial dealings and legislative records of all of the Keating Five senators had been reviewed by the FBI over the past year, the lastest inquiry centers on the relationships that Mr. DeConcini and Mr. Cranston had with Mr. Keating and his failed thrift, Lincoln Savings and Loan of Irvine, Calif.

Law enforcement, congressional and other sources who asked not to be identified said the FBI is concen-

see FBI, page A6


DeConcini


Cranston


Riegle

FBI DOJ

FBI

From page A1

trating on business and land dealings of the senators that might be related to Keating investments in Arizona and California.

The timing of political contributions and specific legislative efforts by the Arizona and California senators also are said to be under review by the FBI, which declined comment on its activities.

One of the major reasons a confidential report by Mr. Bennett reportedly has been suppressed is that it included some of these findings. The Senate Ethics Committee is now holding public hearings on the five senators' dealings with Mr. Keating.

Mr. DeConcini, reached at his home yesterday, and a spokesman for Mr. Cranston said they were unaware of any criminal probe of the senators' activities. Mr. Riegle could not be reached for comment.

Law enforcement and congressional sources said the bipartisan Ethics Committee is aware of the criminal investigation but has not told the senators' lawyers about it.

Meanwhile, Mr. Bennett has been ordered by the committee to continue investigating potential areas of criminal wrongdoing.

"There has been controversy on the panel about this aspect of the federal investigation," said a source close to the probes. "But they [committee members] are fully aware of what is going on, maybe not as much as they could be, but they are aware of the criminal investigation and the fact that a federal grand jury is hearing evidence of [alleged] criminal conduct by two and possibly a third member of the Senate."

An FBI source also confirmed the existence of the grand jury.

The Keating Five senators — who also include John Glenn, Ohio Democrat, and John McCain, Arizona Republican — have been under investigation by the Ethics Committee for almost a year. Under scrutiny are their dealings with Mr. Keating, who alone and through family and business associates contributed nearly $1.3 million to them between 1985 and 1987.

It was during this period that Lincoln Savings, wholly owned by Mr. Keating's American Continental Corporation (ACC), was being examined by federal banking regulators for operating in an unsound manner.

Mr. Keating had enlisted the help of the lawmakers to pressure banking regulators to drop their examination of and plans for closing Lincoln. He also sought the ouster of Edwin Gray, then chairman of the Federal Home Loan Bank Board (FHLBB), whose regulatory policies he opposed.

Law enforcement sources said the FBI has closely studied Lincoln and ACC corporate documents relating to contacts between company officials and the Keating Five senators and their families and personal business associates.

The FBI has collected land and loan records involving the senators and their immediate families, along with loan transactions they had with Lincoln and other thrifts in Arizona and California. One of these thrifts is Pima Savings and Loan, a Tucson, Ariz.-based institution that was run by the father of a top aide to Mr. DeConcini.

The FBI also is looking into allegations that Mr. Keating padded salaries of upwards of a dozen highly paid Lincoln and ACC executives so they could contribute to political campaigns of the Keating Five, law enforcement and congressional sources said.

It is this particular allegation that apparently brought the FBI "full force" into a criminal investigation of the lawmakers.

FBI agents suspect that political contributions were "laundered" through Lincoln salaries at about the same time the senators started vigorous efforts in Congress on behalf of Mr. Keating and the troubled S&L, and that at least one senator, as yet unidentified, was aware of the scheme.

Of specific interest to the FBI are a series of meetings some of the senators — especially Mr. Cranston, Mr. DeConcini and Mr. Riegle — helped arrange between Mr. Keating and senior White House officials concerning the nomination of Lee Henkel, a former official with the Internal Revenue Service and a Keating business associate.

Mr. Henkel, a lawyer for ACC with more than $50 million in business loans, took steps as soon as he was given a recess appointment to the FHLBB to push for a new regulation exempting Lincoln from risky direct-investment limits then in place, which the thrift had exceeded.

Mr. Henkel was forced to resign after Senate Banking Committee and FBI investigations discovered his apparent conflict of interest in pushing a regulation beneficial to Lincoln at the same time he had close business ties to Mr. Keating.

The FBI also is investigating efforts by Mr. Cranston and Mr. DeConcini in October 1986 and March 1987 to derail banking bill amendments detrimental to Lincoln.

It was during this time that Sens. Cranston, DeConcini and Riegle received the bulk of their political and campaign contributions from Mr. Keating, his family and business associates.

Although Mr. Bennett did not raise the possibility of bribery in his presentation before the Ethics Committee, the suggestion of such criminal wrongdoing has been raised by the FBI in its questions about specific legislative efforts by the senators in relation to Keating contributions.

The FBI has contacted many witnesses used by Mr. Bennett to build his case, as well as other congressional staff and federal regulatory officials.

In his presentation to the Ethics Committee, Mr. Bennett has tried to show that, as a result of Mr. Keating's political contributions, the senators aggressively participated in "an all-out war" against the federal bank regulators on behalf of Lincoln.

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Washington, DC pp A1,6

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Two of 'Keating 5' deny FBI probes

By Paul M. Rodriguez
THE WASHINGTON TIMES

Two "Keating Five" senators challenged a report in The Washington Times yesterday that they are targets of an FBI criminal investigation of their dealings with indicted savings-and-loan tycoon Charles H. Keating Jr.

"The FBI has not notified me of any such investigation," said one of the senators identified by The Times, Arizona Democrat Dennis DeConcini.

"I feel [illegible]orized by such an article," he said. "There is no basis for such an article."

In a statement, Mr. DeConcini volunteered that "I have not now, nor have I ever, had any financial connection with Charlie Keating." The Times had not suggested any such connection.

William Taylor, chief counsel before the Senate Ethics Committee for California Democrat Alan Cranston, the other senator who was identified by sources as under FBI scrutiny, said yesterday: "I can assure you that my client is not the target of any such investigation."

see KEATING, *page A6*

KEATING

From page A1

Mr. Taylor said that "a prosecutor asking questions is a proper aspect" of the federal probe of Mr. Keating, but added: "The bottom line from my point of view ... is that Sen. Cranston is not a target of such investigations." He declined to say how he knew that.

Mr. DeConcini acknowledged yesterday that he had cooperated with the FBI "eight to 10 month[illegible]," but said neither he nor his aides had been in contact with federal law enforcement personnel since.

The Times has learned that FBI agents did interview two of Mr. DeConcini's top staff people in recent months: Laurie Sedlmayr, his banking aide, and Gene Karp, his campaign and finance officer.

Sources who asked not to be identified said the two were interviewed here by FBI agents working for a combined federal task force in Los Angeles and Phoenix. The FBI is investigating possible criminal wrongdoing by Mr. Keating, his family and business associates who were involved with his thrift, Lincoln Savings and Loan, and its parent company, American Continental Corporation.

The sources said the FBI agents told the DeConcini aides at that time that neither they nor their boss was the subject of the criminal investigation. But The Times pointed out that as an outgrowth of the investigation the FBI moved into a new round of questioning involving some of the senators.

The latest FBI inquiries center on Mr. Cranston and Mr. DeConcini, and possibly Sen. Donald Riegle, Michigan Democrat, according to law enforcement and current and former congressional officials. Apparently the inquiry does not extend to the remaining two of the Keating Five, Democrat John Glenn of Ohio and Republican John McCain of Arizona. The five senators have told the Ethics Committee they have committed no wrongdoing.

They won support yesterday from Sen. Daniel Inouye, Hawaii Democrat, who told the Ethics Committee that they are men of "unimpeachable character."

"If everything turned out well, if we did not have this S&L crisis, if Mr. Keating was once again able to revive [his savings and loan], these men would be heroes to their constituents, they were able to save jobs," Mr. Inouye said. "Today they are damned because the endeavor failed, so I think we are on trial here, the U.S. Senate."

A veteran of the Senate committees that investigated the Watergate and Iran-Contra scandals, Mr. Inouye was asked by committee counsel Robert Bennett about Mr.

FBI/DOJ

The Washington Times
12/4/90
p. A6

DeConcini's request at an April 1987 meeting that federal regulators waive a rule that was hurting Mr. Keating's thrift.

"I do not believe Sen. DeConcini crossed the line [between proper and improper action]," he said. "I do not believe his statement or representation was improper, because if that is improper, I think all of us at one time or another have done that. A constituent has every right to expect service from us even if the case is not a good one."

But Mr. Inouye added that if a senator takes an action that is tied specifically to a political contribution, "then it not only is inappropriate, but is a violation of the law."

Another witness, Roger Martin, a former member of the Federal Home Loan Bank Board, testified that on several occasions he received phone calls at home and at the office from Messrs. Cranston, DeConcini and Riegle that he thought were improper because they dealt with an ongoing probe of Lincoln. At one point, he recalled ordering an assistant to contact the senators' offices and ask them "to cease" making such calls.

A third witness, who spent most of the afternoon before the panel, was Joy Jacobson, a top aide to Mr. Cranston in charge of political fund raising for the senator.

Miss Jacobson testified that, while she did not think her contacts with Mr. Keating and his associates were wrong at the time, she would have had reservations given the timing of contributions to her boss that have since been revealed in public.

While federal law enforcement sources confirmed that the FBI is examining the conduct of the senators in connection with its investigation of bank fraud charges against Mr. Keating, it could not be determined if any evidence of criminal wrongdoing has been found.

DeConcini spokesman Robert Maynes said yesterday that last spring the senator gave the FBI all the documents he submitted to the Ethics Committee.

"This was in connection with the investigation of Keating," Mr. Maynes said. "We turned it over in response to an FBI request."

Cranston Was Most Active of 'Keating 5'

By SARA FRITZ
TIMES STAFF WRITER

WASHINGTON—Sen. Alan Cranston (D-Calif.) played a more active and independent role than any of the other so-called Keating Five senators in assisting the former owner of Lincoln Savings & Loan, according to evidence gathered by the Senate Ethics Committee.

While there is no indication that Cranston acted improperly in two key meetings that have been the central focus of the committee's lengthy hearings, the case against him is clearly different—and perhaps stronger—than the evidence against the other subjects of the inquiry.

Cranston's alleged involvement with Lincoln owner Charles H. Keating Jr. differs in four ways:

■ None of the other four senators has admitted—as Cranston has—soliciting contributions from Keating during the same meetings at which contacts with federal regu-

NEWS ANALYSIS

lators on Lincoln's behalf also were discussed.

■ More documentary evidence has been gathered in Cranston's case to substantiate allegations that actions were taken on Keating's behalf in exchange for campaign contributions. Three memos written by Cranston fund-raiser Joy Jacobson appear to make such a connection.

■ While the allegations against the other senators center primarily on their actions at two meetings with federal regulators in April, 1987, Cranston's contacts with federal regulators appear to have been more persistent, spanning a period of several years.

■ The amount of money that Cranston solicited from Keating far exceeds the amounts received by the other senators. The California Democrat received $60,000 in campaign contributions, $85,000 for the California Democratic Party and $850,000 for voter registration activities.

Moreover, Cranston appears to have had a warmer friendship with Keating than the other senators, at least between 1986 and 1989, when the Federal Home Loan Bank Board was investigating mismanagement at Lincoln. As Jacobson has observed:

"There was a certain amount of admiration, I think, that developed between the two men in the sense that they are both very tenacious individuals; they don't give up easily. And I think Mr. Keating admired Alan, and I think Alan admired Mr. Keating."

Keating, who has been indicted on securities fraud charges in California, sought assistance from Cranston and other members of Congress in 1986 when federal regulators were investigating Lincoln's financial affairs.

Keating's tenacious political and legal battles with regulators appear to have had the effect he desired, delaying the government's takeover of the ailing institution until April 14, 1989. By that time, Lincoln had racked up $2 billion in unrecoverable losses.

For the last four weeks, the Senate Ethics Committee has heard hours of testimony concerning allegations that Cranston and the four other senators—Dennis DeConcini (D-Ariz.), John McCain (R-Ariz.), John Glenn (D-Ohio) and Donald W. Riegle Jr. (D-Mich.)—improperly took part in a scheme to delay federal enforcement actions while losses at Lincoln piled up.

Although all five senators face similar accusations, the committee has focused most of its attention on the acts of Cranston and DeConcini, who have been described by special counsel Robert S. Bennett as major players in Keating's efforts to manipulate federal regulators.

Moreover, while there has been a lively debate within the committee over the question of whether DeConcini's conduct was improper, sources say that panel members are finding it much harder to dismiss the evidence against Cranston.

The most potent allegation against DeConcini is that he made improper requests of federal regulators on Keating's behalf during the two meetings in April, 1987. Cranston attended one of those meetings only briefly, and he said very little at the other.

The committee's case against Cranston hinges primarily on alleged violations of a standard of conduct outlined in a 1952 report on political ethics by then-Sen. Paul Douglas (D-Ill.), who wrote that campaign contributions should never be solicited by a senator at the same time a favor is being done for the prospective contributor.

"Furthermore," Douglas added, "a decent interval of time should be allowed to lapse so that neither party will feel that there is a close connection between the two acts."

On Jan. 8, 1988, Cranston and Keating had dinner together at a restaurant in Los Angeles with Cranston's son, Kim, and Kim's then-girlfriend, actress Shelley Duvall. Kim Cranston apparently was invited to the dinner because he was running one of the groups founded by his father to register new voters, particularly minorities and young people.

During the dinner, by Sen. Cranston's own account, he and Keating first discussed the thrift executive's future contributions to the voter registration effort and Keating then described problems he was having with federal regulators. Before they parted, the senator promised to make two telephone calls to the Federal Home Loan Bank Board on Keating's behalf.

"What happened was that [Keating] indicated he would continue to support the registration thing," he later recalled. "We discussed that a bit and then [Keating] went into his usual tirade about the behavior of the regulators." Among other things, he said, Keating asked him: "How are we ever going to get this resolved?"

After the dinner, Jacobson wrote Cranston a memo to remind him that he had promised Keating that he would telephone bank board member Donald I. Hovde and Chairman M. Danny Wall. Cranston later made both phone calls and persuaded Wall to meet with Keating.

Committee investigators contend that there was not a "decent interval" between the discussion of campaign contributions and sena-

Page 1 of 2
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torial favors at the dinner meeting.

But in his closing argument before the Ethics Committee, Cranston lawyer William W. Taylor III is expected to assert that Cranston did nothing improper because he never explicitly said that he would make the calls in exchange for the contributions. Taylor will also assert that the "decent interval" standard is not a binding rule for Senate members.

Nevertheless, a link between Keating's contributions and Cranston's actions also appears in two other memos written by Jacobson.

In a Sept. 6, 1987, memo designed to prepare Cranston for an upcoming meeting with Keating, Jacobson observed that the appointment of Wall to the bank board was surely "good news" to Keating, who maintained that he had been unfairly persecuted by Wall's predecessor. In the next sentence, she added: "You should ask Keating for $250,000."

And in a memo to Cranston on Jan. 2, 1987, Jacobson listed Keating as one of several people "who have been very helpful to you who have cases or legislative matters pending with our office [and] who will rightfully expect some kind of resolution."

In an effort to minimize the importance of Jacobson's three memos, Taylor will assert that Cranston cannot be held responsible for what his aide might have written. In addition, Jacobson has testified that neither she nor Cranston ever made a direct link between Keating's contributions and the senator's favors for Keating.

Just as Cranston's meetings with Keating were many, so were his contacts with federal regulators on behalf of the controversial thrift owner. In fact, Wall has described the frequency of Cranston's contacts with the bank board on behalf of Keating as "unusual."

Cranston contacted Wall on Keating's behalf at least five times before the collapse of Lincoln Savings & Loan in April, 1989. In addition, Carolyn Jordan, Cranston's Banking, Housing and Urban Affairs Committee aide, appears to have had frequent contacts with the regulators about Lincoln.

In his contacts with regulators in 1987, Cranston urged a speedy

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conclusion to the bank board's investigation of Lincoln. In 1988, Jordan told bank board officials that the senator was concerned that the board had decided to closely monitor Lincoln. And in early 1989, the senator urged the board to permit Keating to sell Lincoln.

Throughout this period, Cranston apparently never doubted Keating's contention that he was being unfairly harassed by the bank board or that Lincoln was being run in a sound manner. Even when he learned that the Justice Department was investigating Lincoln, he was assured by Jordan that a criminal inquiry was just further evidence of the harassment of Lincoln.

Taylor is expected to argue that none of Cranston's requests to the bank board were improper because he never sought special treatment for Lincoln. He also will assert that Cranston had every reason to believe that Keating's complaints of harassment were accurate.

The contributions that Cranston solicited from Keating during this period totaled nearly $1 million.

By comparison, the other senators received considerably less from Keating. Glenn got $234,000; DeConcini, $51,000; McCain, $112,000, and Riegle, $78,250. Unlike Cranston, none of these senators was raising money for voter registration.

Cranston has insisted that he did not benefit personally from these contributions. Indeed, none of the money went into the senator's pocket. Nor did Cranston's son, Kim, receive any salary from the voter registration groups to which Keating contributed.

But committee members appear to doubt Cranston's contention that he did not benefit from the money.

Sen. Warren B. Rudman (R-N.H.) has emphasized that the voter registration effort was designed to keep Senate Democrats in the majority. As assistant majority leader, Cranston clearly had a stake in maintaining Democratic control of the Senate.

Furthermore, committee investigators have pointed out that Cranston wrote to Keating after the 1986 election, saying that the thrift executive's $85,000 contribution to the California Democratic Party had been crucial to his reelection.

"Without your great help," Cranston told Keating, "I know that this victory would have been impossible."

Cranston aide slips up during 'Keating Five' hearings

She admits possible violation of rules on Capitol activities

By Kristin Huckshorn
and Tom Webb
Knight-Ridder Newspapers

WASHINGTON — The chief fund-raiser for Sen. Alan Cranston denied a pattern of apparent links between contributions and political favors in testimony Monday before the Senate Ethics Committee.

But Joy Jacobson inadvertently admitted at the end of the day that she might have broken Senate rules by using a telephone in Cranston's Majority Whip office inside the Capitol to solicit contributions.

"Are you aware ... that there is a Senate rule against fund-raising on Senate premises?" asked Sen. Trent Lott, R-Miss.

"I am not aware" of the rule, Jacobson replied.

The admission undercut Jacobson's repeated explanations that her attendance at meetings with Cranston and savings and loan owner Charles Keating Jr. was not improper because she didn't participate in their conversations about Keating's problems with banking regulators but instead sat in a corner phoning contributors.

Those calls would violate Senate rules that forbid use of US government office space or facilities to raise funds, a source close to the committee said.

The committee is in its fourth week of hearings on whether Cranston and four other senators — Republican John McCain of Arizona and Democrats Dennis DeConcini of Arizona, John Glenn of Ohio and Donald Riegle of Michigan — intervened improperly with federal regulators on Keating's behalf.

Cranston is undergoing radiation treatment in California for prostate cancer and is not expected to appear before the committee.

But the case against the California Democrat was center stage Monday as Jacobson attempted to explain a series of damaging memorandums and meetings that seemed to link favors and fund-raising, along with a loan application by Cranston to Keating's Irvine-based Lincoln Savings.

Jacobson said that she couldn't remember what was discussed at the meetings she attended with Keating and Cranston. She explained questionable phrasing in the memos as coincidental or misconstrued.

Keating never directly asked for help in return for contributions, she said. If he had, "I would have passed along to the senator, 'This is somebody we've got to get away from,' " Jacobson said in a deposition released Monday.

The difference between a direct and indirect link apparently was too subtle for Robert Bennett, special counsel to the committee. "If I'm sitting on a park bench and an 800-pound gorilla comes around and says, 'Excuse me, are there any seats around here ...' he's got a seat," Bennett said. "There is a repeated pattern here of action being taken on behalf of Mr. Keating right before or right after you and the senator are asking for large sums of money to be donated."

Jacobson insisted that, although Keating's associate, Jim Grogan, called her on several occasions and mentioned banking issues, she never asked him during the same conversation for contributions.

In a separate development, the Washington Times reported that the FBI is investigating Cranston and DeConcini in connection with vote-buying and illegal business dealings involving Keating.

It has been known for months that the FBI was investigating Keating and the senators, but Monday's report was the first suggesting a link between official actions and private business dealings.

DeConcini said Monday he knew of no such investigation, and charged that he is being "terrorized."

Cranston's lawyer also flatly denied that Cranston was the target of any criminal investigation.

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Inouye, Defending 'Five,' Says Senate Is on Trial

No Rules Broken to Aid Keating, He Asserts

By Helen Dewar
Washington Post Staff Writer

Sen. Daniel K. Inouye (D-Hawaii) told the Senate ethics committee that Congress itself is "on trial" in the investigation of five senators' ties to savings and loan executive Charles H. Keating Jr. because in their service to a constituent the senators did nothing out of the ordinary.

Inouye, the first senator to come before the panel in defense of his colleagues, said they broke no Senate rules or standards of conduct by intervening on Keating's behalf at a time when they were receiving more than $1.3 million for their political campaigns and causes.

"I believe what is on trial here is not the five colleagues of mine but the U.S. Senate," he said, "and for that matter, the Congress of the United States."

Describing Sens. Alan Cranston (D-Calif.), Dennis DeConcini (D-Ariz.), John Glenn (D-Ohio), John McCain (R-Ariz.) and Donald W. Riegle Jr. (D-Mich.) as "men of unimpeachable character," he said they were in trouble only because of the savings and loan debacle and the failure of Keating's Lincoln Savings and Loan.

"If everything turned out well, if we did not have this S and L crisis, if Mr. Keating was once against able to revive [Lincoln], these men would be heroes to their constituents, they were able to save jobs," he said. "Today they are damned because the endeavor failed, so I think we are on trial here, the U.S. Senate."

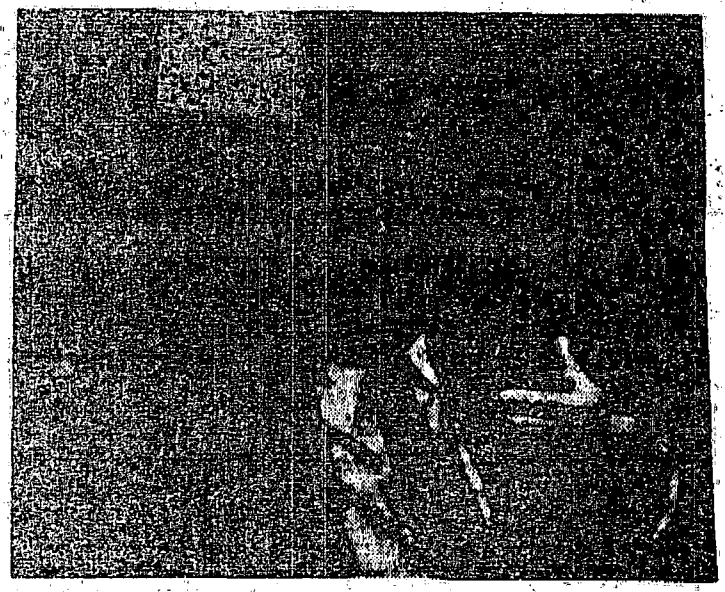
Inouye served on the Watergate and Iran-contra investigative committees and acted as defense counsel to former Sen. Harrison A. Williams (D-N.J.) before Williams resigned from the Senate in 1982 after conviction in the Abscam bribery case. In 1988 he came under criticism for including funds in an appropriation bill for building schools in France for North African Jews after receiving a $1,000 campaign contribution from a board member of the organization sponsoring the schools. He later moved to rescind the appropriation, acknowledging that he had made "an error in judgment."

Inouye appeared on behalf of DeConcini, the only senator on hand during his appearance. The Arizona senator reacted emotionally during a break when asked about the testimony. "Sen. Inouye puts a lump in my throat. He is . . . ," DeConcini said, his voice breaking as he paused to gain composure. "He is the kind of guy who calls it as he sees it . . . even though the atmosphere is so polluted with charges of impropriety," he added.

In a related development, spokesmen for the FBI and the Justice Department declined to comment on a report in yesterday's Washington Times that said a federal grand jury in Los Angeles is reviewing evidence involving alleged bribery and vote trading by Cranston and DeConcini.

The grand jury has been investigating possible bank fraud by Keating and a Lincoln loan recipient who recently pleaded guilty to bank fraud and agreed to cooperate with prosecutors investigating the collapse of Lincoln. It has been reported before that FBI agents have questioned many individuals familiar with Keating's relationship with the five senators, but there has been no sign the grand jury had shifted the focus of the investigation to the senators.

The committee also heard testimony yesterday from Cranston fund-raiser Joy Jacobson, who said in a deposition released yesterday that she would have had "greater hesitation about how much contact we had with Mr. Keating" if she had known "how much else was going on."



Sen. Inouye said his colleagues are condemned "because the endeavor

Asked if Cranston knew, she said, "Well, I would assume that he did."

But she emphasized that if Keating or his representatives had ever drawn a connection between their contributions and intervention on Lincoln's behalf, she would have "passed along to the senator that this is somebody we've got to get away from." She never did so, she indicated.

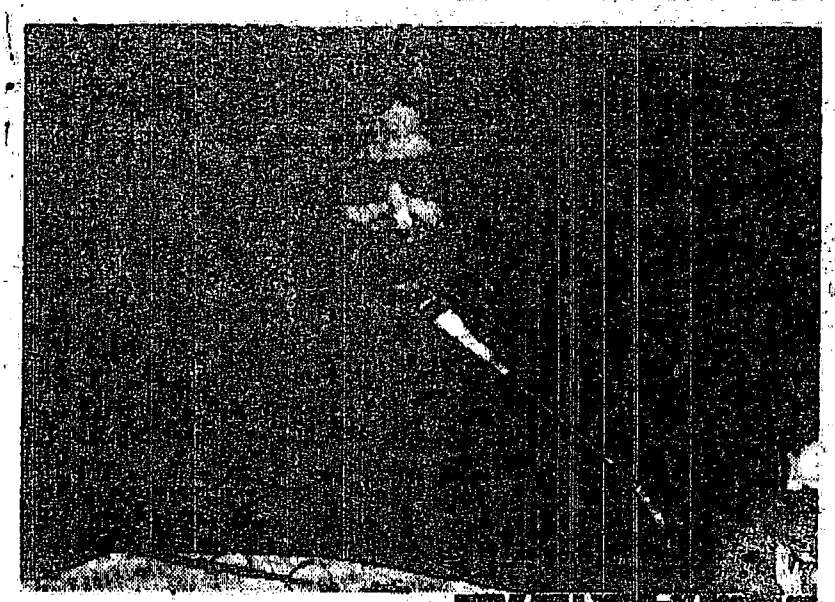
Jacobson was questioned at length by committee counsel Robert S. Bennett about her attendance at meetings in which Keating and associates discussed complaints about federal regulators' treatment of Lincoln. Keating is now facing trial on fraud charges in California.

A fulltime fund-raiser who was not on Cranston's official Senate staff, she said she was at the meetings only to make the contributors "feel comfortable" while they waited for Cranston. She said she did not bring up fund-raising, saying it would have been "tacky" to do so.

Jacobson said she conducted all of

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FBI — LOS ANGELES

The Washington Post
12/4/90 p. A6



Jacobson said it would have been "tacky" to bring up fund-raising at meetings.

her fund-raising efforts on Capitol Hill in meetings that did not involve legislative business. Asked by committee member Trent Lott (R-Miss.) if she knew it was against Senate rules to raise money in the Capitol, she said she did not.

Jacobson confirmed earlier reports that she wrote a memorandum to Cranston on Jan. 2, 1987, saying there were "a number of individuals who have been very helpful to you who have cases or legislative matters pending with our office who will rightfully expect some kind of resolution." She listed Keating among them.

But, in her deposition, she said she meant only that they deserved an answer one way or the other, not necessarily exactly what they wanted.

In a testy exchange with Bennett, she accused him of misrepresenting her response in the deposition when she was asked if Keating was "making these kinds of contributions because he was getting help from Sen. Cranston" with the bank regulators. "In retrospect, I think that there was a link there," she responded during her closed-door July 19 appearance before the committee.

Jacobson said she meant only to say that Keating may have linked the money and favors he wanted; she was not saying there was a link as far as Cranston was concerned, she said.

Under questioning from DeConcini's lawyer, James Hamilton, Inouye said he did not believe that DeConcini attempted to negotiate a deal for Lincoln in the senators' meeting with federal regulators, as Bennett and the regulators have charged. Even if he did, Inouye said, it would not have been wrong.

Nor, he added, is there anything wrong with a senator or group of senators attempting to pressure regulators in a specific case or a senator or group of senators trying to help a constituent who has contributed to them so long as it is not a favor in return for money.

"I see nothing improper, possibly vigorous, but not improper," he said.

Inouye noted that in 1981, when he was a House member, he and other lawmakers intervened with the secretary of agriculture while a sugar regulation was pending, although he conceded there were some differences in the two cases.

Under cross-examination from Bennett, Inouye acknowledged there were limits to permissible intervention, including a ban on action in return for contributions, which he said he believed had not occurred in the "Keating Five" case. He also conceded that he had read few of the thousands of documents in the case.

Inouye was asked by Bennett if he agreed with the inscription to former Sen. Philip A. Hart (D-Mich.) on the Hart Senate Office Building that recalls Hart's "incorruptible integrity." Inouye said he did but added that "there was only one" Philip Hart.

"All the rest of us strive to be another Philip Hart, but like intent and action, they often times don't coincide. We try our best, but we do fail ever so often," he said.

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End OF THE Line

Alan Cranston had a gift for fund-raising. But tapping S&L tycoon Charles Keating Jr. proved the downfall of his political career.

By SARA FRITZ
TIMES STAFF WRITER

WASHINGTON—During four decades as a dominant force in California politics, Sen. Alan Cranston (D-Calif.) lived something of a double life.

To the liberal Democrats who worked on his campaigns and served as the backbone of his political strength, Cranston was seen as an idealist—a man devoted to arms control, civil rights and helping the poor.

Yet at the same time, in the eyes of the wealthy California businessmen who contributed large sums of money to his political campaigns, he was a man whose strong support for home-state economic interests made him their dependable ally on Capitol Hill.

It was this combination of liberalism and boosterism that served as "Cranston's own version of political magic," as one longtime friend describes it. His unique ability to appeal to both liberals and business interests enabled him to overcome his self-acknowledged lack of personal charisma to be elected to the Senate four times.

"He is not what you would call handsome; he's not long on personal magnetism," says Cranston's friend, who declined to be identified. "Alan's also been astute enough to realize that you can't be elected in California on his brand of ideology. And that is why he has tended to California's economic interests with great care."

But as sometimes happens in politics, the secret of Cranston's success eventually became the tragic flaw. When his supporters learned that their idealistic, hard-working senator had been financing his

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campaigns with money from the likes of former Lincoln Savings & Loan owner Charles H. Keating Jr.—the man accused of bilking thousands of elderly Californians out of their life savings—polls showed that support for him vanished almost overnight.

Few successful political careers end as tragically and ignominiously as that of Alan MacGregor Cranston, 76, the former California controller whose tireless devotion to the nuts-and-bolts of politics ultimately earned him the vaunted position of assistant majority leader of the Senate.

Already, the Keating scandal has forced him to give up his leadership position and to announce that he will not seek reelection in 1992. And now, the final blow: Cranston has been charged by the Senate Ethics Committee with violating Senate rules.

The six-member committee announced Wednesday that Cranston "engaged in an impermissible pattern of conduct" by promising to intervene with federal regulators on Lincoln's behalf at the same time he was soliciting contributions from Keating, who has become a symbol of the collapse of the savings-and-loan industry.

What makes Cranston's humiliation even more dramatic is that he has always been a man with a reputation for personal integrity. Throughout his career, he has been an outspoken critic of funding political campaigns with special-interest money and has fought for public campaign financing.

"I have been trying to reform campaign finance laws ever since I got here," he told members of the Senate Ethics Committee. "I think it is ironic that after all these steps I find myself in this kind of situation."

Nevertheless, the Keating affair was by no means the first time Cranston has been accused of fund-raising excesses:

- As controller of California in the early 1960s, he was accused of trading government jobs for campaign contributions.
- In 1974, as a member of the Senate Banking Committee, he acknowledged he had set up an office in San Diego with $20,000 given to him by two bankers.
- And more than a decade later, he was forced to pay the second-biggest fine ever levied by the Federal Elections Committee for fund-raising irregularities during his unsuccessful 1984 presidential campaign.

Likewise, Cranston has been accused of using his influence on behalf of his rich contributors. He contacted the Securities and Exchange Commission on behalf of junk-bond king Michael Milken, a contributor, when Milken was under investigation. And he played a key role in winning a tax break for winemakers Ernest and Julio Gallo, also big contributors.

Five years ago, Jon Fleming, then a Cranston aide on tax matters, told The Times that the senator had sought so many such tax breaks for wealthy Californians that "my friends on the Finance Committee laugh when they see us coming [and] say, 'What kind of whoring job are you guys working on now?' "

In the final analysis, Cranston is seen by his friends and political allies—almost all of whom refused to speak on the record—as a victim of his own fund-raising success. As one acquaintance puts it, "When you get into a good thing, you just get carried away."

□

It was Cranston's idealist streak that caused him to get involved in politics more than 40 years ago. After working as a foreign correspondent in Europe in the early 1930s, he returned to the United States with the goal of warning Americans about fascism.

Cranston got his start in state politics as a leader of the California Democratic Council, a group that taught him the value of grass-roots voter contact.

Although his goal always was to be a U.S. senator, Cranston first ran for state controller on a ticket that was swept into office in 1958 with Gov. Edmund G. (Pat) Brown. Even then, Cranston had a keen eye for fund-raising opportunities. Friends say he chose the office of controller because it gave him the opportunity to appoint a vast network of tax appraisers who could be expected to contribute to his reelection campaign.

In fact, Cranston's fund-raising among tax appraisers became a political issue in 1964, when he ran for the Democratic Senate nomination against Pierre S. Salinger. Salinger found two former tax appraisers who claimed they had been forced to resign because they refused to contribute to Cranston's campaign. Cranston countered with an unsuccessful libel suit but lost the election anyway.

Cranston lost the controller's job in the 1966 California Republican sweep. But in 1968, when he ran again for the Senate, he won.

On Capitol Hill, Cranston established himself as a leading liberal—calling for an end to the war in Vietnam, speaking out for arms control and anti-poverty programs, and battling offshore drilling. His reputation in California as an "egghead" followed him to Congress and helped him get elected assistant majority leader in 1977. He led Democrats in some important battles, including those over ratification of the second Strategic Arms Limitation Talks pact and the Panama Canal treaty. (SALT II was never ratified.)

It was in 1971, when he championed the fight for government loan guarantees for Lockheed, that Californians got their first glimpse of Cranston's willingness to go to bat for California business interests. At the same time, he began to solicit campaign donations from wealthy businessmen in the state, many of them prominent Republicans.

"Cranston, the liberal, was a big surprise when he got to the Senate," says California political consultant Joe Cerrell, who has known the senator since the 1950s. "The ultra-liberal idealist turned into an extremely practical politician. . . . Cranston was the first Democrat [in California] to make a big mark by getting prominent Republicans to support him."

The senator viewed the California business community as his natural constituency. Coming from a prosperous Palo Alto family, he had worked in the real estate investment business with his father before going into politics.

"He was an entrepreneur himself," said a former aide, "and he has always had that point of view."

As a member of the Banking Committee, Cranston was close to banking and savings-and-loan executives. Judging from the thick file of letters he wrote to the Federal Home Loan Bank Board over the past decade—all still in the board's archives—Lincoln Savings was by no means the only thrift he aggressively assisted.

Cranston has consistently main-



'Personally and politically, I wish to God I'd never heard of Charles Keating. It would be easy for me to say that I wish I had not done what I did. But I have gone over these events in my mind, and I'm confident that what I did was right and proper.'

SEN. ALAN CRANSTON

tained that the contributions he received from banking and other California interests had no connection to his work on their behalf.

But unlike most other politicians who wince at the thought of begging strangers for money, Cranston—in the view of a friend—"enjoyed it, almost." Aides say he spent hours on his office telephone "raising dough" as he called it, and he always could be found calling potential contributors at the airport pay telephone when he traveled.

By his own admission, whenever Cranston found a big giver like Keating, he repeatedly went back to that person for more money. He told the Ethics Committee that he had discovered that rich contributors were flattered to be asked for huge sums.

When he met new potential contributors, he systematically wrote their names down on 3x5 cards he carried in his coat pocket—a reminder to call them for money.

At first, Cranston's fund raising was designed to win reelection. But he eventually built a fund-raising machine that exceeded his needs, so he began raising money for other Democrats, too. During nearly a quarter of a century in Washington, he raised more than $25 million for his own Senate and presidential campaigns, as well as millions more for other politicians and causes he supported.

In recent years, as the cost of campaigning grew, Cranston stopped searching for individual contributors, who under the law could give him no more than $2,000 for each election, and focused on finding people willing to raise $25,000 or more for him. Charles H. Keating Jr. was such a person.

As a result of Cranston's skill in raising money and his success as a Senate leader, it seemed logical to him in 1984 to take the next step: running for President.

In retrospect, Cranston's presidential bid is sometimes viewed as a joke. Many observers still chuckle at the idea that this bald, gaunt-looking 69-year-old man with no charisma would consider himself presidential timber in a television age. Cranston fueled the ridicule by dying the fringe of white hair around the side of his head an orangish-red color in an attempt to look younger.

But Cranston's presidential campaign was no joke, especially not to him. He garnered some popular support in Iowa and New Hampshire by speaking out against the nuclear arms race and raised an impressive $9 million. When he bowed out after finishing seventh in the New Hampshire primary, he felt satisfied that he had at least made a respectable showing.

Political analysts cite Cranston's presidential campaign as a turning point in his career: a setback that precipitated a gradual decline in his support among California voters. When he ran for reelection two years later, he barely beat Rep. Ed Zschau (R-Los Altos), a moderate, by a slim 50% to 47%.

After his narrow victory over Zschau, according to aides, Cranston was persuaded that the key to his party's success in California was to register more Democratic voters, mostly young people, Latinos and blacks.

As a result, he began raising money for voter registration. Although federal law restricts regular campaign contributions from individuals to $2,000, there is no limit to the amount a person can give to a tax-exempt voter registration group.

Cranston first enco[illegible] Grogan, Washington l[illegible] Keating, at a Democrat[illegible] raiser in 1984. "I've been ver[illegible] to the savings and loans," senator told him, according to G[illegible] gan's testimony before the Senat[illegible] Ethics Committee. "You all should support me."

Cranston instantly recorded Grogan's name on a 3x5 card. A few days later, the lobbyist got a telephone call from Cranston's chief fund-raiser, who asked if Keating could host a fund-raiser for the senator. Like many of Cranston's contributors, Keating was a conservative Republican.

Eventually, Keating raised more than $40,000 for Cranston's campaigns, $85,000 for the California Democratic Party for get-out-the-vote activities during Cranston's 1986 reelection campaign, and $850,000 for voter registration groups founded by Cranston and his son Kim.

Had the savings and loan industry not collapsed, had Lincoln not been the biggest thrift failure (costing the taxpayers $2 billion), had Lincoln not sold now-worthless junk bonds to more than 200,000 Californians, Cranston's relationship with Keating might never have come to light.

Keating was not even the biggest contributor to Cranston's voter registration effort. Records show the senator persuaded McDonald's owner Joan Kroc to kick in $1 million.

But Keating's role as a symbol of the high fliers who drained money from the nation's thrift institutions, combined with Cranston's intervention on his behalf with federal regulators, was a potent political liability the senator could not overcome.

Even before the Senate Ethics Committee held hearings into the Keating affair, exit polls following the last election showed that Cranston's support had virtually disappeared. A short time later, he announced he was retiring in 1992 because he had been diagnosed as having prostate cancer and needed to seek treatment.

Although Cranston's cancer treatment caused him to miss most of the Ethics Committee hearings, aides say he will be back in Washington by Tuesday, in time to prepare the case he will present to the Senate in his own defense. After his response, the committee is expected to recommend that Cranston be censured by the full Senate.

After years of distinguished service in the Senate, Cranston clearly feels he has been betrayed by the system.

And in the end, two things about the Keating affair seem to rankle Cranston most. He strongly resents the implication in many news reports that he benefited personally from Keating's generosity and emphasizes that he never pocketed one cent of the money. He also fears the scandal has besmirched the reputation of his son and always stresses that Kim did not profit from the voter registration organization he ran.

Cranston says he regrets the Keating affair, but not because he thinks it was wrong.

"Personally and politically," he told the Senate Ethics Committee, "I wish to God I'd never heard of Charles Keating. It would be easy for me to say that. I wish I had not done what I did. But I have gone over these events in my mind, and I'm confident that what I did was right and proper."



LORI SHEPLER—Los Angeles Times

A longtime advocate of campaign reform, Sen. Alan Cranston says, "it is ironic that ... I find myself in this kind of situation."

(Indicate page name of newspaper, city and state.)
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Pg A-7

(Mount Clipping in Space Below)

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Newspaper says missing letter hurts Riegle's 'Keating Five' case

Document said to show intervention prior to Lincoln

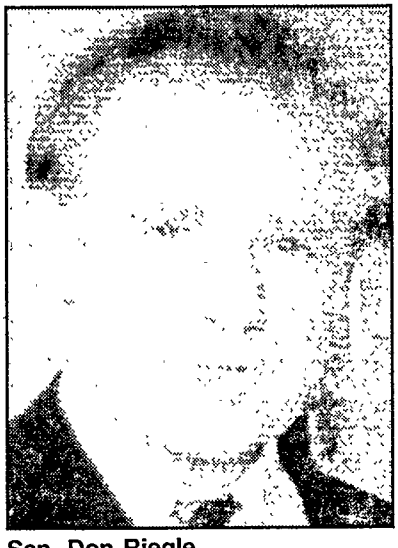
By George Williamson
San Francisco Chronicle

WASHINGTON — A letter that has been missing from US Sen. Don Riegle's government file apparently undermines a key element of his defense in the recent "Keating Five" hearings, the Chronicle has learned.

The previously undisclosed letter, sent to Federal Home Loan Bank Board member Ed Gray in April 1983 shortly after his appointment, strongly protested the bank board's treatment of Biscayne Savings and Loan, an insolvent Florida thrift.

It was sent jointly by Riegle and two other members of the Senate Banking Committee; Sen. Alan Cranston, D-Calif., and former Sen. Paula Hawkins, R-Fla.

The document, found by the Chronicle in a bank-board file of Cranston correspondence, was written four years before Cranston, Riegle and three other senators intervened with regulators in April 1987 about Charles Keating Jr.'s Lincoln Savings at meetings that became the centerpiece of the Senate Ethics Committee's Keating Five hearings.



Sen. Don Riegle
Letter might undercut defense

The Chronicle has learned that Riegle's pre-1987 files have been missing since at least early last year. How the papers disappeared remain a mystery. Riegle's spokeswoman said the senator was unavailable for comment.

Experts familiar with the savings and loan scandal say the letter could challenge a cornerstone of Riegle's defense, which was that he had demonstrated consistent pro-regulatory credentials that directly contradict claims that he attended the meetings to intimidate regulators on behalf of Lincoln.

In an interview, prominent economist George Bentson — whom Keating tried to get appointed to the bank board in 1986 — called the Biscayne letters "more blatant than the Lincoln meetings."

Former Federal Reserve Board general counsel John Hawke labeled the correspondence "frankly outrageous."

On Feb. 27, the Ethics Committee issued reprimands to Riegle and Sens. Dennis DeConcini, D-Ariz.; John McCain, R-Ariz.; and John Glenn, D-Ohio. The committee announced that it will proceed toward possible full Senate censure against Cranston. The panel has been accused of deliberately targeting Cranston while going relatively easy on the other senators.

The defense Riegle, D-Mich., offered to the ethics panel centered on his claims that, as a member of the powerful Senate Banking Committee, he had shown a consistent pattern of support for S&L regulators.

Riegle said the record showed specifically that he never wrote the bank board on behalf of Lincoln or the policies it supported. In addition, he said records indicated that interfering with their handling of a specific thrift was not his style.

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(Mount Clipping in Space Below)

Memo hints that senators wanted Lincoln hearings to die

By George Williamson
San Francisco Chronicle

WASHINGTON — A potentially explosive Lincoln Savings & Loan memo that did not surface in the so-called "Keating Five" Senate hearings suggested that four Democratic senators wanted to stem momentum that was accelerating toward congressional hearings on Lincoln.

The June 28, 1988, memo reported that Sen. Alan Cranston of California was anxious to contact Rep. Charles Schumer, D-NY, an influential member of the House Banking Committee, at a time when that committee's staff was pressing to put a public spotlight on Irvine-based Lincoln.

"I wanted to let you know that Sen. Cranston was anxious to call Schumer and tell him that the four Democratic senators involved would greatly appreciate letting this dog die!" Lincoln lawyer and lobbyist Jim Grogan wrote Dave Evans, a key Capitol Hill lobbyist for then-Lincoln owner Charles H. Keating Jr., under a Lincoln letterhead.

The words "anxious" and "greatly appreciate" were underlined for emphasis in the one-sentence memo.

Congressional hearings, like recommendations by federal regulators 13 months earlier for a government takeover of Lincoln, were delayed until 1989 despite urgings from the House Banking Committee staff that had peaked when the memo about Cranston was written.

The memo, which has long been in the files of several federal agencies and offices, did not identify the three other senators or specify what the metaphorical "dog" was. But in light of what was known to be happening within the banking committee at the time the memo was written, the fact that it was not explored under oath during the Keating Five hearings raises new questions about important ground missed in the Senate Ethics Committee's investigation.

Four of the five senators probed by the committee are Democrats. The hearings focused on whether large campaign contributions from Keating prompted them to intervene with regulators on Keating's behalf in April 1987. Of the five, only Cranston was singled out by the committee for possible censure by the full Senate.

Grogan's memo is the latest discovery of information that could have strongly challenged defenses in the ethics hearings but was either not found or went unused.

The previous findings about omitted matters centered primarily on Senate Banking Committee Chairman Don Riegle, D-Mich., whose 10 years of missing correspondence with regulators included a letter he and Cranston wrote in 1983 on behalf of an insolvent Florida institution.

A Schumer spokesman said the congressman does not remember any call from Cranston about Lincoln. Cranston spokesman Murray Flander said the Schumer recollection "shows Alan Cranston wasn't very anxious about it if he didn't make the call. Grogan's interpretation of Alan's position was clearly not accurate."

Robert Bennett, special prosecutor for the Ethics Committee, said he could not comment because the Cranston case is still pending.

95
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A Reply From Sen. Cranston

Your recent editorials about my current status before the Senate Ethics Committee are totally unfair and incredibly inaccurate.

Piling on the malice, you build a false and distorted case against me in your July 26 editorial based on eight egregious errors of fact in your July 24 editorial.

1. "He [Cranston] has tried to disqualify a new committee member from ruling on his case. . . ."

UNTRUE. I have not moved to disqualify Sen. Jeff Bingaman (D., N.M.), as unidentified sources alleged. Sen. Bingaman recently disqualified himself, due to his admirable and scrupulous concern for due process, when he discovered his wife's law firm had a potential conflict of interest.

2. ". . . [Cranston] reportedly squelched an FBI probe into whether his activities were indictable. . . ."

UNTRUE. On Sept. 19, 1989, I phoned FBI Director William S. Sessions to offer my full cooperation in any investigation his agency might conduct of the Keating affair. I subsequently reported this publicly.

3. ". . . he threatened to revive the charges against the four Senators exonerated by the committee, and for that matter the rest of his 99 colleagues."

UNTRUE. I have made no such threats. Threats are not in my vocabulary or my code. I don't resort to threats. I never will. I have said that my behavior did not differ in kind from that of the other four senators whose cases were not sent to the full Senate for discipline, and that therefore my treatment should not differ in kind from theirs.

I have never resorted to an "everybody does it" defense. My purpose in the hearings when I displayed lists of Senate staffers employed by 99 of my colleagues—staffers authorized under Senate Rule 41 to raise funds—was to make one point: that the Senate specifically permits employees with substantive responsibilities to also raise money.

4. "The five Senators collected large campaign contributions from Mr. Keating. . . . Senator Cranston took by far the most money. . . ."

UNTRUE. I received less in political contributions from Mr. Keating than did any one of the other four senators. What bloated the money figure the press links to me is money I solicited from Mr. Keating for donations to IRS-approved 501 (c) (3) tax-deductible nationwide nonpartisan voter-registration organizations over which I had no control. The Ethics Committee confirms that not a penny went into my pocket.

5. "Senator DeConcini, as well as Senator Cranston, intervened on Mr. Keating's behalf even after they were warned he was the focus of a major criminal investigation."

UNTRUE. We were never warned about a "criminal investigation" of Mr. Keating. I learned from my staff of a criminal *referral* by regulators regarding Lincoln Savings, long after the referral was made. There never was a criminal investigation by the Justice Department as a result of this referral. Furthermore, Mr. Keating himself was not the target of the referral. Rosemary Stewart, director of the Office of Enforcement of the Bank Board, testified publicly that there was no evidence of misconduct by upper management of Lincoln (at that time) and that it was difficult to conclude whether or not there was criminal conduct.

6. "The five Senators . . . intervened with federal regulators to go easy on . . . Lincoln Savings."

UNTRUE. The press repeats this charge ad nauseam, but the fact is there is no evidence in the record to substantiate it. There is abundant evidence in the record to the contrary in the sworn testimony of the regulators.

7. ". . . it was clear all along that Lincoln was peddling uninsured debentures in old-folks homes."

UNTRUE. I never heard about the debentures Lincoln was selling until almost the eve of Lincoln's seizure by the regulators. There is no evidence to the contrary.

8. "Everyone expected that the committee would recommend that the full Senate censure Mr. Cranston."

UNTRUE. There have been all sorts of unverified speculation, leaks, rumors and anonymous predictions from unidentified sources conjecturing that the committee might do any number of things. How can the Journal pretend to know what "everyone" expects or thinks?

The Journal wants the Senate to "draw a line *somewhere*." I have publicly advocated election reform for 30 years, before I even came to the Senate, and in the Senate I first introduced election-reform legislation in 1973.

I suggest that the Journal, in exercising its undisputed right to make editorial judgments, draw the line on political biases that lead to distorted reporting of fact.

SEN. ALAN CRANSTON (D., Calif.)
Washington

WALL STREET JOURNAL
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LOS ANGELES

Cranston Sent Letter for BCCI-Linked Thrift, Paper Says

■ **Ethics:** Senator reportedly acted after $25,000 was contributed to a voter sign-up group he had established.

By SARA FRITZ
TIMES STAFF WRITER

WASHINGTON—Sen. Alan Cranston (D-Calif.) wrote a letter to the Federal Home Loan Bank Board in September, 1988, at the request of a contributor, David L. Paul, owner of CenTrust Savings Bank, the Miami-based thrift owned partly by the scandal-ridden Bank of Credit & Commerce International, according to a report published Saturday.

The letter was written just two months after Paul, who currently is under grand jury investigation on allegations that he mismanaged CenTrust, contributed $25,000 to a voter registration group established by the California senator.

This account of Cranston's alleged actions on behalf of Paul was published in Roll Call, a newspaper that focuses on Congress. The article was based on a previously undisclosed tape of a conversation in 1988 between Paul and an unnamed Washington lobbyist. The newspaper said the tape had been obtained by federal regulators when they seized CenTrust several years ago.

The transcript of the tape also suggests that Cranston and Senate Banking Committee Chairman Donald W. Riegle Jr. (D-Mich.) struck a deal when the Democrats took control of the Senate in 1987 whereby the California senator would relinquish his seniority right to step into the committee chairmanship if Riegle deferred to him on banking matters involving California.

Cranston became assistant majority leader instead of claiming the chairmanship.

Cranston's spokesman, Murray Flander, denied all of the allegations contained in the Roll Call article. He said Cranston and Riegle never had such an arrangement, and he denied that Cranston wrote his letter to the FHLBB at the behest of Paul. He said the senator's letter to the FHLBB was simply addressing a problem that many thrift industry leaders had been complaining about.

Cranston's letter expressed opposition to a rule that would have required thrifts to value certain assets at market value. The proposed rule was opposed by many thrifts that, like CenTrust, were holding junk bonds whose value had plummeted.

The allegations raised in the Roll Call article are similar to charges that have linked Cranston to Charles H. Keating Jr., owner of the Irvine-based Lincoln Savings & Loan.

Cranston has been under investigation by the Senate Ethics Committee for the last two years on charges that he intervened improperly with the FHLBB on Lincoln's behalf in exchange for nearly $1 million in contributions by Keating to Cranston's campaign, the California Democratic Party and voter registration groups founded by the senator.

The six-member Ethics Committee recently arrived at a stalemate on the question of whether Cranston's role in the Keating affair should be considered by the full Senate.

Like Keating, Paul was a big political contributor who sought the help of Washington politicians when his high-flying management style caught the attention of federal regulators. He spent millions of dollars on lavish entertaining and art work and frequently hobnobbed with Saudi businessman Ghaith R. Pharaon, who has been accused by federal investigators of acting as a surrogate in the United States for BCCI.

In June, 1988, Paul contributed $25,000 to one of Cranston's voter registration groups. Two months later, on Sept. 22, Paul was told by his hired lobbyist during the taped conversation that Cranston had agreed to write a letter to the FHLBB in opposition to the proposed new assets rule that Paul strongly opposed.

Files at the Office of Thrift Supervision, the successor agency to FHLBB, contain a copy of a letter written to the board by Cranston that expresses opposition to the rule opposed by Paul. It is dated Sept. 22, 1988—the same day as the taped conversation between Paul and his lobbyist—but the letter makes no reference to Paul or CenTrust.

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Panel weighs Cranston deal

Ethics committee tries to wrap up 'Keating Five' case

By Phil Kuntz
Congressional Quarterly

WASHINGTON — The Senate Ethics Committee is working on a deal to break its impasse over how to discipline Sen. Alan Cranston, D-Calif., for his conduct in the "Keating Five" case.

The panel is "trying to find a way to get it to the floor without a major shootout," said one official familiar with the panel's work. He called the deal "innovative."

Three sources familiar with the possible compromise confirmed its rough outline: The Ethics Committee would rebuke Cranston, and the full Senate would somehow vote on the matter — but without censuring Cranston directly.

Such a compromise would break a long deadlock. The ethics panel's three Republicans reportedly have advocated having Cranston censured by the Senate, while the three Democrats favored a milder committee reprimand similar to, though possibly harsher than, the criticisms it leveled against the other Keating Five senators.

Cranston has been indirectly involved in the talks through Sen. Harry Reid, D-Nev., who has agreed to represent his colleague's interests because Cranston has not been able to afford a defense lawyer for months, according to one source. Reid declined to comment.

Cranston, who is not running for re-election next year, has a certain amount of leverage in the matter because he has promised to fight vigorously any move to censure him — prompting just the kind of bloody battle many members want to avoid. Republicans on the committee have insisted on limiting Cranston's participation because they do not want to appear to be accommodating.

"There's no plea bargaining going on," one source said.

The compromise is not final and could evaporate. One source called it "very delicate." Any such deal could be hard to consummate because Sen. Jesse Helms, R-NC, appears unlikely to go along.

Helms refused to comment directly but pointedly noted that his participation in the latest round of closed-door deliberations has been limited. "They'd like me to vote with them, and I'm not going to," he said.

Helms may not be able to kill the deal, but if the committee brings a solution to the flo[illegible]uld try to amend it to censure Cranston.

Such a move could produce a drawn-out debate and thwart another committee aim: to resolve the case before Congress adjourns for the year. "We're meeting frequently with that goal — to dispose of the whole thing" this year, said panel chairman Howell Heflin, D-Ala.

The panel has met about a dozen times since mid-September. The movement toward a compromise apparently began in mid-October after some committee members began worrying that the Senate's public image, badly battered by the Clarence Thomas-Anita Hill imbroglio, would be further damaged by an indefinitely stalled Ethics Committee.

That prompted Sen. Trent Lott, R-Miss., to drop plans to ask the panel to declare itself hopelessly deadlocked. Lott is key to any compromise because his view of the evidence against Cranston seems to be as harsh as Helms'.

According to one source, the talks have moved in a direction that Lott can accept: a compromise between the two "stark alternatives" — a full Senate censure and an Ethics Committee rebuke.

The compromise, if approved, would allow Republicans to declare that the case had been resolved with "a very serious indictment" of Cranston, who "will not be able to say that he was not dealt with seriously," this source said.

If a compromise is reached, the most controversial and disputed ethics case in the recent history of the Senate will end without ever having been openly debated by senators.

BACKGROUND

The "Keating Five" consists of Democratic Sens. Alan Cranston of California, John Glenn of Ohio, Donald W. Riegle Jr. of Michigan and Dennis DeConcini of Arizona and Republican Sen. John McCain of Arizona.

Earlier this year, all five were chastised by the Senate Ethics Committee for exercising poor judgment in trying to help Charles H. Keating Jr. during his bitter feud with federal thrift regulators after and while he raised a total of $1.5 million for their campaigns and political causes.

Riegle and DeConcini also were rebuked for creating improper appearances, but Glenn and McCain were not. That ended the cases against those four.

Cranston was singled out for the possibility of the most severe punishment — a rebuke by the full Senate.

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Cranston Harshly Rebuked, Shows Little Remorse

■ **Ethics:** Panel calls 'linkage' of contributions to aid for Lincoln Savings' Keating 'improper and repugnant.' But the senator says his colleagues do the same thing.

By SARA FRITZ, TIMES STAFF WRITER

WASHINGTON—Sen. Alan Cranston (D-Calif.) was harshly reprimanded by the Senate Ethics Committee on Wednesday for "improper and repugnant" behavior in his relationship with former savings and loan owner Charles H. Keating Jr.

But, showing little remorse, Cranston declared that most senators do exactly what he did.

During a somber, two-hour session in the Senate chamber, Cranston, 77, listened to a detailed explanation of offenses that were uncovered by Ethics Committee investigators during a two-year inquiry into his relationship with Keating, who headed the now-failed Lincoln Savings & Loan Assn.

Reading directly from the complaint, Sen. Howell Heflin (D-Ala.) said the panel found "clear and convincing evidence that, based upon the totality of the circumstances, Sen. Cranston engaged in an impermissible pattern of conduct."

Acknowledging that Cranston had broken no law and no specific Senate rule, Heflin—who headed the ethics panel during most of its investigation of Cranston—cited four instances considered by the committee to be improper "linkage" between Cranston's solicitation of contributions from Keating and his inquiries with federal regulators on behalf of Lincoln Savings.

For the Senate, which endured a barrage of criticism for its handling of the confirmation of Supreme Court Justice Clarence Thomas earlier this fall, the reprimand of Cranston was a way of demonstrating to critics that Congress does not wink at misconduct—even within its own ranks.

Throughout Heflin's speech, Cranston sat impassively, with criminal-defense lawyer Alan M.

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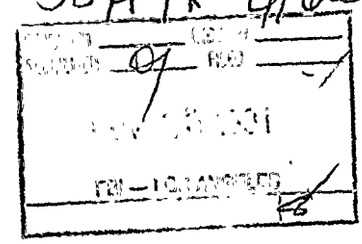
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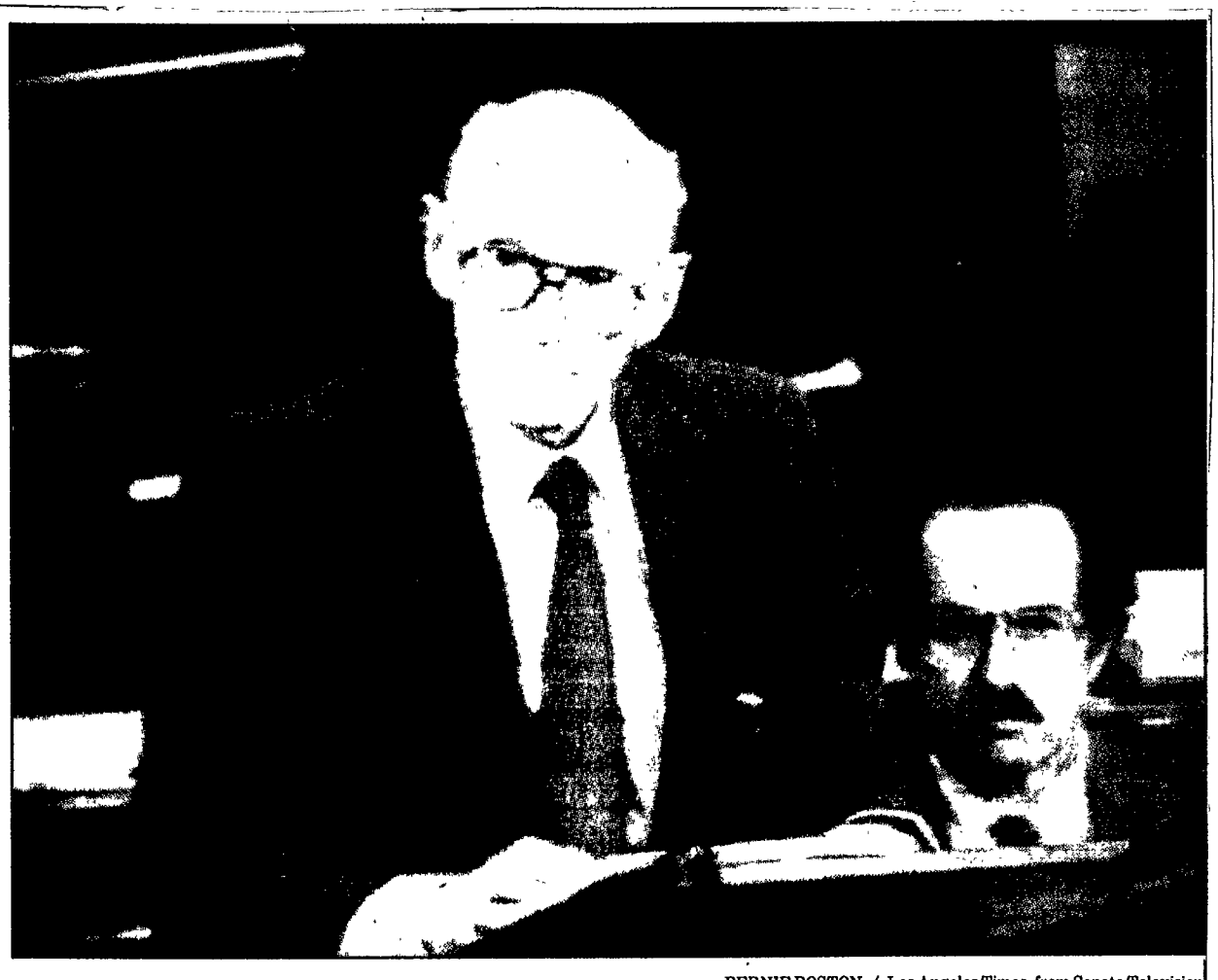
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FBI/DOJ

CRANSTON: Keating Ties Spur Rebuke, Little Remorse



BERNIE BOSTON / Los Angeles Times, from Senate Television

Sen. Alan Cranston (D-Calif.) after being rebuked by ethics panel. At right, his lawyer, Alan M. Dershowitz.

58A-PX-41605

Continued from A1

Dershowitz occasionally whispering legal advice in his ear. The experience was obviously a painful one for the onetime presidential candidate and former assistant majority leader.

Cranston then rose in his own defense. Although apologizing for his behavior and agreeing to accept the reprimand, he made it clear that he disagrees strongly with the committee's findings that his behavior was a radical departure from the Senate norm.

"How many of you," he asked, "after really thinking about it, could rise and declare you've never, ever helped—or agreed to help—a contributor close in time to a solicitation or receipt of a contribution? I don't believe any of you could say never."

Then Cranston stunned his colleagues by saying that he—with Dershowitz's help—had investigated the conduct of other senators and had found many examples of similar behavior on their part. He did not name any of the senators to whom he referred and he flatly refused later to identify them.

Cranston's defense of himself was so strident that Sen. Warren B. Rudman (R-N.H.), vice chairman of the Ethics Committee, immediately jumped to his feet and condemned the senator's speech as "arrogant, unrepentant and a smear on this institution."

"Everybody doesn't do it," Rudman insisted.

Afterward, several Republican senators charged that Cranston's statements violated the spirit of an agreement under which the Ethics Committee had said it would not call for a full Senate vote on the censure if he accepted the reprimand. Some senators even threatened to move for a vote condemning Cranston in the near future.

The floor proceedings culminated an intensive investigation of a complaint brought more than two years ago by citizens' lobby Common Cause. It alleged that Cranston and four other senators—Dennis DeConcini (D-Ariz.), Donald W. Riegle Jr. (D-Mich.), John Glenn (D-Ohio) and John McCain (R-Ariz.)—had acted improperly by accepting contributions from Keating while interfering in a Federal Home Loan Bank Board investigation of Lincoln Savings.

Last February, after months of public hearings, the committee dropped its investigation of the other four senators. DeConcini and Riegle were severely chastised; Glenn and McCain received only mild criticism.

But Cranston's behavior was viewed as much more egregious by the committee members. They emphasized in their final report that they would have recommended censure for the California senator had he not already announced plans to retire at the end of 1992 and had he not been under treatment for prostate cancer.

During months of behind-the-scenes negotiations with the committee, Cranston even authorized his physician to detail his condition for Heflin and Rudman in an effort to persuade them to drop the case. "May none of you ever have to battle cancer and something like this at the same time in your lives," he told the Senate.

But Cranston used an even more powerful bargaining chip in months of talks with the committee. In his floor speech, he confirmed previous reports that he had threatened to implicate other senators in wrongdoing if the panel sought to censure him.

"I was prepared, on the advice of Prof. Dershowitz, to demonstrate to the Senate and to the nation, through example after example of comparable conduct, that my behavior did not violate established norms," he said.

The committee's solution to the dilemma Cranston's threats created was unprecedented. Never before in Senate history had a member been merely reprimanded in such a trial-like atmosphere. In the past, they have either been reprimanded in a statement issued by the committee or forced to stand trial in the Senate with a verdict rendered by vote at the end of the proceeding.

Although the six-member committee had long been deadlocked, 3 to 3, on the question of whether Cranston should be censured by the full Senate, there was no equivocation in their findings. In essence, the panel found that he and his staff engaged in a persistent pattern of behavior in which they viewed Keating's contributions as reason to assist the flamboyant thrift executive in fighting a federal bank board investigation of Lincoln Savings.

In all, Cranston solicited nearly $1 million in contributions from Keating for his 1984 presidential campaign, his 1986 reelection campaign, the California Democratic Party and several voter registration groups founded by Cranston. By the committee's count, he also contacted federal officials 13 times on Lincoln's behalf.

". . . Sen. Cranston's conduct was improper and repugnant," the findings said. ". . . Sen. Cranston's

improper conduct deserves the fullest, strongest and most severe sanction which the committee has the authority to impose. Therefore, the Senate Select Committee on Ethics, on behalf of and in the name of the United States Senate, does hereby strongly and severely reprimand Sen. Alan Cranston."

None of Cranston's actions—taken separately—was improper, Heflin said. Furthermore, he said, the panel found no evidence that Cranston's misconduct was intentional or that Cranston personally benefited from any of the money he solicited from Keating.

Instead, Heflin said, Cranston was found guilty of violating a subjective standard known to all members. "Members of the committee unanimously concluded that commonly understood and well-established norms of behavior in the Senate do not permit linkage between official actions and fund raising," he said.

Although there was no evidence that Cranston ever promised to do a favor for Keating in response to a contribution, Heflin said, the two were clearly linked. Paraphrasing former Supreme Court Justice Potter Stewart's oft-quoted remarks about obscenity—"I know it when I see it"—Heflin said "linkage" could not easily be defined, but senators knew it when they saw it.

Heflin said the worst example of such linkage occurred in November, 1987, when Keating lobbyist James Grogin delivered $250,000 in checks for voter registration to Cranston at his office in the Capitol, and the senator—in a telephone call to Keating while Grogin was still present—agreed to ask Federal Home Loan Bank Board Chairman M. Danny Wall to meet with the Lincoln owner.

But Cranston asserted that the mere juxtaposition of solicitations of Keating and his intervention with federal regulators was no sufficient proof of linkage.

"There was no quid pro quo," Dershowitz said after the Senate debate, during which he was prohibited by the rules from speaking. "We can prove that other senators engaged in similar linkage but simply did a better job of covering up their tracks."

Dershowitz also asserted that it was the first time in history that the Senate had ever reprimanded any member for the appearance of impropriety instead of an actual infraction. He said the committee's allegations would never have stood up in a court of law.

Cranston, who has long had a reputation as perhaps the best fund-raiser in the Senate, argued that there are no established norms in the Senate prohibiting what he did.

"There is no precedent and there is no rule establishing that it is unethical for a senator to engage in legitimate constituent service on behalf of a constituent because it

Please see CRANSTON, A28

58A-PX-41605

CRANSTON: Ethics Rebuke Issued

Continued from A27

was close in time to a lawful contribution to the senator's campaign or to a charity that the senator supports," he said.

In addition, he said that by adopting the committee's findings, the Senate was setting a new standard that would ensnare many other senators in the future. He noted that all senators give greater access to big contributors than to small ones and said:

"Let me ask: Since I have been singled out for a reprimand on access today, who among you can be sure you will not be singled out for a reprimand on access tomorrow? Here, but for the grace of God, stand you."

At the same time, Cranston expressed some regret for the actions that had marred his final year in the Senate.

"I'm not proud of this moment," he said. "I deeply regret the pain all this has caused my family, my friends, my supporters and my constituents . . . . In retrospect, I grant that I should not have solicited and received—even though it was on behalf of others—charitable donations close in time to official actions . . . . For that I apologize."

Cranston said he intervened on Lincoln's behalf not because of contributions but because of his concern for employees and depositors of the Irvine-based thrift and because such notable economists as now-Federal Reserve Board Chairman Alan Greenspan had vouched for the thrift's financial soundness. He said his contacts did not cause Lincoln's failure.

The senators initially investigated by the committee in the Keating case began contacting bank board officials as early as 1987, when the agency was first looking into evidence of fraud and mismanagement at the institution. But the thrift was not seized by federal regulators until April, 1989, after it had piled up more than $2 billion in taxpayer-insured losses.

Cranston also made a pitch for campaign finance reform, public financing of elections and abolition of the Senate Ethics Committee. He endorsed a proposal to establish a panel of former senators, former judges and others to sit in judgment in Senate ethics cases.

He noted that the committee's deliberations had taken place in a politically charged atmosphere, which was exacerbated by the criticism received by the Senate for its handling of the nomination of Thomas to the high court. In fact, that criticism persuaded the committee to find a compromise in the Cranston case.

Although many fellow Democrats swarmed around Cranston to shake his hand after the Senate session, none of them objected to the reprimand. And Rudman clearly struck a chord with Democrats and Republicans alike when he defended the reputation of the Senate against the allegations that Cranston had leveled against unnamed senators.

"Members of this body attempt by word and deed to take great care with their personal conduct as it might be perceived by the American people," Rudman said.

'I'm not proud of this moment. I deeply regret the pain all this has caused my family, my friends, my supporters and my constituents.'

ALAN CRANSTON

In explaining the case against Cranston, Rudman and Heflin cited these instances—among others—to demonstrate what they viewed as a pattern of improper conduct:

—On Jan. 2, 1987, Joy Jacobson, Cranston's chief fund-raiser, wrote a memo to the senator in which she listed Keating among several big contributors who had matters pending before the federal government and—in her words—"will rightfully expect" some help from Cranston. Such a direct connection between money and assistance is unusual in the Senate, Rudman said.

"While I know of cases where political supporters expect help, I have never heard a senator or a person working for a senator express the view that there is any legitimacy to such an expectation," Rudman said.

—In July or August, 1987, Cranston called Wall to urge prompt action in the Lincoln investigation. Later, after Wall rejected a proposal to seize Lincoln, Jacobson wrote to Cranston saying that the decision was "obviously good news to Keating" and adding: "You should ask Keating for $250,000."

—On Jan. 8, 1988, Cranston and his son, Kim, had dinner with Keating at a restaurant in Los Angeles and discussed Keating's problems with the government and Cranston's fund raising for voter registration. Keating, who is now on trial in Los Angeles, then asked Cranston to set up a meeting with Wall, after which Cranston and his son received $500,000 for voter registration.

Despite Cranston's bravado on the Senate floor, he acknowledged that he had suffered personal anguish as a result of the case. He also noted that, even though Dershowitz was representing him without charge, he owed nearly $1 million in legal fees to the lawyer who had represented him earlier in the case.

Finally, Cranston asked for forgiveness from the people of California.

"Surely, I have not done everything right," he said. "But I hope that, when my public life is weighed in the balance, it will not be found wanting."

FD-350 (Rev. 5-8-81)

(Mount Clipping in Space Below)

Senate Stunned as Regret Gives Way to Rebuttal

By RUDY ABRAMSON
TIMES STAFF WRITER

WASHINGTON—It was not exactly a plea bargain gone awry, but it was close.

Sen. Alan Cranston had advised the Senate Ethics Committee in advance and in writing that he would accept its reprimand and, when he arose on the floor just after 3 p.m. Wednesday, his first words were indeed of remorse.

He was not proud of the moment, he said. He regretted the pain that "all this" had caused his family, friends, supporters and constituents. He began to speak without his

■ **HEARING EXCERPTS:** A24-26

lapel microphone. When he started over, he read carefully from his prepared text, using a lectern placed on his customary desk in the center of the ornate Senate chamber.

And it was undoubtedly the low point of Cranston's career as a public man, having heard himself excoriated by an Ethics Committee resolution finding that his conduct in his dealings with Charles H.

Please see REBUTTAL, A32

(Indicate page, name of newspaper, city and state.)

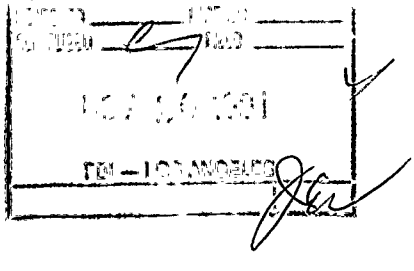
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REBUTTAL: Bitter Speech Stuns Senate

Continued from A1

Keating Jr. and Lincoln Savings & Loan had "violated established norms of behavior in the Senate."

But, after he put aside his first page, Cranston launched into a bitter rebuttal of the committee that stunned fellow senators, who were already uncomfortable at being part of the spectacle and had expected him to accept the reprimand without a counterattack.

Some thumbed through the fat committee report. Some stared deep into the chamber's plush blue carpet. A few ducked out for air.

The former Democratic whip not only fired back at the committee, but also pointedly accused unnamed colleagues of doing the same thing he admitted having done—allowing the appearance of linking political favors to campaign contributions.

It was the kind of thing that gives gooseflesh to politicians from county road boards to the White House: public talk about the gossamer threads that entangle money and political access.

He had "abundant evidence," he said, "to demonstrate to the Senate and to the nation, through example after example of comparable conduct, that my behavior did not violate established norms."

He would not name names but he warned that others could also be vulnerable to being singled out, as he said he had been.

"How many of you," he asked, "could stand up and declare you've never, ever decided to see or take a call from someone whose name you recognize, be it a friend, a prominent leader in your state or in the nation, a volunteer in your campaigns or a contributor, while asking your staff to tend to someone you don't recognize?"

"I doubt that any of you could do so.

"Furthermore, you and I know that the Democratic Senatorial Campaign Committee, the Republican Senatorial Campaign Committee and the White House stage events where lobbyists and other individuals paying $10,000, $15,000, $20,000, or even $100,000 a year can mingle with the President, the Vice President, Cabinet members and senators. The more they contribute, the more exclusive and intimate the event. That's access."

After his angry finger-pointing, Cranston characteristically struck out for high ground with a call for reform, namely public financing of political campaigns. And he indirectly appealed for sympathy, twice noting that he is suffering from cancer.

It was a visibly difficult moment for one of the barons of Senate Democrats, a man who, throughout 22 years in Washington, has been most comfortable dealing with matters of arms control, the environment and human rights.

It could have been worse. His agreement to accept the harsh judgment spared him the pain of having the full Senate vote to approve the findings and the ultimate humiliation of standing before them to be ceremonially reprimanded.

And while Cranston completed his case, still bristling at being singled out, committee members suggested that, to the contrary, he had been given special consideration.

"Members of the committee considered the state of Sen. Cranston's health and the fact that he will not seek reelection to the Senate in reaching a conclusion as to the appropriate sanction in this case," Ethics Committee Chairman Howell Heflin (D-Ala.) said. "For some members of the committee, his age was also considered, as well as his remarkable record of service to this nation over the last 23 years."

In the end, the sympathy for Cranston was mixed with seething anger for his assault on the findings that he had promised to accept.

A furious Sen. Warren B. Rudman (R-N.H.) followed his denunciation of Cranston's performance as "arrogant," "unrepentant," and "unworthy," with a vow to present senators with further information to back up the committee's conclusion. And there were Republican murmurings that the decision to let the California senator off without a vote by the full Senate should be reconsidered.

But after Rudman's final blast, Heflin was asked from the chair "whether this does complete the investigation of Sen. Cranston."

Heflin replied with finality: "Yes, it does."

The long slide of the powerful California Democrat had bottomed out, nearly five years after Cranston first contacted the Federal Home Loan Bank Board on behalf of Lincoln Savings. As Cranston gathered the papers around his desk, several Democrats—Dennis DeConcini of Arizona, Claiborne Pell of Rhode Island, Max Baucus of Montana, Daniel K. Inouye of Hawaii, Joseph R. Biden Jr. of Delaware and Daniel Patrick Moynihan of New York—stopped by to shake his hand. Among them was one Republican—Alan K. Simpson of Wyoming.

As those senators joined the rest of the Senate heading out side exits of the chamber, Cranston walked out a back exit with his press secretary, Murray Flander, and his lawyer, Harvard professor Alan M. Dershowitz.

Bus Driver, Dying at the Wheel, Keeps Safety Record Alive

SPRINGFIELD, Mo.—A bus driver who had logged more than 2 million accident-free miles managed to pull his bus into an interstate rest area before dying of a heart attack, his supervisor said.

Jim Sneed, 59, of Springfield, was driving a Greyhound bus with 44 passengers on board Sunday on Interstate 44 near Claremore, Okla., when he experienced chest pains. A retired bus driver who was on the bus volunteered to drive it and take Sneed to the nearest hospital, said Alan Smith, driver supervisor for Greyhound-Trailways Bus Lines in St. Louis.

"He told him, 'No, I've got to get it off the highway myself,'" Smith said.

—Associated Press

Excerpts: Senators Find His 'Conduct Was Improper, Repugnant'

WASHINGTON—Here are excerpts from the Senate Ethics Committee resolution reprimanding Sen. Alan Cranston (D-Calif.) for his dealings with Lincoln Savings & Loan owner Charles H. Keating Jr., and from statements made on the Senate floor:

COMMITTEE RESOLUTION: . . . The committee finds that Sen. Alan Cranston, personally or through Senate staff, made . . . contacts with federal officials regarding Lincoln Savings & Loan, a subsidiary of American Continental Corp., a company associated with Charles H. Keating Jr. . . .

The committee also finds that Sen. Cranston had substantial constituent interest in intervening with federal officials on behalf of Lincoln, including the facts that Lincoln employed hundreds of California residents and that thousands of California residents were Lincoln depositors and bond holders. The committee also finds that Sen. Cranston had information which reasonably caused concern about the regulation of Lincoln, including a letter from Jack D. Atchison with the accounting firm of Arthur Young and a report from Alan J. Greenspan relating to Lincoln.

Activities Not Illegal

The committee further finds that, when considered in and of themselves and without regard to any contribution or other benefit, none of Sen. Cranston's aforementioned activities concerning Lincoln were illegal or improper and violated no law or Senate rule.

. . .

Based on the available evidence, the committee concludes that contributions to Sen. Cranston's presidential and Senate campaigns from Mr. Keating and his associates under the Federal Election Campaign Act were within the established legal limits, and were properly reported.

The committee also concludes . . . that Sen. Cranston's solicitation or acceptance of contributions to state party organizations, political action committees, and voter registration organizations were, in and of themselves, not illegal or improper; nor did any such contribution constitute a personal gift to Sen. Cranston. . . .

The committee finds that, in and of themselves, none of the foregoing actions of Sen. Cranston violated any law or Senate rule.

The committee further finds by clear and convincing evidence that, based upon the totality of the circumstances, Sen. Cranston engaged in an impermissible pattern of conduct in which fund-raising and official activities were substantially linked in connection with Mr. Keating and Lincoln. . . .

Be it further resolved that the committee finds that:

—From early 1987 through April, 1989, Sen. Cranston personally or through Senate staff contacted the Federal Home Loan Bank Board on behalf of Lincoln during a period when Sen. Cranston, on behalf of organizations in whose success he had a deep concern, was soliciting and accepting substantial contributions from Mr. Keating. . . .

—Sen. Cranston's Senate office practices further evidenced an impermissible pattern of conduct in which fund-raising and official activities were substantially linked.

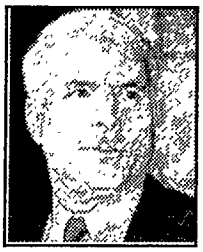
It is further resolved:

Key Events in the Keating Five Case


Sen. Alan Cranston


Sen. Dennis DeConcini


Sen. John Glenn


Sen. John McCain


Sen. Donald W. Riegle Jr.

Here are some of the key events in the saga of the so-called Keating Five senators and their involvement with Lincoln Savings & Loan and its owner, Charles H. Keating Jr.:

■ **March 12, 1986:** The Federal Home Loan Bank in San Francisco begins an examination into Lincoln's rapid growth and investment activity.

■ **April 9, 1987:** Sens. Alan Cranston (D-Calif.), Dennis DeConcini (D-Ariz.), John Glenn (D-Ohio) John McCain (R-Ariz.) and Donald W. Riegle Jr. (D-Mich.), who received large political contributions from Keating, meet with the San Francisco bank examiners.


Charles H. Keating Jr.

■ **April 14, 1989:** The government takes control of Lincoln at an eventual cost to the taxpayers of $2.6 billion.

■ **Sept. 18, 1990:** Keating is indicted on state charges for securities fraud.

■ **Nov. 15, 1990:** The Senate Ethics Committee opens hearings into the Keating Five.

■ **Feb. 27, 1991:** The Ethics Committee finds "substantial credible evidence" of misconduct by Cranston. It says Riegle and DeConcini gave the appearance of impropriety but recommends no further action against them. Glenn and McCain are criticized less severely. The panel wrestles with what action should be taken against Cranston.

■ **Aug. 2, 1991:** Keating's trial begins in Los Angeles County.

■ **Aug. 5, 1991:** Sen. Jesse Helms (R-N.C.), a member of the Ethics Committee, issues a report of his own, saying Cranston should be censured for "reprehensible conduct."

■ **Nov. 18, 1991:** The jury in Los Angeles begins deliberating the Keating case

■ **Nov. 20, 1991:** The Ethics Committee reprimands Cranston, who goes before the full Senate and says he will accept the panel's verdict.

—That Sen. Cranston's impermissible pattern of conduct violated established norms of behavior in the Senate, and was improper conduct that reflects upon the Senate. . . .

—That Sen. Cranston's conduct was improper and repugnant.

—In reviewing the evidence available to it, the committee finds that Sen. Cranston violated no law or specific Senate rule, acted without corrupt intent, and did not receive nor intend to receive personal financial benefit from any of the funds raised through Mr. Keating.

—Further, the committee finds that extenuating circumstances exist including . . . that Sen. Cranston is in poor health and that Sen. Cranston has announced his intention not to seek reelection to the Senate.

—Sen. Cranston's improper conduct deserves the fullest, strongest and most severe sanction which the committee has the authority to impose.

Therefore, the Senate Select Committee on Ethics, on behalf of and in the name of the United States Senate, does hereby strongly and severely reprimand Sen. Alan Cranston.

SEN. HOWELL HEFLIN (D-Ala.): In connection with his dealings with Charles Keating and Lincoln Savings & Loan, a failed California S&L, Sen. Cranston has been "strongly and severely reprimanded" by the Ethics Committee for improper conduct which reflects upon the Senate. The reprimand did not come because Sen. Cranston violated any law, nor because he violated any specific Senate rule. The committee has found that he violated neither. Rather, the reprimand came as a result of "a pattern of conduct in which fund-raising and official activities were substantially linked."

I want to focus for a moment on the committee's finding that there was substantial linkage between Sen. Cranston's fund-raising and his official duties, as it related to Mr. Keating and Lincoln Savings & Loan. At least two aspects of the committee's reprimand deserve discussion.

First, a threshold matter. If, in all of his actions, Sen. Cranston violated no law and violated no specific Senate rule, why is he, nevertheless, being reprimanded by the Ethics Committee? As amended, Senate Resolution 38 of the 88th Congress authorizes the

Ethics Committee to receive complaints and investigate allegations of violations of law, violations of the Senate Code of Official Conduct, violations of rules and regulations of the Senate, and "improper conduct that reflects upon the Senate," and to make appropriate findings of fact and conclusions with respect thereto. . . .

The path to judgment is easy when a specific law or rule has been violated. But for those who believe in the "Rule of Law," violations of unwritten ethical standards are far more difficult to resolve. Although a finding of "improper conduct that reflects upon the Senate" is subjective in nature, it must ultimately rest upon a violation of an existing and well-understood norm of behavior. Before making such a finding, Senate practices and customs and their interrelationships must be carefully evaluated. . . .

As in all cases of this nature, the committee's decision in Sen. Cranston's case was based upon the totality of the circumstances, and it was from this totality that the committee determined that Sen. Cranston engaged in an impermissible pattern of conduct in which fund-raising and official activities were substantially linked.

The pattern which the committee found so disturbing was unequivocally manifest through a series of activities and occurrences involving Sen. Cranston over a period of at least two years. Some of the actions which created the linkage were taken by Sen. Cranston personally, some by his staff, who often acted with his knowledge or permission and often under his direction or supervision.

Some Troubling Occurrences

Some of the occurrences which led the committee to conclude that "substantial linkage" existed between Sen. Cranston's fund-raising and his official activities were included in the committee's resolution, and I will not repeat them all. On their face, some acts or occurrences were obviously more troubling than others.

One notable example is the incident in November, 1987, where delivery of $250,000 in contributions from Charles Keating for voter registration groups took place at the same meeting in the Capitol where the senator agreed to contact a regulator on Keating's behalf. The committee has not found that the events were causally connected, but the incident does indicate linkage. . . .

Members of the committee considered the state of Sen. Cranston's health, and the fact that he will not seek reelection to the Senate, in reaching a conclusion as to the appropriate sanction in this case. For some members of the committee, his age was also considered, as well as his remarkable record of service to this nation over the last 23 years.

Having taken these extenuating circumstances into account, the committee determined that it was appropriate to issue the most severe sanction which could be imposed by the committee. . . .

SEN. WARREN B. RUDMAN (R-N.H.): At the outset, Mr. President, I would like to discuss what this case is not about. It is not about the merits or wisdom of Sen. Cranston's intervention on behalf of Lincoln,

Please see EXCERPTS, A25

EXCERPTS: Linkage Between Fund-Raising, S&L Aid Found

Continued from A24

Savings & Loan Assn. The merits of a policy pursued by a senator is between the senator, his constituents and the American people. It is not a matter for the Ethics Committee.

The case before the committee was also not about the merits of the existing system for financing congressional campaigns. . . . This case is not about the propriety of assisting a person who happens to have been a campaign contributor or a political supporter. It is a routine, proper and necessary function of a United States senator to make inquiries of agencies on behalf of individuals and to intervene when the senator believes that justice or equity requires. . . .

The question then facing us was as follows: Is there a further standard of conduct governing a senator's action on behalf of individuals, and did Sen. Cranston act improperly by violating that standard?

The cardinal principle governing senators relevant to today's action is that a senator must make decisions on whether to intervene on behalf of an individual without regard to whether such individual has contributed or promised to contribute. In other words, official actions and contributions cannot be linked. In this case . . .'the committee found that, quote, "Sen. Cranston engaged in an impermissible pattern of conduct in which fund-raising and official actions were substantially linked."

Behavior Deviated From Norms

The committee did not reach this decision lightly. There was more to the linkage than simply coincidental timing between Sen. Cranston's actions and those contributions. Moreover . . . Sen. Cranston is not being unfairly singled out for engaging in conduct routinely practiced by other members of this body. His behavior significantly deviated from the norms governing this body and from principles senators are expected to, and in my 11 years do, in fact, adhere to. . . .

I would now like to turn to some of the major events that caused the committee to reach its conclusion.

First, on Jan. 2, 1987, Joy Jacobson, Sen. Cranston's chief fund-raiser, wrote him a memo stating, and I quote, "Cases/legislation. Now that we are back in the majority, there are a number of individuals who have been very helpful to you, who have cases or legislative matters pending with our office who will rightfully expect some kind of resolution." With respect to Mr. Keating, the memo states, "Is continuing to have problems with the Bank Board and Ed Gray. Jim Grogan and the company's chief legal counsel, Bob Kielty, are coming to see you on Friday at 1 p.m. to get your advice on how to handle the current problems." . . .

The most disturbing example of linkage, I believe, to the committee came later that year. In July or August of 1987, Sen. Cranston called M. Danny Wall, the new chairman of the Federal Home Loan Bank Board, to urge that a prompt decision be made in the Lincoln examination. Chairman Wall testified that the senator did not state what the resolution ought to be. In early September, Chairman Wall agreed to postpone a scheduled field visit by the regulators to Lincoln and consider the matter at the Washington headquarters.

On Sept. 6, Jacobson wrote a memo to Sen. Cranston. A press clipping about Chairman Wall's decision was attached. And the memo stated that his views are, quote, "obviously good news to Keating." She added, quote, "You should ask Keating for $250,000." . . . On Sept. 24, Mr. Keating met with Chairman Wall in the morning and Mr. Cranston later in the day. As a letter Sen. Cranston wrote two weeks later shows, he and Mr. Keating discussed the morning meeting, Sen. Cranston requested and received a commitment for a $250,000 contribution for the voter registration organizations he supported.

Checks Delivered

On Nov. 6, Mr. Grogan personally delivered $250,000 in checks to Sen. Cranston. . . .

It is important to note, however, in fairness to Sen. Cranston, that Mr. Grogan, who was testifying under grant of immunity and therefore had every reason to be truthful, flatly and persuasively denied the existence of any indication of a quid pro quo, a necessary element to establish bribery. . . .

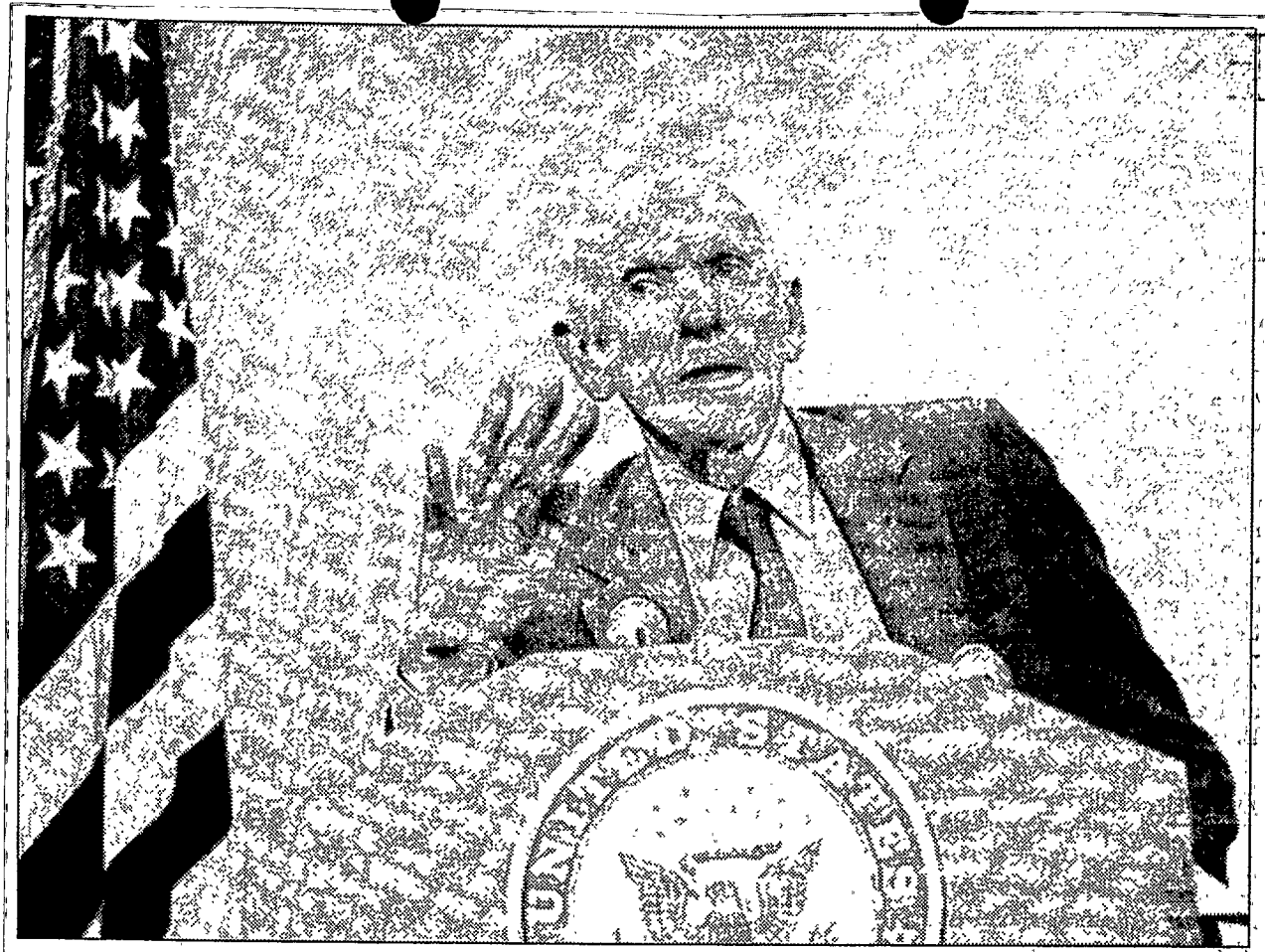
These four incidents, in and of themselves, demonstrate that Sen. Cranston impermissibly linked through time and other circumstances contributions and official actions. That is a pattern of improper conduct which must be sanctioned by this institution, and it's why we're here on the floor of the Senate today.

My colleagues will note that I have not addressed either the merits of Sen. Cranston's actions, nor their effect on the Federal Home Loan Bank Board. The reason is that the wisdom and effectiveness of a senator's intervention on behalf of an individual is irrelevant as to whether that intervention was improperly linked to contributions. . . .

Mr. President, the committee unanimously agreed that Sen. Cranston's conduct was improper and required an institutional response. Some members of

'These four incidents, in and of themselves, demonstrate that Sen. Cranston impermissibly linked through time and other circumstances contributions and official actions. That is a pattern of improper conduct which must be sanctioned by this institution, and it's why we're here on the floor of the Senate today. . . .Mr. President, the committee unanimously agreed that Sen. Cranston's conduct was improper and required an institutional response.'

SEN. WARREN B. RUDMAN (R-N.H.)



BERNIE BOSTON / Los Angeles Times

Sen. Alan Cranston takes question at a news conference after receiving reprimand from the Senate.

the committee, including this senator, believe that Sen. Cranston's conduct merited action by the full Senate. The question then arose as to what response the Senate should take. The committee's debate over the last two months was not over whether to take action, but over what action to take. There are, indeed, mitigating factors, most notably the lack of any personal benefit and of any significant direct benefit to Sen. Cranston's campaigns for the Senate or for the presidency.

I personally believe that the $49,000 contributed to those campaigns were not the major motivation for his actions. It was the $850,000 contributed to the voter registration groups, groups in which Sen. Cranston had a profound and appropriate interest. He received no personal benefits from these groups, and the political benefits were tangential at best. Moreover, regretfully, Sen. Cranston is seriously ill, and he has announced that he is not running for reelection. . . .

SEN. CRANSTON: I rise with deep remorse in my heart to accept the reprimand of the committee.

I deeply regret the pain all this has caused my family, my friends, my supporters and my constituents.

I'm proud of my 23-year record in the Senate. . . . I'm not proud of this moment.

My intentions were proper in all I did—as were the intentions of the other four senators who were involved. . . . The committee acknowledges that.

But, in retrospect, I grant that I should not have solicited and received—even though it was on behalf of others—charitable donations close in time to official actions. . . .

So, yes, I accept the committee's reprimand. . . .

First, I ask each of you—I ask everyone—to note that the committee found and acknowledged:

—That nothing I did violated any law or specific Senate rule.

—That I acted without corrupt intent.

—That none of the contributions constituted a personal gift to me, and that I did not receive or intend to receive any personal benefit from any of the funds I raised.

The committee found and acknowledged:

—That all my actions regarding Lincoln Savings & Loan were legal and proper and violated no law or Senate rule.

—That the money I raised was legal, proper and properly reported. . . .

Thus it is clear that I have not been reprimanded for doing anything improper for Mr. Keating. I have been reprimanded because there was, or appeared to be, a proximity in time between legitimate charitable donations I accepted—for bona fide charities—and legitimate official actions I took. . . .

In retrospect, nonetheless, I now realize that it looked improper.

But I differ and I differ deeply with the committee's statement in the resolution that my conduct "violated established norms of behavior in the Senate."

If I had chosen to fight, I would have challenged that statement even more forcefully than I now will.

There are no such established norms of behavior in the Senate.

There is no precedent and there is no rule establishing that it is unethical for a senator to engage in legitimate constituent service on behalf of a constituent because it was close in time to a lawful

Please see EXCERPTS, A26

584-PX-41605

EXCERPTS: Cranston Given Panel's Severe Reprimand

Continued from A25

contribution to the senator's campaign or to a charity that the senator supports. . . .

I tell you all this, my colleagues, for several reasons.

A Warning to Senators

First, to demonstrate that I did not violate any established norm of Senate behavior.

Second, to warn every one of you who plays any part, direct or indirect, in fund-raising for a charity that you are in jeopardy if you ever do anything at any time to help a contributor to that charity—no matter how worthy the cause, no matter how proper the need for help, and no matter how proper the help you render. I stand before you as an illustration of that jeopardy.

Third, to suggest that reform is needed to protect yourselves and the Senate. I doubt that anything less will do than a ban on charitable fund-raising by senators or in their names. If you engage in such fund-raising, sooner or later some of those who help you will want your help. If they have a legitimate need you'll be hard put to refuse their request simply because they responded to yours. And then you're headed for trouble. On the other hand, how can you not help them? . . .

I ask you this: How can you rationally refuse to give legal and proper help at any time to someone who seems to have a reasonable grievance because he or she has contributed to your campaign?

Can you only help people who haven't contributed?

Or can you only help people who haven't contributed lately?

How lately?

And must you refrain from helping people who might contribute in the future?

How far in the future? . . .

Get Money Out of Politics

I believe the only remedy is to get money out of politics. Therein lies salvation for you, for the Senate, and most of all for the American people who are the ultimate losers until we end the role money plays or seems to play in our decision-making, and end the business of senators and would-be senators having to spend more and more of their time chasing the money needed to fund a successful campaign. . . .

I differ with the suggestion that the way I handle so-called "access" differs from the established norm in the Senate.

How many of you could stand up and declare you've never, ever decided to see or take a call from someone whose name you recognize, be it a friend, a prominent leader in your state or in the nation, a volunteer in your campaigns, or a contributor, while asking your staff to tend to someone you don't recognize?

I doubt that any of you could do so. . . .

So let me ask: Since I have been singled out for a reprimand on access today, who among you can be sure you will not be singled out for a reprimand on access tomorrow?

Here, but for the grace of God, stand you. . . .

It's been suggested that the committee should be revamped so that its members would consist not of sitting senators but instead of former senators, former judges and outstanding laymen. I endorse that concept, until and unless something wiser is proposed. . . .

For those of you who may feel that I should pay for my conduct, let me assure you that I have paid.

In terms of dollars, legal fees for myself and others for whom I feel a sense of responsibility approach $1 million. . . .

I am also more grateful than I can say to the people of California, who have so often honored me with their votes, and who have always let me fight for my beliefs even when they weren't sure they agreed. . . .

These two years have taken much from me. The greatest cost is the anguish and uncertainty felt by my family and others who have stood with us.

May none of you ever have to battle cancer and something like this at the same time in your lives.

SEN. RUDMAN: I must say regretfully that after accepting this committee's recommendation, what I have heard is a statement that I can only describe as arrogant, unrepentant and a smear on this institution. Everybody doesn't do it. . . .

Everybody Doesn't Do It

The linkage that this committee rested its case upon is not based only upon time. The report talks about linkage of money, time and other circumstances not present in any of the other four cases before us. Secondly, it is true that many members of this institution care deeply about charities for the public good and they in fact do raise money for those charities and many have come to the committee for advice on how they should proceed. Everybody doesn't do it. . . .

I have found that to be the one unifying thread in this body, and for the senator from California to rise and give a speech on this floor after accepting this admonition, this serious reprimand, a reprimand because of circumstances he knows full well, rather than a vote, which I would have preferred, and blame it on campaign financing, everybody does it, and you should all be in fear of your lives and the Ethics Committee, is poppycock. . . .

FEDERAL BUREAU OF INVESTIGATION
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FOI/PA# 1259813-1

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Memorandum

To : SAC PX 58C 41605 P Date 1/11/90

From : SA [redacted]

b6
b7C

Subject : Allegations against Senators, Alan Cranston, et al
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OO:PX

It's recommended that Sub B be open for newspaper articles.

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Sub B
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58C-PX-41605 Sub B-1

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JUN 12 1990

FD-350 (Rev. 5-8-81).

(Indicate page, name of newspaper, city and state.)

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Keating wins delay for House appearance

Star witness **Charles Keating Jr.** won a two-week delay Monday from testifying before a House committee probing the $2 billion failure of **Lincoln Savings and Loan of Irvine, Calif.**

Keating ran Lincoln until it was seized by the government in April. House Banking Committee Chairman **Henry Gonzalez**, D-Texas, has shaken Congress with explosive hearings on how Keating allegedly used powerful people, including five senators, to thwart efforts to restrain his renegade S&L.

Four weeks ago, the committee subpoenaed Keating. However, he was in Europe on business and federal marshals couldn't find him.

Monday, committee staffers met with Keating's new attorney, **John Quinn of Los Angeles.** They gave Quinn the subpoena for today's House hearing, then agreed to delay Keating's appearance until Nov. 21 so Quinn could prepare.

Quinn said it hasn't been decided whether Keating will testify or invoke his Fifth Amendment right.



AP

KEATING: Hired new lawyer



GRAY: Ex-regulator is scheduled to testify today

Today's hearing, meanwhile, should provide new controversy even without Keating. Scheduled to appear:

▶ **Larry Taggart**, who immediately went into business with Lincoln after leaving his job as California's top S&L regulator.

▶ **Lee Henkel**, a developer whom Keating helped place in 1986 on the three-member **Federal Home Loan Bank Board**, then the chief federal S&L overseer. Henkel had borrowed more than $55 million from Lincoln.

▶ **Jack Atchison**, a partner in the accounting firm of **Arthur Young & Co.**, who joined Keating's payroll at $372,000 a year in 1987, after giving Keating's company a clean audit. Atchison has refused the committee's request to submit testimony, raising speculation that he may invoke the Fifth Amendment.

▶ **Ed Gray**, the former top S&L regulator who has accused the five senators of improperly protecting Lincoln.

The Senate Ethics Committee has asked the five senators — **Alan Cranston**, D-Calif., **Dennis DeConcini**, D-Ariz., **John Glenn**, D-Ohio, **John McCain**, R-Ariz., and Senate Banking Chairman **Don Riegle**, D-Mich. — if donations from Keating prompted them to intervene with regulators for the S&L.

California regulators turned over information to the FBI on Cranston's solicitation of $850,000 in donations from Keating, a conservative Republican. The money was given to Cranston-sponsored groups involved in voter registration.

The five senators met with S&L examiners from **San Francisco** in April 1987 to question the handling of their examination of Lincoln.

Keating, 65, also is being investigated by the FBI and the Securities and Exchange Commission. Meanwhile, Keating is receiving a $400,000 annual salary from his family-controlled **American Continental Corp.**, which owned Lincoln and now is under bankruptcy protection. His salary drops to $250,000 on Jan. 1. He also makes an undisclosed amount for managing **The Phoenician**, a luxury hotel in **Scottsdale, Ariz.**, that is one of Lincoln's bad investments.

— Dennis Cauchon

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(Indicate page, name of newspaper, city and state.)
Detroit News
Detroit, Mi.
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Damage control?

In announcing Kevin Gottlieb's resignation as chief of staff for the Senate Banking Committee, Sen. Don Riegle, D-Mich., denied that the resignation had anything to do with the senator's own difficulties over his relations with the savings and loan industry. The senator, though, has a plain need to limit the liabilities he faces as much as possible as he tries to wrestle with political as well as ethical questions about his relations with the industry.

Mr. Gottlieb had a lot to do with shaping the way the Senate and Sen. Riegle dealt with the savings and loan bailout law. In recent weeks, important questions have been raised about some of his connections during an 18-month period in 1987-88, when he was out of government, and about the way he has reported speaking fees during the time he has worked for Sen. Riegle. Mr. Gottlieb is knowledgeable about the savings and loan business, and that is an asset. As expensive and as controversial as the bailout legislation is, however, we would feel a lot more comfortable if Mr. Gottlieb had maintained a bit more independence of the S&Ls.

Sen. Riegle and Mr. Gottlieb both have to deal with a political question as well as a specific ethical issue: Did the senator and his staff represent all his constituencies as aggressively and effectively as they should have in a matter of very great potential cost and obvious importance? Sen. Riegle argues that he did, that he was arguing for a strong regulatory stance. The record looks somewhat different to us. What we see is a senator and his principal advisor who have compromised their claim to independence and strength and who are scrambling now to control the political and possibly legal damage that has resulted.

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(Indicate page, name of newspaper, city and state.)
Detroit News
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Riegle

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Keating defends seeking help of senators for S&L

BY DAVID EVERETT
Free Press Washington Staff

WASHINGTON — Charles Keating Jr. said Sunday that he sought help from Michigan Democrat Donald Riegle Jr. and four other U.S. senators in 1987 because his now-failed savings and loan had investments in their states.

Speaking on NBC-TV's "Meet the Press," Keating defended his political contributions to the five, whose ties to Keating are being reviewed by the Senate Ethics Committee. Keating faces criminal investigations, a $1.1 billion federal fraud suit and other legal problems from the failure of Lincoln Savings & Loan of Irvine, Calif.

"They had in common the presence of our S&L in a major way in their states," Keating said of the five. "We had successful projects all over that gave employment, gave economic benefits to the community."

Keating's empire, which crumbled last year amid federal fraud charges, included the Hotel Pontchartrain in downtown Detroit.

Keating's comments support Riegle's contention that he was interested in the businessman's case because Keating was a constituent who had invested in Michigan.

On the TV show, Keating said he gave money to the senators' campaigns because he wanted to be part of the political and government process, not because he wanted to buy influence.

That statement contrasts with a widely circulated comment Keating made last April on the question of whether his financial contributions were attempts to influence politicians. "I want to say in the most forceful way I can, I certainly hope so," he said at the time.

On Sunday, Keating called that comment "dumb."

"I wanted to say that I wanted to be involved in the process," he said Sunday. "It's important to me how this country goes, and it was particularly important to me the way the savings and loan industry went."

Keating repeated earlier statements that he believes there was nothing wrong with the five senators meeting with federal regulators in 1987 to discuss Lincoln.

The Senate Ethics Committee and Justice Department are reviewing the conduct of the five. Officials estimate the failure's cost to taxpayers may be more than $2.3 billion.

Riegle denies any impropriety, saying campaign contributions from Keating and his associates had no impact on his conduct. Riegle later returned $78,250, saying he wanted to avoid any appearance of impropriety.

FBI/DOJ

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SEN. RIEGLE

He has more to answer than just the specific charges

Sen. Don Riegle, D-Mich., is entitled to put the best face he can on his role in the Lincoln Savings & Loan debacle, as well as to a presumption of innocence on the specific ethics committee charge. The issues go deeper, though, and will require more skillful rebuttal than anything the senator has said yet, whether his "you're another" argument about the Free Press or his attempt to use tape of his performance in a WXYZ-TV (Channel 7) news program

The senator faces both a legal/ethical problem and a political problem, and that makes his defense of his actions somewhat awkward. His efforts to deal with his political problem have the ironic effect of making less defensible his plea that he not be judged until the Senate ethics committee has completed its inquiry into his actions and those of four other senators who met with federal banking regulators to discuss the treatment of Lincoln Savings & Loan and the chairman of its holding company, Charles Keating. If he asks to be judged politically on the basis of his own performance on a TV program, he invites others to draw their own conclusions and make their own judgments about his performance without waiting for the committee's report.

Sen. Riegle may well have a better chance of winning the specific argument before the ethics committee than he does of winning the political argument. The question of whether he acted **improperly** may in the end matter less than whether it is thought by his constituents that he served them well or poorly. We don't happen to think the Senate — or the House or the Reagan administration — served the country very well during this period. They lost sight of their oversight function and helped to assure that the country would not get control of savings and loan practices and their potential impact until unnecessary damage was done. Sen. Riegle didn't really answer that complaint in his letter to us, or his TV performance, or anything else. He didn't answer it because there is no good answer: Too many watchdogs, including the present chairman of the Senate Banking Committee, were focusing on the wrong questions about federal regulation. The country will pay a price that is far greater than the legal/ethical questions the Senate ethics committee must still try to answer.

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COPY TO BUREAU

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Appraising the auditors

Analysts may be held accountable for thrift failures

Charles Schumer / The congressman says there is "an inherent conflict of interest" in the accounting and appraisal professions.

William Black / "The worst thrifts spent fantastic sums on (appraisers and accountants) and used them as a screen to hide the thrift's misconduct."

By Jerry Kammer and Andy Hall
The Arizona Republic

Developer Charles H Keating Jr. and an entourage flew from Phoenix to New York City last year and demanded that auditors allow American Continental Corp. to show a $56 million profit for a series of investments.

But Arthur Young & Co.'s lead auditor, Janice Vincent, said "no" and insisted Keating's company had earned no profit.

"Lady, you've just lost a job," Keating said acidly.

Within a few weeks, American Continental moved its multimillion-dollar account to another auditing firm, Touche Ross & Co., which offered a preliminary opinion that the investment profits were legitimate.

The federal Securities and Exchange Commission disagreed.

Six months later, American Continental sought bankruptcy protection, and one of its subsidiaries, Lincoln Savings and Loan, was seized by federal regulators, who alleged that the thrift was financially "unsafe and unsound."

Accountants and real-estate appraisers, who legally are obligated to objectively estimate land values, were key figures in the rise of Keating's $6 billion worldwide empire.

But it has become clear that accountants and appraisers failed to protect investors and taxpayers from enormous losses in the collapse of the nation's thrift industry,

— See AUDITORS, page A16

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FBI/DOJ

Auditors may be held accountable for thrifts

— AUDITORS, *from page A1*

including Lincoln Savings.

Suspicions are growing that these professional watchdogs behaved more like lap dogs.

Rep. Jim Leach, R-Iowa, a member of the House Banking Committee, which is probing Lincoln's collapse, called it "a scandal for the accounting profession."

Similarly, William Black, chief counsel for the Federal Home Loan Bank in San Francisco, told the Banking Committee that some appraisers have helped thrifts artificially inflate land values, dooming their loans to failure.

James Feder, an American Continental attorney, denies that the company's auditors and appraisers were improperly pressured to provide favorable analyses.

He said the dispute with Arthur Young in New York was a personality issue.

6 of 11 audits improper

"This was a very heavily lawyered, accounted, professional company," Feder said.

The General Accounting Office, the investigative arm of Congress, this year reported that in six of 11 failed thrifts it studied, accountants "did not properly audit and/or report the savings and loans' financial or internal-control problems in accordance with professional standards."

Taxpayers are beginning to pick up the tab, estimated at $2 billion just for Lincoln, the costliest of the nation's 300 S&L failures. Investors are faced with the loss of $230 million they entrusted to American Continental's junk bonds.

"If you eliminated appraiser abuse, you would probably reduce the losses suffered by the federal government by a minimum of 25 percent," said Peter Barash, a House Banking Committee staff director.

The government may try to force negligent accountants and appraisers to help repay the losses of the failed thrifts that employed them. Criminal investigations are under way.

Reform movements also are under way in the accounting and appraisal professions.

Among the problems reformers must address are:

• Potential conflicts of interest — Accountants and appraisers are required to provide objective analyses, although they are hired by a particular company or S&L. The pressure to write a favorable report, to ensure future business, can be enormous.

• Fraud — More than a dozen accountants are being accused in government lawsuits of fraud stemming from the failure of thrifts, including Lincoln.

Crime allegations

A former Tustin, Calif., auditor has been a fugitive since 1986, when the government accused him of negligence, conflict of interest and malpractice in the $65 million collapse of Ramona Savings & Loan Association.

In Texas, three appraisers have been indicted in connection with alleged fraud at Dallas-based Empire Savings and Loan, which was seized in 1984 by federal regulators. One has been convicted, and two are awaiting retrial.

• Questionable qualifications — There are no education or licensing requirements for appraisers in Arizona and 34 other states, although there are voluntary industry professional standards. As a result of the S&L crisis, however, Congress has ordered that states establish licensing or certification for appraisers who will work on "federally related transactions," beginning in mid-1991.

• Lax self-policing — Accountants and appraisers have come under attack for failing to discipline unscrupulous members of their ranks.

In 1987, the latest year for which figures are available, the American Institute of Certified Public Accountants revoked the membership of 16 of its 280,000 members for violation of accounting rules.

The government is considering adding three "Big Eight" accounting firms as defendants in a $1.1 billion civil racketeering and fraud suit that accuses Keating and company insiders of siphoning Lincoln's deposits for personal gain. The accounting firms, all of which previously worked for Keating, are Arthur Young, now called Ernst and Young; Arthur Andersen; and Touche Ross.

'Conflict of interest'

"I have always wondered how the accounting profession and the appraisal profession work, because obviously, the people who you're giving the stamp of approval to are paying you," Rep. Charles Schumer, D-N.Y., a member of the Banking Committee, told Ernst and Young executives at a hearing in November.

"And there is an inherent conflict of interest in that."

Despite Arthur Young's "last stand" with Keating over the $56 million in "profits," the accounting firm has not been spared from harsh reviews for the two years it worked for Keating. Schumer told the executives that he was "amazed" at what happened while they worked for Keating from 1986 to 1988.

"And if you couldn't catch some of these things, then something is rotten in Denmark, then something has to be changed in the auditing profession," Schumer said.

In testimony to the House Banking Committee in October, Black said, "Lincoln is proof positive that any thrift in America could obtain a clean audit opinion despite being grossly insolvent."

He added that Arthur Young did work for two failed thrifts in Texas.

The firm's Dallas office, Black said, offered the "K mart blue-light spe-

cial" to savings and loans that shopped for compliant auditors. The failures of two thrifts the firm audited there, Vernon and Western Federal, are expected to cost the federal insurance fund about $1 billion each.

Land sales critiqued

Fifteen sales of land by a Lincoln subsidiary, all of which were reviewed and approved by Arthur Young, were the subject of a blistering report released in August by federal thrift regulators.

The report, prepared for the government by the Kenneth Leventhal accounting firm, called the sales phony and the accounting incompetent.

"Seldom in our experience as accountants have we encountered a more egregious example of the misapplication of generally accepted accounting principles," it said.

Feder, the American Continental attorney, condemned the Leventhal report as inaccurate and seriously flawed because no interviews were conducted with companies involved in the transactions.

Much of the federal probe of Arthur Young centers on Jack D. Atchison, who headed the Phoenix audit team that checked Keating's books for 1986 and 1987, a period when Lincoln was making many of the transactions regulators now allege to have been fraudulent.

In early 1988, shortly after signing American Continental's annual report for 1987, Atchison resigned his $225,000-a-year position to go to work for Keating, earning $954,000 in salary and bonuses.

In early 1987, Atchison played a key role in persuading five U.S. senators to intervene in Keating's behalf with federal thrift regulators. Reflecting Keating's criticisms, Atchison wrote a now-controversial report saying that the regulators had taken "unusually antagonistic positions" against Lincoln and that their examination of the Irvine, Calif., thrift could be expected to conclude with an "unduly harsh" report.

Intervention justification

Atchison has refused to comment on his actions.

The senators repeatedly have pointed to that "opinion of a Big Eight accounting firm" as their justification for intervening.

Although several members of the House Banking Committee speculate that Atchison's employment with American Continental may have been a form of payment for improper accounting, that theory is rejected by Ernst and Young executives.

"We have no reason to believe that Mr. Atchison committed any impropriety" during his affiliation with the firm, said William Gladstone, co-chief executive at Ernst and Young, adding that a number of other employees assisted Atchison in reviewing Lincoln's books.

Gladstone said his firm "applied its best, independent professional judgment" to its Lincoln audits. Ernst and Young accountant Nancy Matusiak told the House committee that the Kenneth Leventhal report made "sweeping generalizations" and "some serious mistakes."

Atchison was not alone in leaving his accounting job to work for Phoenix-based American Continental. Keating's son, Charles H. Keating III, an American Continental executive vice president, estimated that the company has hired more than 50 certified public accountants from independent firms that had examined its books. One of them was Andrew Liggett, the company's chief financial officer, who came to American Continental from Arthur Andersen and is a defendant in the racketeering suit.

Appraiser felt pressured

Real-estate appraisers apparently were subjected to pressure to give American Continental the numbers it wanted.

Two real-estate industry executives who are close to former Lincoln appraiser Timothy Morrison say he resigned in June 1988 because he believed Lincoln officials were trying to push unrealistically high appraisals for vacant land at Estrella, a 20,000-acre master-planned community southwest of Phoenix.

Morrison's job was to review the work of appraisers hired by Lincoln from various firms in the Phoenix area and Tucson.

"Tim told me that the straw that broke the camel's back was Estrella," one of the executives recalled. "He said, 'I'm not signing off on those appraisals.' "

Morrison declined to discuss his resignation, citing a confidentiality agreement with American Continental. He now is an appraiser with the Burke - Hansen appraisal firm of Phoenix.

An appraisal is an estimate of the value of a property. It helps a banker know how much to lend to the buyer. The idea is that if a loan goes bad, the bank, or savings and loan, will be able to recover its money by selling the land.

One method used by appraisers is to study sales of comparable properties, or "comps." Regulators suspect that Lincoln created its own comps at inflated values with the help of compliant appraisers.

'Subjective elements'

The younger Keating, who directed land sales for the real-estate subsidiary of Lincoln Savings and Loan, denied that efforts were made to inflate land valuations at Estrella.

But he acknowledged that company officials disagreed with Morrison over appraisals.

He branded Morrison a "malcontent."

Keating said he frequently consulted with appraisers hired by Lincoln to evaluate land at Estrella.

"There are so many subjective elements to a piece of property that they have to work hand in hand with the developer to understand what those elements are," he said.

One important piece of information relating to Estrella was a study that projected rapid growth for the area, he said.

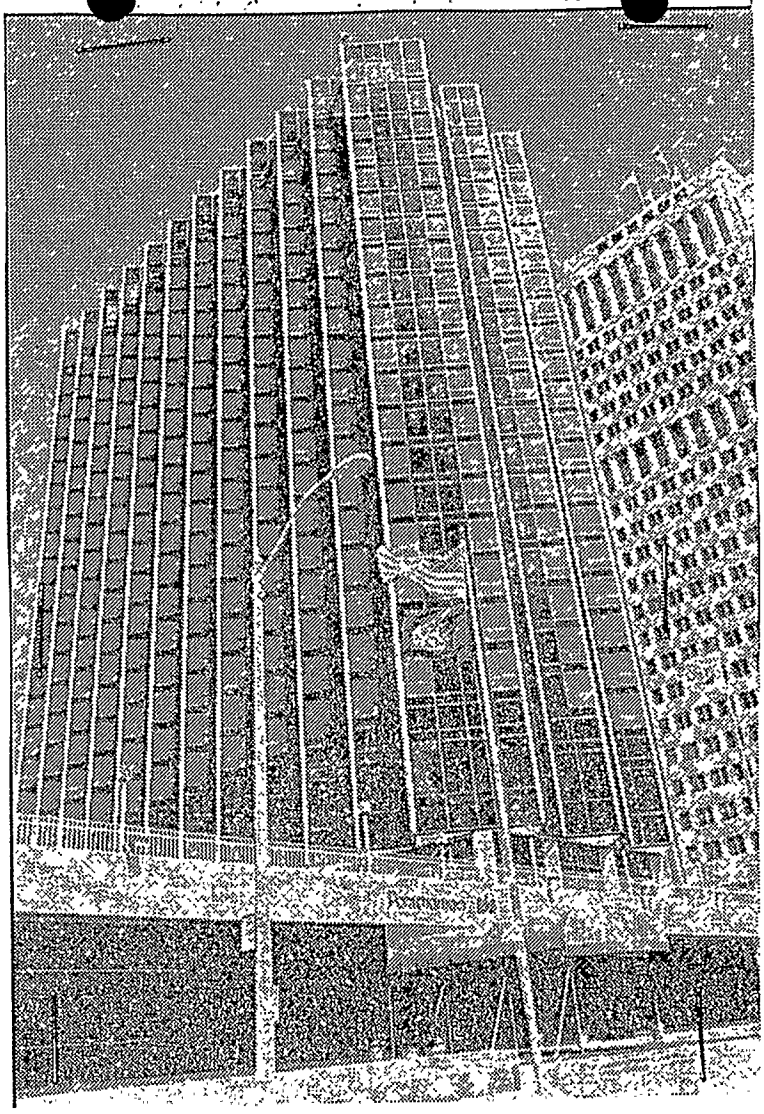
The study was done by Mountain West, a Phoenix-based real-estate consulting firm that also provided appraisals on some Estrella parcels.

The younger Keating said he doesn't think much of appraisers.

"I never knew one appraiser who made any money in the business," he said.

"If they're the experts, they should be the guys making all the money."

HOW MUCH IS A HOTEL WORTH?



A partnership composed of many American Continental Corp. insiders purchased the Hotel Pontchartrain in downtown Detroit in March 1985. Since then, however, business has sputtered at the hotel. Losses, which could total $10 million, will have to be covered by taxpayers. That is because the partnership borrowed money from Lincoln Savings and Loan and the San Jacinto Savings Association, a subsidiary of Southmark Corp., a Texas-based real-estate and finance company.

Federal regulations required the buyers to obtain appraisals to ensure that the hotel merited the loans of the thrifts' federally insured deposits.

Appraisals are estimations of value that serve as guideposts for potential borrowers and lenders on a property. Depending on projections of the profitability of a property, appraisals can fluctuate widely within short periods of time, as illustrated by this series of appraisals on the hotel:

March 1985: The Hotel Pontchartrain is valued at $37.2 million in an appraisal commissioned by an American Continental subsidiary and conducted by Michigan-based Dean Appraisal Co.

December 1985: The hotel is valued at $44.4 million in an appraisal commissioned by the San Jacinto Savings Association and conducted by Dean Appraisal Co.

March 1987: The hotel is valued at $46 million in an appraisal commissioned by Detroit and conducted by Hospitality Valuation Services Inc., based in Mineola, N.Y.

September 1988: The hotel is valued at $26.4 million in an appraisal commissioned by the San Jacinto Savings Association and conducted again by Hospitality Valuation Services.

January: The hotel is valued at $53 million in an appraisal commissioned by Lincoln Savings and conducted by Pannell Kerr Forster.

FD-350 (Rev. 2-8-81)

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Keating wins delay in date with panel

Likely to answer queries Nov. 21

By Sam Stanton and Anne Q. Hoy
Republic Washington Bureau

WASHINGTON — Charles H. Keating Jr. won a delay Monday in his scheduled appearance before a House panel probing the collapse of Lincoln Savings and Loan, but officials said they believe that he will answer questions when he appears Nov. 21.

The multimillionaire Phoenix developer and financier, who was to have appeared today, was given a two-week extension after the House Banking Committee agreed to allow his new attorney more time to prepare for the testimony, officials said.

Keating, former head of the unsuccessful thrift, is facing civil racketeering and fraud suits, leading to speculation about whether he will agree to testify or invoke his Fifth Amendment right against self-incrimination.

But banking panel staffers said it now appears that Keating plans to testify, at least to some degree.

"I would think that if they weren't going to testify, they wouldn't need any more time to prepare," said Jake Lewis, staff director.

Banking Committee Chairman Henry Gonzalez, D-Texas, agreed to the extension in hopes that Keating will cooperate fully when he appears.

Keating's new attorney, John J. Quinn of Los Angeles, accepted a subpoena from Gonzalez on Monday on behalf of Keating and pledged that his client will appear. Quinn could not be reached for comment.

Despite Keating's absence, the hearing is expected to produce fireworks. Edwin Gray, former Federal Home Loan Bank Board chairman, is expected to unleash a barrage of criticism against Keating's methods and the influence he held with politicians, particularly Arizona Sens. Dennis DeConcini and John McCain.

Other witnesses will include Larry Taggart, former California Savings and Loan commissioner, who approved Keating's 1984 purchase of Lincoln.

The Arizona Republic disclosed in August that just weeks before Taggart left office in 1985, he granted Lincoln permission to invest $800 million in risky ventures. He then went to work for a private firm that received a $2.9 million investment from Lincoln.

In addition, testimony is expected to be heard from former bank-board

— See KEATING, page A 8

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FBI/DOJ

Keating wins delay in testimony

— KEATING, *from page A1*

member Lee Henkel, who resigned in 1987 amid claims that he had tried to push through a favorable regulation for Keating. Even before taking the job in 1986, Henkel acknowledged that businesses he had ties to received millions in loans from Lincoln. Previous witnesses have said McCain was instrumental in getting Henkel confirmed.

Also testifying will be Jack Atchison, a former executive with Arthur Young & Co., which audited the thrift in 1987 and praised its management. Atchison went to work for Keating a year later as a senior vice president of American Continental Corp.

Gray's testimony is expected to aim at his longtime adversary, DeConcini.

It was DeConcini who arranged two April 1987 meetings with federal officials to discuss Keating's complaints that he was being harassed by the government.

The first session was with Gray, and the second, a week later, was with federal examiners who were regulating Lincoln Savings. That session was attended by Democrat DeConcini, Republican McCain, and Democratic Sens. Alan Cranston of California, John Glenn of Ohio and Don Riegle of Michigan.

HEARINGS ON THE AIR

- KAET-TV (Channel 8) will broadcast the House Banking Committee hearings live from 7:45 a.m. to noon. The hearings will be repeated in their entirety on tape starting at 10 p.m.
- The hearings also will be featured at 6 p.m. on the *MacNeil/Lehrer NewsHour* and at 7 p.m. on *Horizon*, both on KAET-TV.
- C-Span will carry the hearings live from 8 a.m. to 10 a.m., then rebroadcast the entire proceedings at an unspecified time later Tuesday.

Each of the five accepted large contributions from Keating, and the group has become known in political circles in Washington as the "Keating Five."

Gray long has contended that DeConcini sought in the meetings to cut a deal for Keating to get federal officials off his back, and Gray said he plans to base his testimony today on a confidential memo prepared by DeConcini's staff. The existence of that memo was revealed by *The Republic* last month.

"It is an extremely damning memorandum for Dennis DeConcini," Gray said. "This is the man who so righteously denies that he tried to make a deal, and yet he's got a deal sitting on his lap."

The memo lists concessions that Keating was willing to make in exchange for leniency from the bank board.

DeConcini has acknowledged that he had the memo drawn up and that he used it in the April 1987 meetings. But he has denied that he ever sought any kind of deal for Keating.

The senator has added that he expects Gray, who was bank board chairman from 1983 to 1987, to attack him vigorously. He said he and Gray have been at odds since 1985, when the senator asked White House aides to have him fired for alleged incompetence.

DeConcini on Monday attacked Gray and questioned his credibility, saying the former regulator left office "under a terrible cloud" because he had accepted improper reimbursements for travel expenses.

"He stole $26,000 and had to give it back," said DeConcini, in an appearance on Phoenix radio station KTAR-AM.



Charles H Keating Jr. / Was given a two-week extension to allow his new attorney more time to prepare.

Gray, in 1986 repaid $26,000 to district banks and industry organizations, acknowledging that he made "flawed judgments" when he accepted reimbursements for travel to S&L events and to conferences.

However, Gray claimed that bank board chairmen long had accepted such reimbursements. He said the controversy was raised by S&L executives who opposed his attempts to restrict risky lending and direct investment practices as dangers to the federal deposit insurance fund.

DeConcini also charged on KTAR that Gray had "taken over a million dollars and broken the law for lavish expenses for the Federal Home Loan Bank Board."

The General Accounting Office, the investigative arm of Congress, found in a study that the bank board in 1985 and 1986 had "illegally augmented its budget" by about a million dollars when it allowed its district banks to pay the costs of travel, salaries and consulting studies that should have been borne by the bank board.

During his radio appearance, DeConcini also blamed Gray for thrift-industry devastation and said Gray's poor record further brings his credibility into question.

"Mr. Gray's got a terrible conflict because he was in charge during the time that all of this problem came up, not just with Lincoln but in the entire industry. And he was wined and dined by the industry and didn't do anything about it. Now he wants to re-create history, blame the senators, blame Dan Wall, blame anybody he can."

DeConcini was referring to M. Danny Wall, former staff director of the Senate Banking Committee and current chairman of the Office of Thrift Supervision.

Gray was unavailable for comment Monday. He consistently has argued that his attempts to limit the S&L debacle by tightly regulating high-flying thrifts ran into political opposition on Capitol Hill.

Contributing to this article were Doug Harris and Jerry Kammer of *Arizona Republic*.

Randy

Washington Post
(Indicate page, name of newspaper, city and state.) P. B1
Santa Ana, California

(Mount Clipping in Space Below)

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Gray: Regan, 5 Senators Swayed by Keating's Clout

Ex-Regulator Testifies on Collapsed Thrift

By Jerry Knight
Washington Post Staff Writer

Former Federal Home Loan Bank Board chairman Edwin J. Gray yesterday charged that former White House chief of staff Donald T. Regan and five U.S. senators were swayed by political contributions to seek special favors for the owners of Lincoln Savings and Loan Association, the California thrift whose collapse is expected to cost the taxpayers more than $2 billion.

Testifying in the House Banking Committee's investigation of the failure of Lincoln, Gray said the senators who met with regulators in 1987 on behalf of the thrift had "gone too far" and said, "It ought to be a criminal act to intervene in the regulatory process."

Gray accused former Lincoln owner Charles Keating Jr. of using his political influence with the White House and Congress to ward off regulators who wanted to clamp down on Lincoln's investments in real estate speculation, junk bonds and other high-risk ventures that ultimately led to the S&L's collapse.

Gray and Shannon Fairbanks, who was his chief of staff, also said that by the time they left the bank board in June of 1987, the agency's staff had enough evidence of wrongdoing to initiate disciplinary action against Lincoln, but it was almost two more years before anything was done by Gray's successor, M. Danny Wall.

The two Reagan administration officials were the latest witnesses called before the banking panel in its wide-ranging investigation of the collapse of Lincoln, which is expected to be the most costly thrift failure ever.

Gray gave the panel new specifics about two meetings between federal regulators and a group of senators who intervened on Keating's behalf and also detailed a series of conflicts with White House officials over thrift regulation.

In April 1987, Gray discussed Lincoln with Sens. Dennis DeConcini (D-Ariz.), John McCain (R-Ariz.), Alan Cranston (D-Calif.) and John Glenn (D-Ohio), and then arranged for a group of lower-level regulators to meet two weeks later with those senators and Sen. Donald W. Riegle Jr. (D-Mich.), now chairman of the Senate Banking Committee. Keating directly and indirectly channeled contributions to all five senators.

Gray said yesterday that the first meeting was arranged at the suggestion of Riegle, who has said that his

See LINCOLN, B4, Col. 1

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BY JAMES K.W. ATHERTON—THE WASHINGTON POST

Former bank board chief Edwin J. Gray during hearing yesterday on Lincoln S&L.

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LINCOLN, From B1

only involvement with Lincoln was to attend the second meeting.

Gray said Keating "devised a scheme" to create the impression that Lincoln's problems were the result of "a vendetta against Lincoln by its regulators, principally myself."

"Senators Cranston, DeConcini, Glenn and McCain had evidently bought off on the scheme," Gray said. "The receipt of very substantial gifts from Charles Keating and his associates had long since put them in the right frame of mind to give great credence to—and yes, to embrace—the notion that there was somehow a vendetta. . . . When enough money flows, it's apparently easier to be gullible."

Gray said his meeting with the senators "was highly unusual to me" because it occurred after the work day, in DeConcini's private office, with no staff members present, and because DeConcini wanted the bank board to withdraw a regulation that had already been implemented.

DeConcini offered to make a deal on behalf of Keating and American Continental Corp., the holding company that owned Lincoln, Gray charged. Keating wanted regulators to drop restrictions on Lincoln's investments in real estate and junk bonds and to back away from complaints that the value of Lincoln's investments were inflated by phony appraisals. In return, Keating promised that Lincoln, which had stopped lending money for home mortgages, would go back into the mortgage business and would get out of the S&L business within 10 years.

All the senators have disputed Gray's account of the session and have backed DeConcini in his denial that any deal was offered. Yesterday, Gray made public a confidential memo written just before the meeting by a DeConcini staff member that spelled out "What American Continental wants from Gray" and "What American Continental is willing to do." DeConcini has said that the existence of the memo does not prove he attempted to make any deal.

A spokesman for DeConcini yesterday described Gray as "a man who realizes that during his watch there was a catastrophe costing $150 billion and he is desperately looking for anyplace to lay the blame. In the process, he has lost track of the truth."

Gray said Keating's political influence extended into the Reagan White House, where Regan—as White House chief of staff—also intervened on behalf of Lincoln and other thrifts.

Regan twice sought to get him to resign, Gray said, and was responsible for the appointment to the Federal Home Loan Bank Board of Lee Henkel, an Atlanta attorney who had represented Keating and borrowed money from Lincoln.

At his first board meeting, Henkel proposed a change in rules that would have exempted Lincoln from regulations limiting real estate investments by thrifts. The proposal caused such a furor that within six months, Henkel resigned. Gray said he believe Henkel quit to avoid a congressional investigation.

Regan could not be reached for comment yesterday.

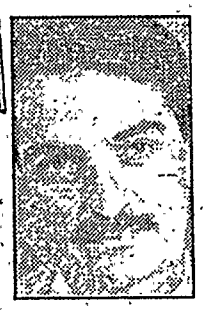
FD-350 (Rev. 5-8-81)

(Mount Clipping in Space Below)

DeConcini retunes in own 'Thriller'

In Washington, they call them "The Keating Five." Five U.S. senators who went to bat for millionaire Charles H Keating Jr. during the federal government's investigation of Keating's Lincoln Savings and Loan Association.

Two of them, Dennis DeConcini and John McCain, are from Arizona. The others are John Glenn of Ohio, Alan Cranston of California and Donald Riegle of Michigan.



E.J. MONTINI
Republic Columnist

Each of the five has contributed to the group's overall performance. But if The Keating Five were The Jackson Five, the part of Michael Jackson would be played by DeConcini.

From the start, DeConcini has been the band's lead singer and principal dancer. Now, he is striking out on his own, singing a new song. And there's no doubt about it, Dennis is *Bad*.

In his latest tune, the senator claims that he did nothing wrong in either accepting $55,000 in campaign contributions from Keating or in orchestrating a meeting between five senators and the federal regulators investigating Lincoln.

"I have intervened on behalf of other Arizona constituents for similar reasons," he said.

McCain, who took $112,000 and vacation trips to the Bahamas from Keating, was singing a different verse of the same song a few weeks ago.

Pleading his case in 'The Times'

McCain used radio and TV to say he had treated Keating as he would have treated any other constituent. Last weekend, McCain went so far as to imply in *The New York Times* that helping Keating was not much different from helping a destitute old woman get back her Social Security check.

No one's dancing to that tune, however.

That's why DeConcini rewrote the music. Instead of simply saying he did nothing wrong, the senator is blaming everything on Edwin Gray, former chairman of the Federal Home Loan Bank Board. Gray was the man summoned to DeConcini's office to face five senators.

DeConcini now wants Gray, not himself, to face the music.

This is partly because Gray told a House committee investigating Lincoln's problems that the meeting in DeConcini's office delayed the government's seizure of the savings and loan, leaving U.S. taxpayers — us — with a $2 billion bill.

Gray is not without problems

Gray is also an easy target. He has had his own problems. For instance, Gray had to pay back $26,000 in improper travel accepted during his tenure. This led DeConcini to say Gray left his office "under a cloud."

Over the next few weeks, so long as there are hearings going on in Washington over the Lincoln fiasco, DeConcini probably will point out many other naughty things that he believes Edwin Gray did.

But it won't work.

In the end, the things that Edwin Gray did are not nearly as important as the things that Edwin Gray *didn't* do.

For example:

Edwin Gray didn't gather five senators at a meeting in Keating's behalf to intimidate a federal regulator.

DeConcini did.

Edwin Gray didn't direct his staff to prepare a memo listing "concessions" that Keating was willing to make in exchange for leniency from the bank board.

DeConcini did.

Edwin Gray didn't take $55,000 in campaign contributions from Keating and associates.

DeConcini did.

Edwin Gray didn't work with two campaign aides who received $50 million in real-estate loans from Keating's Lincoln Savings and Loan.

DeConcini did.

Edwin Gray didn't bow to one wealthy and powerful man, Keating, at the eventual expense of millions of not-so-wealthy others.

DeConcini did.

Edwin Gray didn't represent the citizens of Arizona.

DeConcini didn't, either.

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(Mount Clipping in Space Below)

Troubles mounting for Keating

Reportedly will plead Fifth today

By Sam Stanton and Anne Q. Hoy
Republic Washington Bureau

WASHINGTON — Charles H Keating Jr., the central character in House Banking Committee hearings on the failure of Lincoln Savings and Loan, will invoke his Fifth Amendment right against self-incrimination today and refuse to testify, sources say.

Keating, who late last week sought a deal in which he would not even have to appear, also may claim his right under House rules to close the hearing to the public and the press before he refuses to testify, sources said.

Keating, a Phoenix developer and financier, might change his mind at the last minute, observers say, particularly if he becomes angered by opening statements.

But sources pointed to his attempt last week to seek a deal to not even appear as evidence that he will not answer questions about his role in Lincoln's collapse.

Keating's attempt to avoid appearing was made late last week when his Los Angeles attorney, John Quinn, asked that his client be able to invoke the Fifth Amendment in writing.

But the Banking Committee chairman, Rep. Henry Gonzalez, D-

— See KEATING, page A8

— KEATING, from page A1

Texas, refused the request Friday, sources said.

Gonzalez and the panel's ranking Republican, Chambers Wylie, R-Ohio, informed Quinn that they expect Keating to show up, sources said.

Panel spokesman Jake Lewis said there has been contact between the committee and Keating's attorney, but he would not comment further.

"We've had a number of exchanges with Keating's lawyer, but we're not going to discuss our conversations," Lewis said. "We will withhold comment until Keating appears."

Quinn did not return telephone calls Monday seeking comment.

'Charlie is a fighter'

Keating, considered the most crucial witness in the series of hearings, has rejected all press interviews about his failed California thrift, and his aides say they do not know whether Keating will testify.

"I bet he's personally still weighing this," spokesman Brad Boland said late Monday. "Charlie is a fighter."

Keating originally had been scheduled to appear Oct. 31, but won a delay after he had hired Quinn and requested more time to prepare.

One other witness, Jack Atchison of Lincoln's parent company, Phoenix-based American Continental Corp., has refused to testify before the committee. Atchison once worked for the accounting firm that gave Lincoln a clean bill of health, then was hired by Keating at a salary of $900,000 a year. He invoked his Fifth Amendment right saying he didn't want to help the numerous on-going investigations into Keating and American Continental.

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Keating to go before panel, plead Fifth

The legal maneuvering by Keating comes as the Banking Committee prepares for what is expected to be the last and most explosive Lincoln Savings hearing for weeks.

M. Danny Wall, director of the Office of Thrift Supervision and the target of much of the committee's ire, is scheduled to be the first witness today. Panel members, some of whom have called on him to resign, are expected to grill Wall over why it took him so long to close the thrift when he was chairman of the Federal Home Loan Bank Board.

Testifying with Wall will be two senior deputies, Rosemary Stewart and Darrell Dochow. Keating will appear last.

Inquiry became political

The hearings originally were launched to probe why regulators particularly Wall failed to clamp down sooner on Lincoln. They have instead evolved into a politically damaging inquiry into why five senators interceded on Keating's behalf.

Turmoil continues in the panel over whether to subpoena the senators, known as "the Keating Five," as well as California Gov. George Deukmejian.

Deukmejian and the senators —



Henry Gonzalez / Reportedly refused Charles H Keating Jr.'s request to invoke the Fifth Amendment in writing.

Dennis DeConcini, D-Ariz.; John McCain, R-Ariz.; Alan Cranston, D-Calif.; John Glenn, D-Ohio; and Don Riegle, D-Mich. — all received large campaign contributions from Keating and sought to help his ailing thrift.

Gonzalez, who is under intense political pressure not to violate protocol by ordering the senators to appear, has indicated recently that he would not call the senators but would welcome them if they volunteered to testify.

But one source said there is so much pressure from other panel members to call the senators that Gonzalez has indicated he would do so if he also could subpoena Deukmejian, a Republican.

Deukmejian's involvement stems from the fact that Lincoln is based in Irvine, Calif., and that state regulators allegedly were pressured to go easy on the thrift.

Banking Committee spokesman Lewis denied that there was discussion of calling Deukmejian, and said there is no dissension among committee members.

However, Rep. Toby Roth, R-Wis., and other panel members have made it clear publicly that they want to hear from the senators, and sharp exchanges among committee members have been common since the hearings began Oct. 17.

Also, key committee Democrats met privately Monday to discuss "who will or will not be subpoenaed in the future, if anybody," a committee member who also asked to not be named said, adding that "there have been a lot of names that have been raised." Lincoln was seized by federal agents April 14, and estimates of how much its collapse will cost have ranged as high as $2.5 billion, making it the nation's costliest S&L failure.

FD-350 (Rev. 5-8-81)

(Mount Clipping in Space Below)



Charles H Keating Jr. / Investors request that he not be allowed to touch $250 million in assets without court approval.

Tied to false notice on Lincoln sale

By Jerry Kammer, Andy Hall and Lisa Morrell
The Arizona Republic

Charles H Keating Jr. personally directed preparation of an American Continental Corp. announcement in February that falsely claimed that the sale of Lincoln Savings and Loan was "imminent," his former top spokeswoman has told *The Arizona Republic.*

The announcement has been part of a federal Securities and Exchange Commission investigation because SEC regulations prohibit publicly traded companies from making statements that could mislead investors into thinking the company's stock will change in value.

And today, the House Banking Committee, which is conducting hearings into Lincoln's collapse, is expected to be shown a Feb. 3 letter from Darrell Dochow, key federal

— *See* **LINCOLN,** *page A8*

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Lincoln sale notice tied to Keating

LINCOLN, *from page A1*

thrift regulator, warning American Continental's board of directors before the announcement that the sale stood little chance of approval.

American Continental's statement, distributed to the news media and stockbrokers, was issued a day after the company's stock dropped sharply, falling 87 cents, to $5.50 a share. It had sold for more than $10 a share the previous December.

Market observers blamed the slide on rumors that the proposed sale of the thrift to the group led by Spencer Scott, a longtime thrift executive leading a group of California investors, had hit snags and that American Continental was in financial trouble.

Stock values rose

When the announcement was released Feb. 9, stock values of Phoenix-based American Continental rose to $6.25 per share, and trading volume increased sharply.

Ernest Leff, one of the investors in the group trying to buy the thrift, said recently he knew the press release was wrong then, and he was surprised by the claim that the sale was imminent.

"It was untrue in our judgment, but Charlie thought he had the deal greased," Leff said last week. "I smiled when I saw Charlie making his flamboyant statements."

Patricia Johnson, a former public-relations director for American Continental, said she wrote the Feb. 9 statement at Keating's direction.

"He said that he wanted, no matter what else I put in the press release, to make sure I used the word 'imminent,'" Johnson said. She is the first of Keating's upper-echelon associates to describe publicly what went on behind the scenes at the often-secretive company.

Her comments are the first indication that Keating, the controversial chairman of American Continental, personally controlled preparation of the statement.

In documents prepared for the SEC, however, American Continental officials have blamed Johnson for the statement.

The press release quoted Keating as saying, "I am delighted that the sale is so near completion. We are anxious to move forward and concentrate our efforts on the Phoenician Resort, the Crescent Hotel and other investments." Thrift regulators seized the Phoenix hotels and fired Keating's management team Thursday.

Sale 'imminent'

The news release was typed on American Continental stationery under the headline "Closing of Lincoln Savings sale is imminent."

Johnson showed *The Republic* a draft of the press release, including the headline, and a handwritten change she says was made by Keating. The draft "proves that Charlie did see the press release before it went out," she said.

American Continental officials did not return phone calls seeking comment. Keating has denied wrongdoing.

Johnson, who now is a self-employed public-relations consultant, said she was laid off by Keating in April. She was replaced by Mark Connally, son of former Texas Gov. John Connally.

Johnson said Keating ordered her to arrange for the story to be distributed on the Dow Jones wire, a news service that sends reports directly to brokers across the company.

The first sentence of the three-sentence bulletin read:

"American Continental Corp. said completion of the sale of its Lincoln Savings & Loan unit to an investment group headed by Spencer Scott is 'imminent.'"

But the day after the statement was issued, California thrift regulators announced, "There is no way that the sale can be imminent."

And William Davis, chief deputy commissioner of the California Department of Savings and Loan, said the statement was "misleading to the public."

Statement tempered

The company also issued a statement Feb. 10 tempering its optimism of the previous day.

American Continental stock prices started back down Feb. 13. They reached $5.63 on Feb. 14.

Although Keating continued to search for buyers, regulators rejected all proposals, and Lincoln was not sold. It was seized by federal regulators in April.

Davis, the California S&L regulator, said American Continental's statement misled investors into believing that the company was more valuable than it actually was.

"What bothered me was that they lied," Davis said Monday. "They knew absolutely dead certain that the sale was not imminent.

"They're interested in furthering American Continental's agenda even at the sacrifice of what's important to the public and what's truthful."

Davis said he suspects that investors were harmed by the release of the statement.

"Somebody could have bought the stock," he said, "based on the fact that the sale was imminent and then end up holding stock certificates that they paid good, hard cash for, that were worth nothing because the sale wasn't imminent and, in fact, the company was near bankruptcy."

American Continental stock now trades for 5 cents a share.

A company "loses a lot of its flexibility with a lower stock price," said Thomas Glynn, a stockbroker with Rauscher Pierce Refsnes Inc., a

regional brokerage firm in Scottsdale.

'Harder raising money'

A company whose stock falls sharply is "going to have a harder time raising money, no question about it," Glynn said.

The value of the outstanding stock falls, so there's not as much capital to borrow against, he said.

A spokesman for the SEC, citing the agency's confidentiality regulations, refused to comment on the SEC's ongoing investigation of American Continental.

However, in October, the Office of Thrift Supervision, which regulates the nation's S&Ls, called the news release "misleading."

Companies that are found to have issued misleading press releases are subject to a variety of SEC actions, from correcting errors to court injunctions against further violations. In the most serious cases, the U.S. Justice Department can press criminal charges with penalties of up to $1 million and 10 years in prison.

In a March draft of a response to an SEC inquiry about the release, American Continental attorney Karen Katzman wrote that Johnson had been "barraged" with phone calls from reporters who had been fed "vicious rumors" by investors who had taken a "short position" in American Continental stock. A short position is basically a bet that the price of a stock will fall.

"Ms. Johnson believed that the most expeditious way to deal with the rumors" was to issue the release, Katzman wrote.

Katzman noted that on Feb. 10, American Continental issued a second release contradicting the first. It said, "There could be no assurance that definitive financing arrangements will be concluded or regulatory approval of the transaction obtained."

Regulator 'shocked'

"The February 9 press release was prepared by Patricia Johnson," Katzman wrote, while the Feb. 10 release was prepared by Katzman's law firm along with American Continental attorney Robert J. Kielty and Keating.

Katzman declined comment.

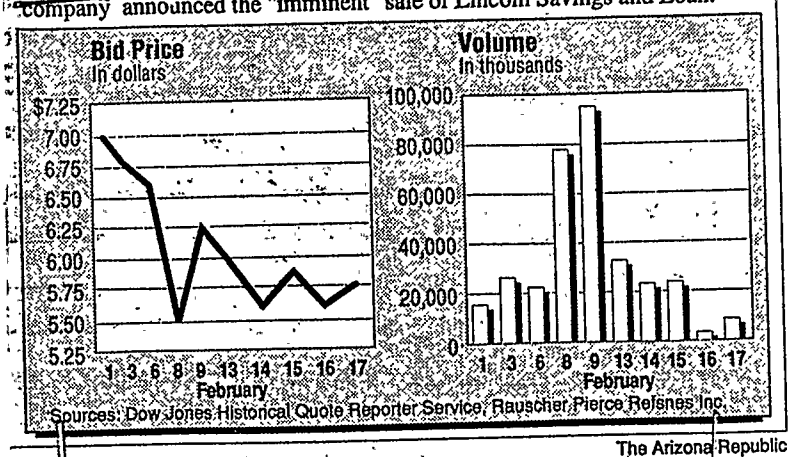
Federal regulator Al Smuzynski, whose office was reviewing the proposed sale in February, said he was "shocked, to put it mildly," when he read the American Continental release quoted in a news article. He said his office notified the SEC that the press release misrepresented the proposed sale.

Smuzynski is the assistant director of supervision operations in the Office of Thrift Supervision, which until August was known as the Federal Home Loan Bank Board.

Smuzynski said "negative information" about the proposed buyers of Lincoln made regulators doubt their qualifications.

AMERICAN CONTINENTAL STOCK RECORDS

Bid prices and volume on American Continental stock for selected days in February. Price and volume increased sharply on Feb. 9, when the company announced the "imminent" sale of Lincoln Savings and Loan.



Sources: Dow Jones Historical Quote Reporter Service, Rauscher Pierce Refsnes Inc.

The Arizona Republic



Christine Kelly/The Arizona Republic

Patricia Johnson, a former public-relations director for American Continental, is the first of Charles H Keating Jr.'s upper-echelon associates to describe publicly what went on behind the scenes at the often-secretive company.

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First Mecham, now Keating: Just say you live 'out West'

Just when you thought it was safe to admit you're from Arizona . . .

First, there was national ridicule over Republican Evan Mecham, the first U.S. governor to be impeached and ousted from office in 59 years. Then, word of economic trouble in paradise was splashed across the front of *Barron's*. And now, sprawled across newspapers and TV screens from coast to coast is Arizona's own Charlie Keating and two-fifths of the now-notorious "Keating Five."

Indeed, the Grand Canyon State is home to the man behind the single largest thrift failure in the United States. That's Keating's Lincoln Savings and Loan Association, whose collapse is expected to cost us taxpayers up to $2.5 billion to bail out.

And Arizona is the only state with *both* of its senators — Democrat Dennis DeConcini and Republican John McCain — at the infamous April 1987 meetings at which Keating-connected lawmakers pressured federal regulators to go easy on their financially well-endowed buddy. It was even DeConcini who called these highly unusual meetings in his office.

This mess may become the most-investigated thrift scandal. At least seven governmental bodies are probing: the House Banking Committee, the Senate Ethics Committee, the FBI, the Securities and Exchange Commission, the Internal Revenue Service, the California General Assembly and the California Board of Accountancy. (Lincoln is based in California.)

And if that's not enough, Arizona is still hemorrhaging economically, ranking in the top handful of states in foreclosed real estate and 48th in the nation in employment growth.

Will we ever be able to hold our heads up again?

Appearance unlikely

Don't hold your breath waiting for Arizona's senators to testify before the House Banking Committee on the Keating calamity.

It's an everything or nothing proposition: These guys want all five senators or nobody to share the limelight/blame.

Coordinating such five-way action has about as much chance of succeeding as Congress' doing something statesmanlike on the deficit debacle.

Keating is scheduled to testify Tuesday, though nobody knows for sure that he will.

Never fear: There are other ways for senators to get their message out. DeConcini has been urged to buy huge chunks of air time to peddle his side of the story directly to the voters.

No decision on that yet, says Mike Crusa, DeConcini's top Arizona guy: "We are looking at different methods of ensuring the general public has an accurate view, from our perspective, of what actually transpired."

Chuckles on Charles

So you think l'affaire Keating is getting big play only here?

Wrong.

Even comedian Jay Leno, guest host of *The Tonight Show*, finds the issue ripe for ridicule.

Leno was on NBC's *Today Show* on Thursday to promote a book he has put together on ludicrous newspaper headlines. He is donating all proceeds to charity.

"I don't get any dough for this," Leno insisted. No expenses, no reimbursements, no nothing.

"Not a Charles Keating-Lincoln Savings deal," he added.

Alas, no grudge match

Hear the gossip on the airwaves about former R&G Publisher Pat Murphy running for governor?

Untrue.

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"Definitely nonsense," says Murphy, in Saudi Arabia last week for a conference of cosmonauts and astronauts to discuss such topics as air quality and space rescue.

"I've too many other interests," the flamboyant ex-publisher said, laughing.

"I don't think I could win even if I tried. And if I were elected, I would ask for a recount."

Relax, Ev.

Looks like a winner

It's sad commentary, but Americans apparently choose their elected leaders the same way they buy vegetables — by appearance.

At least that's what a study by a University of California professor says. A UC-Irvine prof asked 700 people to rank photos of politicians on such characteristics as competence, trustworthiness, leadership and demeanor, and guess what: The best-looking, best-dressed candidates got the best marks.

By altering hair styles, clothing and makeup in the photos, Professor Shawn Rosenberg was able to jack ratings up or down by 20 percentage points, according to the *Los Angeles Times*.

Candidates, take note: Smiles, conservative dress, thin lips and widow's peaks are in. Baldness and thick eyebrows are out.

And voters are very picky about eye shape: A rounded upper eyelid with a straight lower lid is good. Eyes not markedly curved, or curved equally on the top and bottom, are bad.

"I'm disturbed, yes. But surprised, no," Rosenberg said.

"What people are doing is saying, 'I don't really understand politics, so let me look at this person and decide if this person is trustworthy and competent.'"

Better get out the tweezers, Fife.

FD-350 (Rev. 5-8-81)

(Mount Clipping in Space Below)

'Keating 5' denounced by Nader

Senators are termed purchased politicians

By Sam Stanton
Republic Washington Bureau

WASHINGTON — Consumer advocate Ralph Nader lashed out Wednesday at the senators now known as "the Keating Five," saying their actions in behalf of Phoenix developer Charles H Keating Jr. are "the embodiment of everything that's wrong with politics today."

Nader lambasted Sen. Dennis DeConcini, D-Ariz., for sponsoring a bill he said would help Keating and charged the five with abdicating their responsibilities to the public.

"As we are all learning, Keating was aided in his scheme by a panoply of purchased politicians who cared more about a major contributor to their campaign-finance war chests than their constituents," Nader said in his press conference.

The Keating Five met twice in April with federal regulators investigating Keating's former thrift, Lincoln Savings and Loan of California. The group consists of Sens. DeConcini; John McCain, R-Ariz.; Alan Cranston, D-Calif.; John Glenn, D-Ohio; and Donald Riegle, D-Mich.



Ralph Nader / Says the actions of "the Keating Five" are "the embodiment of everything that's wrong with politics today."

Although Nader said the senators are culpable in the collapse of Keating's thrift, he singled out DeConcini as the "spear carrier" for Keating.

Nader charged that DeConcini is sponsoring a bill that would weaken the nation's racketeering statutes. The measure, which will be voted on today by the Senate Judiciary Committee, would help Keating with civil suits he is facing, Nader said.

"Now the ringleader of the Keating Five, Senator DeConcini, clearly the most shamelessly shameless of all five, is responding to the swirling controversy by pushing a bill that would weaken the corporate-crime laws, that would gut the very law used by regulators and victims against his friend Charles Keating," Nader said.

"I guess Senator DeConcini wants to be known as the former senator from Arizona."

DeConcini has touted his bill as a overhaul of the nation's Racketeer Influenced and Corrupt Organization Act.

But he said it is not designed to help Keating. He pointed out that he has sponsored or supported such legislation since 1984, long before Keating faced any troubles or lawsuits.

And he issued a statement Wednesday saying that the bill would not affect government efforts to recover from Keating more than $1 billion in losses at Lincoln before it

— See DECONCINI, page B3

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DeConcini is called Keating 'spear carrier'

— DECONCINI, *from page B1*

was seized April 14.

A major issue in the debate over the bill is an original provision that would have limited how much money could be recovered from Keating through a racketeering lawsuit.

Although current law allows for plaintiffs to collect triple the amount of money lost, the DeConcini bill would allow the recovery of only "actual damages."

As it was first written, that limit would have been applied retroactively, meaning that it would have affected lawsuits pending against Keating.

But DeConcini decided in September to remove that portion. As it is written now, only cases that were filed after the measure became law would be affected.

Nader said, however, that corporate lobbyists want the bill rewritten to include the retroactive provision. He released a study saying that Judiciary Committee members, including DeConcini, have "been showered" with cash contributions from lobbyists.

According to the study, compiled by Public Citizen, a Nader group that monitors Congress, DeConcini received $213,450 in such contributions from 1983 through last year. Those contributions came from political-action committees that would be affected by a change in the racketeering act, including firms and trade associations for accountants, savings and loans and banking and insurance interests.

Those contributions do not include $48,000 that DeConcini had received from Keating, Keating's family and his business associates. DeConcini returned the money to the donors after the government alleged in a $1.1 billion civil suit against Keating that the financier had diverted money from Lincoln for political and other causes.

Nader said nearly $1.5 million from lobbyists has poured into the campaign funds of Senate Judiciary Committee members.

"What do you think the lobbyists are putting money into the senator's campaigns for?" he asked. "To preserve the original parchment of the U.S. Constitution?"

Nader also said the other senators among the Keating Five should return contributions received from Keating sources.

Riegle returned $66,100 last year. But the others, including McCain, who received $112,000, have said they will keep the contributions, pending the outcome of the court case.

Keating is the subject of several investigations, and the senators' meeting in April 1987 to discuss Lincoln with Edwin Gray, then the head of the Federal Home Loan Bank Board, is now the subject of an FBI probe.

In addition, the House Banking Committee is conducting hearings into the Lincoln collapse. Keating is expected to testify Tuesday.

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'THE KEATING FIVE'


John McCain


Dennis DeConcini


John Glenn


Alan Cranston


Donald Riegle

Ethics panel gives go-ahead to 'Keating 5' investigation

By Sam Stanton and Anne Q. Hoy
Republic Washington Bureau

WASHINGTON — In its largest case ever, the Senate Ethics Committee agreed Friday to hire a special outside counsel to investigate the involvement of five U.S. senators, including both of Arizona's, in the Lincoln Savings and Loan debacle.

After a two-hour meeting behind closed doors Friday, the panel unanimously agreed to hire Washington, D.C., attorney Robert S. Bennett. He will determine whether the senators improperly interceded two years ago in behalf of Charles H Keating Jr., Lincoln's former owner and a major campaign contributor to all five.

Bennett also will look into allegations that Sen. Alfonse D'Amato, R-N.Y., used his influence to improperly obtain federal housing grants for associates.

The panel's action in the Keating case is unprecedented in the committee's 12-year history. Never before have so many senators been involved in a single investigation.

"The action does not suggest in any way that the committee has made any decision or found any indication of wrongdoing, or that a violation of any rule or law has occurred," committee Chairman Howell Heflin, D-Ala., said.

"In both cases, the committee's decision to retain outside counsel is made solely to assist in obtaining and

— See 'KEATING 5,' page A13

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'Keating 5' probe gets go-ahead from panel

— 'KEATING 5,' *from page A1*

analyzing additional information."

The senators, known as "the Keating Five," have said they did nothing wrong. The five are Democrat Dennis DeConcini and Republican John McCain, both of Arizona; Alan Cranston, D-Calif.; John Glenn, D-Ohio; and Donald Riegle, D-Mich.

The FBI is studying the actions of the senators, and a source told *The Arizona Republic* that federal agents are basing part of their investigation on a confidential memo that DeConcini's office prepared two years ago in Keating's behalf.

The Republic obtained the memo last month. Former Federal Home Loan Bank Board Chairman Edwin Gray said it proves DeConcini tried to cut a deal for Keating with the government.

The document is headed, "What American Continental Wants From Gray For Concessions." It explained what Keating's American Continental Corp. of Phoenix was willing to do if Gray's agency would make concessions to help Lincoln.

DeConcini denied that the document was part of a deal to get federal regulators off Lincoln's back.

American Continental was Lincoln's parent firm before the government seized the California thrift April 14.

The Senate and FBI inquiries are part of expanding government investigations into the collapse of Lincoln Savings and whether Keating bought favors from the senators with campaign contributions.

The scandal threatens to bring down the political careers of senators with a combined total of 73 years in Congress.

The affair already is consuming much of their time as they try to weather the political fallout. Ethics-panel members said their review, which stems from a call by citizens lobby Common Cause last month, could take months.

They added that Bennett will analyze information but emphasized that he is not an independent prosecutor.

The panel also said it has not yet taken the formal step of initiating a "preliminary inquiry" into the matter. That is the first of three formal steps the panel may take. The second is an "initial review" and the third is a full-scale investigation.

At a press conference Friday on an unrelated topic, DeConcini and McCain both said they welcome the Ethics Committee probe because they believed they will be cleared.

McCain added that his actions in Keating's behalf had nothing to do with $112,000 in campaign contributions, saying that he would have done the same for any large employer in Arizona.

"I can say that categorically," McCain said.

"I can say that absolutely and totally categorically, that I would do exactly the same thing for a person or a company that is a major economic factor."

But, McCain added, the appearance of two 1987 meetings in which the senators asked regulators why they were taking so long to examine Lincoln's books was "very bad." He said he would not participate in such sessions again.

McCain is the only one of the five who has yet to file a report with the ethics panel explaining his actions in Keating's behalf. He is expected to do that soon.

Glenn said he did nothing improper. He added that Keating had sought support for the appointment of two associates, one to a judgeship and a second, Lee Henkel, to the bank board. Glenn said he refused to help.

Keating is expected to tell his side of the story Tuesday when he testifies before the House Banking Committee.

M. Danny Wall, head of the bank board's successor agency, the Office of Thrift Supervision, also is scheduled to appear, despite rumblings that President Bush may try to fire him over the Lincoln fiasco.

Wall has been accused by House Banking Committee Chairman Henry Gonzalez, D-Texas, of lax regulation that led to the failure of Lincoln, which is expected to be the nation's costliest S&L collapse. Taxpayers may end up footing a bill of $1.5 billion to $2.5 billion in the Lincoln case.

FD-350 (Rev. 5-8-81)

(Mount Clipping in Space Below)

Raid takes hotels from Keating

Phoenician, Crescent seized

By Lisa Morrell and Andy Hall
The Arizona Republic

In a pre-dawn move, more than 50 federal thrift managers, FBI agents and private security guards ousted Charles H Keating Jr.'s regime from its "haven of peace" at the Phoenician Resort and the Crescent Hotel on Thursday.

The action by the Federal Deposit Insurance Corp., begun at 1:30 a.m., broke Keating's last hold on his Lincoln Savings and Loan, which regulators seized in April. A Lincoln subsidiary owns a majority stake in the hotels.

Brad Boland, a spokesmen for Lincoln's former parent company, Phoenix-based American Continental Corp., condemned the federal takeover as "Gestapo tactics." Keating representatives also accused federal officials of improperly pressuring Keating's Kuwaiti business partners into allowing the management change.

Keating did not return phone calls.

He and 23 other employees were fired from their jobs at The Phoenician, a 605-room golf, tennis and spa complex sunk into Camelback Mountain in Phoenix, and from the 34-room Crescent Hotel in north

— See PHOENICIAN, page A2

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Phoenician, Crescent seized

PHOENICIAN, from page A1

Phoenix. The hotels employ about 1,500 people.

The fired employees included Keating's wife, Mary Elaine Keating, two daughters and two sons-in-law.

Keating drew no salary as manager of The Phoenician, but he continues to receive a $500,000-a-year salary as chairman of American Continental.

Keating is scheduled to testify Tuesday before the House Banking Committee in its investigation of the $2 billion collapse of Lincoln. Boland said Thursday that Keating will appear but has not yet decided whether to testify.

The hotel takeover was made possible after Keating's Kuwaiti partners dropped their support of Keating and allowed federal officials to appoint new hotel managers.

The federal government had been trying to take control of The Phoenician and The Crescent since April, after S&L regulators seized Lincoln Savings, which holds a 55 percent stake in the hotels through a subsidiary. The Kuwait Investment Office of London, a group of Kuwaiti investors based in that city, owns the rest.

Without the consent of holders of at least 75 percent of the stock, no management changes were possible.

The FDIC got the Kuwaitis' cooperation within the past two days, said Mark Randall, managing agent for the Federal Deposit Insurance Corp., which oversees Lincoln. He declined to discuss why the Kuwaitis changed their minds.

"We believe that the change in the management .... will help maximize the value of our investment," Randall said.

He said the FDIC seized the hotels because of "overall dissatisfaction" with the corporate management of Keating. The two hotels represent a $300 million investment, most of that in The Phoenician.

But Boland and American Continental attorneys James Feder and A. Melvin McDonald said that the Kuwaitis agreed to fire Keating only because the U.S. government pressured the Kuwaiti government. The three men would not supply details.

Feder said the Office of Thrift Supervision, which oversees the savings and loan industry for the FDIC, had subpoenaed all records regarding the hotels last week. That move, he said, likely irritated the Kuwaitis, because it opened the possibility that their investment could be exposed to public scrutiny.



Mike Smith/The Arizona Republic

Hans Turnovszkys, who has more than 25 years' experience in the hotel business, is the new manager of The Phoenician and the Crescent Hotel.

The federal takeover, which caught Keating's management team by surprise, began as about a dozen federal officials and more than 40 support personnel entered The Phoenician at 1:30 a.m. Thursday.

They sealed off "sensitive" areas, such as the control room for computer operations and the executive offices, said Herbert Chin, a government official who is overseeing the management change. Locks were changed on the office doors, including those of fired employees.

Messengers delivered letters to the homes of the fired employees at about 2 a.m., telling them they no longer had jobs. The employees were Keating family members or transplanted American Continental workers who "are not professional hotel people," Chin said.

McDonald, the American Continental attorney, said Keating spent many of his days at an office in The Phoenician, working on business matters. McDonald said the loss of the hotels would hurt Keating.

"There's no question, that was his life," McDonald said. "He loved that resort. That was to him and his family a haven of peace. It was a culmination of a dream. Every feature, every touch there, embodied their creativity."

McDonald lambasted the federal officials' tactics.

"Rather than go like gentlemen in the middle of the day, they went like storm troopers in the middle of the night," he said.

"It was literally a coup d'etat."

Randall said that the timing was chosen because "both hotels are full and our primary concern in doing this was to minimize disruption to the patrons."

McDonald and Feder said the takeover would harm the hotels because they were making money under Keating's management.

"I think they (the federal regulators) are hellbent on making The Phoenician into another Motel Six," McDonald said.

Among those ousted were the general managers of the hotels, Michael Kelly of The Phoenician and Keating's son-in-law Robert Hubbard Jr. of The Crescent.

In their place, the FDIC hired Hans Turnovszkys, a hotelier with more than 25 years of experience in the hotel industry around the world. He comes from the Lodge at Vail in Vail, Colo.

Turnovszkys, 47, arrived in Phoenix late Tuesday night.

He met with employees of The Phoenician on Thursday and will meet with Crescent employees today.

By Thursday afternoon, hotel employees assured guests and callers that it was business as usual and referred calls to the FDIC officials and public-relations agents there.

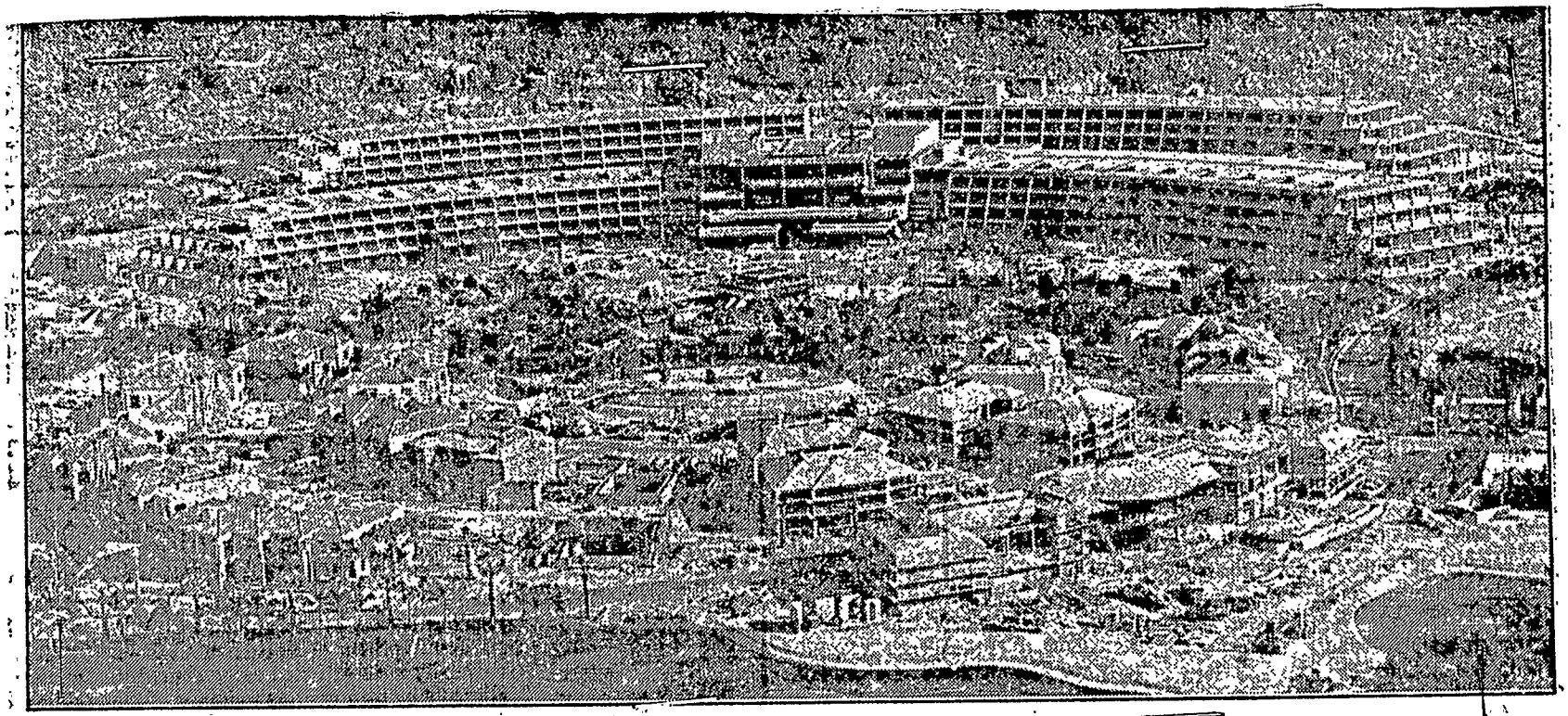
A fashion show was being held in The Phoenician's elaborate ballroom. Guests relaxing in the hotel's main lobby said they weren't worried about how the change might affect the service.

One department head said a letter was taped to his front door at home early Thursday morning, telling him that he no longer had a job at The Phoenician. An earlier frantic call from his office sent him to The Phoenician about 2:30 a.m. People were "panicking and crying." Some feared they would be fired by the federal officials, he said.

John Akins, an events organizer at The Phoenician, said Thursday that at 2 a.m., "we got word that the (feds) were storming the Bastille, so we came down as extra help" to set up for a conference that his client was holding at the resort.

When Akins and his crew arrived, "we knew something was wrong because we saw Budget vans with sleeping men with earphones."

"All the feds looked real fatigued today," he said.



The Phoenician is a 605-room resort nestled against Camelback Mountain. It was described as a "haven of peace" for Charles H Keating Jr. and his family.

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(Mount Clipping in Space Below)

'The Keating Five': A fair trial, boys, then string 'em up!

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According to the prevailing mythology, an encounter with five U.S. senators — four Democrats and a freshman Republican — threw Reaganite regulators into such a tizzy two years ago that they all but abandoned a smoothly running investigation of Lincoln Savings and Loan and its operator, Charles H Keating, the Phoenix moralist and manipulator.

The senators, dubbed "the Keating five" by spin-control artists, have become the principal scapegoats in the nation's savings and loan fiasco.

May I may offer a modest dissent from the baying of the mob? It is chasing the wrong quarry.

No one doubts that Mr. Keating fended off the investigators who came poking around Lincoln Savings.

Somehow he got a government audit shifted from San Francisco to Washington, where officials were more sympathetic.

He actually had the White House put one of his business associates, Lee Henkel Jr., on the Federal Home Loan Bank Board.

From both Alan Greenspan, the respected economist and present head of the Federal Reserve Board, and Arthur Young & Co., the prestigious accounting firm since reborn as Young & Ernst, he got glowing endorsements of Lincoln's precarious investment practices.

Thus armed, he then stymied an investigation by the Securities and Exchange Commission, whose curiosity Lincoln also had aroused.

All this is clear.

What is not clear is that the meetings with "the Keating Five" — the focus of so much blustery attention — threw the government bloodhounds off the scent.

The first meeting was with Ed Gray, the former gubernatorial press secretary whom Ronald Reagan picked to head the Federal Home Loan Bank Board.

Mr. Gray says the senators tried to muscle through a deal on Mr. Keating's behalf.

The senators deny it, and their denial finds corroboration in notes taken during a subsequent meeting with bank board regulators — notes taken by Mr. Gray's own man. They show that the senators made no demands, asked for no favors, and carefully backed away from sensitive areas.

Why would five U.S. senators lean on Ed Gray, but behave with such rectitude toward his subordinates? It makes no sense.

These two meetings, we are asked to believe, led the bank board to remove its inquiry from the jurisdiction of the San Francisco office, placing it in gentler hands.

That so? The fact is the decision to

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move the investigation was made by W. Danny Wall, Mr. Gray's successor — a man with whom the senators never met.

Also, Mr. Gray says he learned — we are not told from whom — that Arizona's Sen. Dennis DeConcini made a horse trade with the White House, swapping support for *contra* aid for Mr. Henkel's appointment to the bank board.

Yet testimony out of Mr. Gray's own mouth confirms that Mr. Henkel was already the choice of Don Regan, the president's chief of staff and White House majordomo.

Why, for crying out loud, would Sen. DeConcini need to dicker with the White House over an appointment the White House already was pushing?

I spent much of last week and the week before in Washington, renewing old ties.

I heard Mr. Gray testify before the House Banking Committee. I talked with a large number of Washington insiders, in and out of Congress.

Everybody I spoke with agreed that the five senators had been imprudent, even foolhardy. But everybody also agreed that going to bat for constituents is what members of Congress do — not occasionally, but all the time.

Such "interference" makes the bureaucrats squirm, especially when they are haunted by the knowledge that they badly bungled the Keating investigation two years ago.

So they roar about "the Keating Five," hoping this may:

1. Obscure their failure to press the Keating investigation when it counted.

2. Burn the five senators so badly that other members of Congress will be discouraged from intervening on behalf of their constituents.

It may work. If it does, pray you never have a problem with your veteran's benefits.

FD-350 (Rev. 5-8-81)

(Mount Clipping in Space Below)

Cranston aide took Keating trip

By David Willman
Knight-Ridder

WASHINGTON — California Sen. Alan Cranston's top banking-affairs aide took a trip partially paid for by Phoenix developer Charles H Keating Jr. within one week after Cranston interceded in 1987 with federal regulators in behalf of Keating's Lincoln Savings and Loan, records and interviews show.

The Cranston aide, Carolyn D. Jordan, in March urged the office of William Crawford, California savings and loan commissioner, to support Keating's last-ditch proposal to sell Lincoln, according to state officials. The thrift was seized by federal regulators April 14, 1989.

Cranston approved Jordan's 1987 trip from Washington, D.C., to Phoenix in 1987, the senator said through a spokesman Wednesday.

On April 2, 1987, Cranston and three other senators met with the nation's top S&L regulator, Edwin Gray, to discuss the plight of Keating's Lincoln Savings and Loan Association, based in Orange County in southern California.

On April 9, 1987, Cranston, a Democrat, and four other senators — Dennis DeConcini, D-Ariz.; Donald Riegle, D-Mich.; John McCain, R-Ariz.; and John Glenn, D-Ohio — met with other officials from the Federal Home Loan Bank Board's office in San Francisco.

The regulators warned that Lincoln was operated in an unsound and possibly criminal fashion. The taxpayer bailout of Lincoln is expected to cost $2.1 billion, the nation's most expensive.

Records Jordan filed last year with the Senate Ethics Committee show that her trip began April 13, 1987, and ended April 20, 1987. She listed Keating's American Continental Corp., parent firm of his S&L, as having paid for her lodging.

According to Senate rules, Senate aides are required to disclose transportation, food, lodging and entertainment valued at $250 or more.

On the same form, she wrote that her air fare, with a "stop in Phoenix," was paid for by an industry S&L group called the "Thrift and Loans Assoc. Calif." That group could not be found as of Wednesday.

Jordan said Keating's company paid for her lodging and meals for two nights, but disclosure forms reported only free lodging during that week.

Asked whether Keating's company paid for all of her meals, Jordan said, "Oh yes, of course. You think we paid ourselves? Be serious. We do these things all the time. There's nothing unusual about it."

Jordan said she was accompanied on her trip to Phoenix by "one or two" House aides and another Senate aide.

Keating representatives declined to comment.

The Senate Ethics Committee and the Justice Department are investigating the actions of Cranston and the other four senators. Keating is facing federal investigations.

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We must not intimidate senators

Editor:

There has been much discussion recently regarding the activities of Charles H Keating Jr. and Lincoln Savings and Loan. I am not writing to proclaim Mr. Keating's innocence or guilt. I'm concerned about a much larger problem that could have devastating results on our system of checks and balances.

It is imperative that we feel free to call upon our senators to investigate the bureaucratic process, and our senators need to feel free to act on our behalf when there is a possibility we have been subjected to wrong-doing. We cannot allow our senators to be called on the carpet when citizens ask them for assistance with a problem or when requested to check into the bureaucratic process. Some of the press chose to label this treatment as "favors," or they suggest that a person is attempting to skirt the process. In most cases, this is not justified.

Part of the responsibility of senators is to make sure their constituents are being fairly treated. As in any business, the government has good and bad employees, and there are situations that need to be examined. If these employees ever feel they have a free hand and are unanswerable to anyone, we will have created an untenable situation. We cannot afford to have our senators apprehensive or cautious when protecting our rights.

MIKE INGRAM
Chandler

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Forget vow on newsletter, Dear Senator?

For weeks, readers have been sending me copies of U.S. Sen. John McCain's latest newsletter. It is dated Oct. 18 and was mailed from his office in Washington to what appears to be thousands of people in Arizona.

McCain addresses his message to "Dear Friend," which is is only right, as it appears that he spent thousands of taxpayer dollars just to send it to us.

The newsletter describes what McCain calls a "major victory." This occurred, he said, when the Senate "voted to adopt my legislation to repeal the controversial surtax (imposed by last year's Medicare Catastrophic Coverage Act) and keep those benefits of most importance to seniors."



E.J. MONTINI
Republic Columnist

It goes on for three pages.

On the fourth page is a photocopy of an article from *USA Today* with the headline "Ex-POW is behind rescue plan."

The story, which also is about the Medicare bill, begins, as most stories about McCain begin, with his prisoner-of-war experience, which the senator says he would never use for political gain.

This time, he said, "I do have some experience with being cold and hungry and sick, and certainly not having control of my own life. I hope that this has given me some sensitivity for the less fortunate in our society."

Skeptical of 'sensitivity'

The reason so many copies were then sent to me is that some of McCain's "dear friends" had difficulty buying his "sensitivity for the less fortunate" line.

As I said, his newsletter was mailed on Oct. 18.

On Oct. 16, you may recall, McCain spent the morning in Phoenix trying to explain at a news conference his a great sensitivity for one of the *most* fortunate in our society — multimillionaire Charles H Keating Jr.

McCain tried to explain why he interceded in Keating's behalf with federal regulators; why he took $112,000 in campaign contributions from Keating; why he and his family took trips to the Bahamas on Keating's plane, then stayed at Keating's house; why his wife had a $359,000 business deal with Keating.

As you can imagine, all that is difficult to explain. So in his newsletter, McCain tried this approach: Ignore it.

While the headline on McCain's newsletter read, "Ex-POW is behind rescue plan," the headlines in local newspapers read:

"McCain is scrambling to preserve reputation."

"Probe of McCain, DeConcini urged."

"Constituents wait for senators' answers."

"McCain, DeConcini lose ground in poll amid Keating woes."

And so on.

There is no mention of Keating in McCain's newsletter. A messy relationship with a greedy rich guy is not what McCain wants his constituents to dwell on. It is not what he wants them to remember.

Memory, however, is difficult to control.

Vowed to stop producing newsletters

For example, McCain's newsletter triggered the memory of Ron Larrabee, a "dear friend" of McCain from Glendale, who is himself a Vietnam War vet. Larrabee remembered that in 1987, McCain said that he would produce no more newsletters.

I didn't remember that but checked the newspaper's files and found that it is true. McCain said back then that he would save taxpayers thousands of dollars by not producing newsletters. He urged other senators and representatives to do the same.

In an editorial, *The Arizona Republic* praised his action.

At the time, McCain said, "I asked for the research to be done on what it would cost our Senate office to send out a newsletter. They told us it would cost $114,000 to produce and another $35,000 for postage."

Then he said, "We should make every effort to reduce deficits, and this is one place where we can save a little money."

I wonder if McCain forgot about that promise.

Memory, as I said, is difficult to control.

Or could it be that, in 1987, McCain was feeling smug. These days, perhaps the idea of spending lots of our money to convince us that he's not wasting our money doesn't seem extravagant. Just another way to express his concern for the less fortunate.

Over the past few days, I've called the senator's office in Washington, hoping to talk to him or one of his aides about his change of heart on the matter of newsletters. No one ever got back to me.

Do you think they forgot?

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FD-350 (Rev. 5-8-81)

(Mount Clipping in Space Below)

Crime lawyer may probe 'the Keating 5'

By Sam Stanton and Anne Q. Hoy
Republic Washington Bureau

WASHINGTON — The Senate Ethics Committee is poised to hire a prominent criminal attorney to investigate five U.S. senators, including Arizona's Dennis DeConcini and John McCain, and their involvement with Phoenix developer Charles H. Keating Jr., sources say.

The move, which could come as early as today when the full committee meets, would mark the first time that so many senators have been probed by the panel at the same time.

In addition to DeConcini, a Democrat, and McCain, a Republican, the senators are Democrats Alan Cranston of Califor-

—See ATTORNEY, page A 10

Attorney may probe 'Keating 5'

—ATTORNEY, from page A1

nia, Don Riegle of Michigan and John Glenn of Ohio.

The panel's expected action also increases the threat to each man's political future over the Lincoln Savings and Loan Association crisis and eventually could lead to their ouster from the Senate.

The S&L crisis played a minor role in the toppling of House Speaker Jim Wright, D-Texas, earlier this year.

The matter is being taken so seriously that two of the five senators have hired criminal attorneys to represent them.

Neither of Arizona's senators has taken such a step, although McCain has hired Jan Baran, a prominent election-law attorney, to help with his request for a Federal Election Commission probe of the Keating affair.

DeConcini and McCain issued separate statements Thursday evening in which they said they "welcome" the expanded probe by the ethics panel, but both said the committee had not contacted them.

"I would welcome anything that will establish the facts," said DeConcini, who told the panel in a long report last month that he had done nothing improper.

McCain, a first-term Republican, has not yet responded to the ethics panel's request for an explanation of each senator's behavior in Keating's behalf. But he said he is "confident that an investigation will vindicate my repeated statements that I never abused my office nor took actions that were improper."

The Ethics Committee has asked former Assistant U.S. Attorney Robert Bennett, a 50-year-old Washington attorney who specializes in white-collar-crime cases, to launch a "preliminary inquiry" into the actions of the senators, who have come to be known as "the Keating Five."

Bennett declined to comment Thursday when reached at home.

However, sources told *The Arizona Republic* that the committee had asked Bennett whether he would lead the Senate investigation. He accepted, sources said, but it is uncertain how soon the committee will make a formal decision.

Bennett already has been retained by the committee to investigate pending allegations of impropriety against Sen. David Durenberger, D-Minn. He also handled the committee's 1980 Abscam probe of Sen. Harrison Williams, D-N.J., who resigned in 1982.

Spokesmen for the ethics panel said they could not comment on whether Bennett, brother of drug czar William Bennett, would be retained, citing the Senate's confidentiality rules. If the committee makes a formal decision today, it will release a public statement confirming its action.

The panel, known formally as the Senate Select Committee on Ethics, launched a preliminary review last month of allegations that the senators took extraordinary steps to scuttle a government clampdown on Lincoln Savings and Loan, Keating's former thrift.

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A "preliminary inquiry" is the first of three formal steps that the ethics panel takes when probing the actions of a senator. The second step is called an "initial review," and means only that the committee believes "it is appropriate to obtain additional information," the committee's rules say.

The third and final step is a formal investigation and can involve formal hearings.

The main issue is whether the senators acted improperly when they met with regulators in 1987 to discuss a government examination of Lincoln.

Both of the meetings were highly unusual, were held in DeConcini's office, and now are the subject of an FBI probe and a House Banking Committee investigation.

The first meeting was held April 2, 1987, with Edwin Gray, chairman of the Federal Home Loan Bank Board.

Gray told the House banking panel last week that DeConcini tried to cut a deal with him to back off of his probe of Lincoln in exchange for concessions by Keating.

DeConcini and the other senators have denied that claim.

The second meeting was held a week later with the San Francisco regulators who were probing Lincoln's books.

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(Mount Clipping in Space Below)

McCain vows fight for law on major ills

Would rescue some provisions

The Washington Post

WASHINGTON — Sen. John McCain, R-Ariz., plans a Senate floor fight to save parts of the 1988 law that protects the elderly against medical costs for catastrophic illnesses, defying a House-Senate conference agreement Friday night to repeal the entire law, except for a handful of Medicaid provisions for the poor.

After Senate Finance Committee conferees reluctantly accepted House insistence on repeal, McCain said he will use every parliamentary device available to keep some benefits in effect, while repealing the surtax on Medicare beneficiaries that has been bitterly criticized by the elderly and McCain since the start of the year.

The floor fight over the catastrophic-ills insurance program could begin today when the House and the Senate are scheduled to meet in a rare Sunday session as they race to complete their business and adjourn for the year before Thanksgiving.



John McCain / Many House Republicans fear that salvaging part of the catastrophic-illness program would be too costly.

The lawmakers also must deal with a $14 billion deficit-reduction bill that must be passed in order to lift the $16 billion in automatic across-the-board budget cuts imposed in October under the Gramm-Rudman-Hollings budget law.

Early Saturday morning, House and Senate negotiators tentatively agreed on several revenue proposals that are a key component of the deficit-reduction legislation, known as a reconciliation bill.

However, it is unclear whether the measure will pass muster with President Bush, who has demanded that Congress provide $14 billion in "real" deficit reductions without resorting to the kind of accounting gimmicks that have become a staple of the reconciliation process.

In the Senate, Minority Leader Bob Dole, R-Kan., said he will back McCain's effort to salvage part of the catastrophic-illness program.

McCain's objective is for the Senate to reject the conference report and send back to the House a revised package, without the surtax, to preserve the law's increases in Medicare hospital benefits and a few other relatively minor provisions while dropping costly new benefits involving out-of-pocket costs for prescription drugs and doctor bills.

The one point of consensus in Congress is that the surtax must be repealed before adjournment to prevent another firestorm of anger from the elderly.

However, many House Republicans fear that, even with the surtax repealed and the drug and doctor-bill benefits dropped, McCain's approach would be too costly.

On the other hand, many Democrats, including Reps. Pete Stark and Henry Waxman of California, two of the 1988 law's chief sponsors, said that without the drug and doctor-bill provisions, the law would provide only meager benefits to the elderly and would not be worth the cost.

The Bush administration has said it would prefer to keep the 1988 law in effect, but has not strongly defended it or attempted to work out a compromise.

Under intense pressure from the elderly, the House voted 360-66 last month to repeal the law, which had been hailed on passage 16 months ago as the greatest advance in Medicare since the program was enacted in 1965.

It caused a storm of resentment from the elderly after they learned that to help fund it, they would have to pay a surtax based on income, reaching up to $800 per person for 1989 for the more affluent.

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Lawmaker: Keating testimony not needed

5th Amendment invoked at hearing

By Sean Griffin
The Phoenix Gazette

WASHINGTON — Charles H Keating Jr.'s testimony is not necessary for the House banking committee to root out the causes of the scandal involving Keating's Lincoln Savings and Loan Association, the committee's chairman said Tuesday.

Rep. Henry Gonzalez, D-Texas, said the committee has tens of thousands of reports, memorandums and records and is continuing to compile and evaluate material it has subpoenaed — including reams of paper from Lincoln and its parent, Phoenix-based American Continental Corp.

Gonzalez's comments were made at the conclusion of a grueling 10½-hour session that came to a climax hours earlier when Keating invoked his Fifth Amendment right against self-incrimination.

"I have no testimony to give today, sir," Keating told Gonzalez.

"On the advice of counsel, I respectfully exercise my constitutional privilege and prerogative and decline to answer questions here today," Keating said.

Asked if he was declining to answer any questions under the Fifth Amendment, Keating replied, "That is correct."

Keating left no electronic record of his remarks. He invoked his right under a House rule barring cameras and recording devices from the room.

The move caused a near-riot as he left the crowded committee room.

With armies of ejected video camera operators, photographers, and reporters waiting for him outside in the jammed and narrow corridors, a contingent of lawyers, bodyguards and Capitol police officers maneuvered Keating through the hordes only with great difficulty.

At least one reporter was knocked down during the chaos as the phalanx pushed through the crowds in front of it and those behind surged to catch up with Keating in the hope he would make a statement.

Keating had also sought to testify in executive session, requiring that the hearing room be cleared of everyone but committee members, Keating and his attorneys, but Keating withdrew the request after the committee bogged down in confusion about how to act on his request.

See ■ Lincoln, A-6

Inside

Highlights: A breakdown of Tuesday's testimony. **A-7**

Regulators: American Continental lawyer's boxes of underwear and socks searched during hotel takeover. **A-6**

58C-PX-41605 B-20

SEARCHED ..... INDEXED .....
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FBI/DOJ

Lincoln

From A-1

Keating provided a written statement to reporters saying, in part, that he might be willing to testify later before the committee.

Earlier, Rep. Jim Leach, R-Iowa, called Keating "an economic pornographer ... a financiopath of obscene proportions."

Gonzalez repeated his call for the resignation of M. Danny Wall, director of the Office of Thrift Supervision.

Gonzalez said nothing in Wall's testimony Tuesday altered his conviction that Wall's failure to shut down Lincoln for two years after the thrift's regulators recommended doing so was largely responsible for the cost of the $2.5 billion Lincoln bailout.

In addition, Gonzalez said he might legally challenge Congress' decision to exempt Wall's position from Senate confirmation in approving the S&L bailout bill last summer.

If the challenge is upheld, Wall would be serving illegally as OTS director and would be required to resign or — if nominated by President Bush, which Gonzalez deemed unlikely — face Senate confirmation.

The often-contentious atmosphere at Tuesday's hearing brought into the spotlight two figures in the scandal: Rosemary Stewart and Darrel Dochow, who deflected a large amount of the committee's criticisms from Wall, their supervisor.

Along with Wall, the two defended their actions in 1987 to delay acting on the allegations of unsound and unsafe practices at Lincoln until they could build a bulletproof legal case.

Stewart who was director of the Federal Home Loan Bank Board's enforcement office, contended that the San Francisco Home Loan Bank's examination of Lincoln's financial condition in 1986 lacked the facts necessary to build a legal case for conservatorship or receivership, as the San Francisco regulators had recommended.

A new examination was ordered and Stewart began to prepare the case for a cease-and-desist order — a formal court order she estimated could take a year or two to bring about.

At the same time, as the second examination began to confirm many of the findings of the San Francisco district examiners, Stewart, Dochow (who was Wall's chief of staff) and Wall said they were able to negotiate a supervisory agreement with Keating in May 1988. One of the provisions of the agreement required Keating to guarantee unlimited access of thrift examiners to Lincoln and American Continental records.

"It has got to be in hindsight, for Mr. Keating, his Waterloo," Wall said.

By permitting free access, Wall said his office was able to make the case for taking over Lincoln's operations, which it did April 14, one day after American Continental sought protection from creditors under the bankruptcy laws.

Wall said the "smoking gun" in the Keating affair was revealed in an Aug. 4, 1987, report by outside auditors who raised questions about a tax-sharing agreement between Lincoln and American Continental that had been approved by the San Francisco Home Loan Bank.

The report, by Kenneth Leventhal and Co., said the agreement required Lincoln to pay its entire tax obligation to American Continental each year.

But since thrifts typically have large, deferred tax liabilities, the firm concluded, "This agreement effectively provides (American Continental) with a cash payment for taxes which it will not be remitting to the IRS currently."



Susan Gallinger, director of the state Department of Insurance, talks with Sen. Bill DeLong, R-Tucson, during Tuesday's session.



John Blackmer, *The Phoenix Gazette*

Charles H Keating Jr. waits to testify.

Photographers banned at Keating's request

Phoenix millionaire Charles H Keating Jr. invoked House rules to have television cameras and still photographers banished from the House banking committee hearing before citing his Fifth Amendment right against self-incrimination. The exchange between Keating and Rep. Henry Gonzalez, D-Texas, banking committee chairman, went like this:

Gonzalez: "The witness may proceed with his request."

Keating: "Mr. Chairman."

Gonzalez: "Mr. Keating."

Keating: "I respectfully request, pursuant to Rule 11F2-211, television broadcasts, video broadcasts, still photography be precluded during my appearance."

Gonzalez: "The witness has asserted his privilege under the Rule 11 clause ... We must insist that all camera lenses be covered immediately, immediately (laughter from crowd). The photographers are in violation of the rules of the House. You must cover your lenses. These are the rules governing the House."

After the cameras were covered:

Keating: "On the advice of counsel, I respectfully exercise my constitutional prerogative and privilege ... and decline to answer questions here today."



John Blackmer, *The Phoenix Gaze*

The hearing room is crowded Tuesday as the House banking committee hears testimony about Lincoln Savings and Loan.

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Ex-chief takes 5th at hearing on Lincoln S&L

By Terry Atlas
Chicago Tribune

WASHINGTON—Embattled Phoenix lawyer Charles H. Keating Jr., who cultivated political influence in Washington while allegedly looting millions of dollars from his California savings and loan, refused Tuesday to answer questions from a congressional committee investigating the costly failure of his institution.

After using a House rule to bar television and still cameras from the House Banking Committee hearing, Keating invoked his constitutional right against self-incrimination. "On the advice of counsel, I respectfully exercise my constitutional prerogative and privilege and decline to answer questions here today," he said.

The brief appearance by Keating, target of federal criminal investigations and a $1.1 billion civil racketeering lawsuit, was the dramatic high point in a 10-hour hearing in which key federal regulators denied that Keating's political connections had influenced their actions.

The nation's top savings and loan regulator, M. Danny Wall, director of the Office of Thrift Supervision, conceded that he and others made some mistakes in the case of Keating's Lincoln Savings and Loan Association. But he also said deception by Lincoln led to the thrift's failure, which will cost taxpayers at least $2.5 billion.

Wall asserted that his actions "were devoid of any political influence. I was not under the spell of Charles Keating."

However, the special nature of Lincoln, which one thrift examiner called "politically dangerous" in an internal memo released by the committee, was apparent throughout the testimony as names of key lawmakers were linked to Keating.



AP Laserphoto

Charles H. Keating Jr. refuses to testify on Lincoln S&L at a congressional hearing Tuesday.

For instance, Wall disclosed that he received phone calls from two key Democratic senators, Alan Cranston of California and Dennis DeConcini of Arizona, who expressed unusual interest in Keating's plan to sell Lincoln days before federal regulators moved to seize the insolvent thrift April 14. Cranston also requested "sensitive regulatory information" about Lincoln at about that time, according to a memo retrieved from the files of thrift regulators.

And the fifth-ranking Democrat on the Banking

See Lincoln, pg. 8

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INDEXED
FILED

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FBI/DOJ

Lincoln

Continued from page 1

Committee, Rep. Carroll Hubbard Jr. of Kentucky, acknowledged early in the hearing Tuesday that he also had called Wall in early April at the request of former Rep. John Rousselot (R., Calif.), who headed the group whose application to buy Lincoln was rejected by regulators.

The Senate Ethics Committee is looking into whether five senators, including Cranston and DeConcini, improperly interfered with regulators on behalf of Lincoln as far back as 1987 in return for a total of about $1.3 million in campaign contributions arranged by Keating. The FBI reportedly also is scrutinizing the contributions.

Members of the House Banking Committee, their staffs, reporters, government regulators and a few curious tourists crowded into the committee hearing room for a glimpse of Keating, the tanned, lanky and mysterious figure who has become the latest savings and loan executive to symbolize the illicit dealings and political clout of the industry in the 1980s.

Rep. Jim Leach (R., Ia.) said Keating, who led an antiobscenity campaign in Arizona, "appears, by the record, to be an economic pornographer defiling the value of the savings of the elderly and adulterating the safety and soundness of the American financial system."

And a number of committee members said afterward that Keating's unwillingness to testify will make it difficult, if not impossible, to determine why federal regulators didn't take over Lincoln until more than two years after the first signs of major financial trouble and possible wrongdoing at the Irvine, Calif.-based thrift.

After Keating left the hearing room, one of his lawyers distributed a three-page statement in which Keating urged Congress to use its investigation to learn "the facts before engaging in spurious accusation and hollow impeachments of innocent persons."

Keating said he has offered to make available to the committee more than 20 million pages of documents, accumulated as part of pending lawsuits. "If Congress is truly interested in learning what happened to Lincoln and who the real perpetrators were, then it will provide more than mere lip service to its investigation and therefore will spend the enormous amount of time necessary to ferret through the real facts.... I am not sure that Congress is up to the task," his statement said.

Keating has contended all along that he and Lincoln were targets of a vendetta by regulators who objected to his aggressive investing in real estate, junk bonds and other risky investments. And in his statement, he predicted that the cost of cleaning up the nationwide savings and loan mess will come to $500 billion—more than three times the $160 billion approved for the task by Congress—which he called an "overwhelming indictment of both past and present" regulation.

Many members of the Banking Committee would likely agree with that assessment, and they expressed stinging criticism of the top thrift regulators who appeared before them earlier in the day.

Leach called Wall the "Neville Chamberlain of financial regulation," referring to the British prime minister who signed a nonaggression pact with Adolf Hitler.

And Rep. Henry Gonzales (D., Tex.), committee chairman, called the Lincoln case an example of "jet age banking up against horse and buggy regulation."

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(Mount Clipping in Space Below)

A classic bill

Editor:

The "ethics-reform" bill currently before our Congress must rate as a classic. On the surface it appears to the all we electorate might ask, all the while masking a seamy back-door salary increases for Congress. This is ethics? Are we to believe that the stewardship rendered by our Arizona delegation, especially our two senators, warrants any salary increase, let alone the nearly 38 percent contained in this "ethics-reform" bill. The total lack of candor on the part of our two senators especially in the Keating situation rates like the classic Nixon line, "I am not a crook." We the electorate must rate as stupid if we allow this level of ethics to go unchallenged. This is the legacy we want for Arizona?

PAUL F MILLER
Phoenix



Dana Summers/The Orlando Sentinel

Consenting politicians make it all legal

Editor:

Five U.S. senators accept large campaign contributions from Charles Keating and associates.

Our former president accepts $2 million from the Japanese within a year of leaving office.

Our U.S. House of Representatives votes itself a pay increase in the name of "reformed ethics."

And, in case anyone failed to notice, the national debt level was quietly raised and our state budget is out of balance.

All of these actions must have been legal, since they are conducted between consenting politicians.

BILL JORDAN
Sun Lakes

Senators and Keating are all culpable

Editor:

Charles Keating's actions as head of Lincoln Savings and Loan were flagrant violations of prudent business practices and ethical conduct for a businessman. Mr. Keating should receive proper justice. Mr. Keating's misuse of institutional funds for his own benefit and personal aggrandizement is equally as serious as those of TV Evangelist Jim Bakker.

Also culpable are the five senators who restrained government regulators from acting against Lincoln in 1987. Sen. Dennis DeConcini stated he was looking out for the interests of his constituents. The DeConcini and Keating families were the only constituents Sen. DeConcini was looking after Sen. DeConcini has previously shown he will put personal gain ahead of his constituents.

The five senators should accept partial responsibility for the harm caused to investors and stockholders in Lincoln They should apologize to their constituents, pay back contributions and other favors and vigorously seek justice for Mr. Keating.

The proper action for Sen. DeConcini is to resign. He has proven once again he does not have the moral responsibility expected of a U.S. senator.

HARLEY FARMER
Scottsdale

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Probe may find pattern of unethical involvement

Editor:

As a former government program administrator I am well aware of the pressures legislators can exert on agencies regarding issues of importance to their political campaign contributors.

The involvement of Sens. John McCain and Dennis DeConcini in the Charles Keating affair is being investigated, but it may be only one of many inappropriate interventions by the two in the administrative and regulatory roles of government agencies. There is little doubt that they pressured the Forest Service and Fish and Wildlife Service in their efforts to circumvent the National Environmental Policy Act and the Endangered Species Act at Mount Graham. There is a need for an investigation of the senators' role in this unfortunate affair. Such an investigation could well reveal still another pattern of unethical involvement by our senators.

Perhaps Sens. McCain and DeConcini need to be replaced with representatives having a sense of responsibility to all people and not just to those who fatten their campaign funds or who have the lobbying power.

JACK C. FRASER
Fountain Hills

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(Mount Clipping in Space Below)

McCain tells ethics panel he's innocent

Denies actions to aid Keating were improper

By Sam Stanton and Anne Q. Hoy
Republic Washington Bureau

WASHINGTON — Seeking to clear his name of the taint of the Lincoln Savings and Loan scandal, Sen. John McCain, R-Ariz., filed a 96-page report Tuesday with the Senate Ethics Committee in which he denied any wrongdoing.

McCain, one of five senators who have been dragged into the controversy because of their efforts in behalf of Lincoln's former owner, Charles H Keating Jr., was the last of the "Keating Five" to respond to the ethics panel's request last month for information.

"Let me state at the outset that I categorically reject any allegation or inference that my conduct or any of my actions were unethical or improper," McCain wrote.

He conceded that he had made "some mistakes" in his failure to report that he had taken about $13,000 in personal airplane trips in 1984-86 at Keating's expense. The senator paid earlier this year for most of the trips.

But he insisted that his involvement in meetings with Federal Home Loan Bank Board members was proper.

McCain also took a veiled swipe at two of his colleagues, Sens. Dennis DeConcini and Alan Cranston, when he wrote that he "never discussed with any federal or state regulator any proposal to purchase Lincoln Savings and Loan."

DeConcini, D-Ariz., and Cranston, D-Calif., have acknowledged that as late as this past spring, they were trying to persuade officials to approve a sale of Lincoln, a California thrift. McCain has said his involvement ended in April 1987.

The other members of the Keating Five are Sens. John Glenn, D-Ohio, and Don Riegle, D-Mich.

All five have denied any wrongdoing.

Last week, the Senate Ethics Committee hired a Washington attorney to look into a complaint by the government watchdog group Common Cause that the five misused their offices in behalf of Keating. The

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John McCain / "I categorically reject any allegation or inference that my conduct or any of my actions were unethical or improper."

Phoenix financier had been a large contributor to all of the senators.

At issue is the senators' involvement in two meetings that were held in DeConcini's office in April 1987.

The first, on April 2, involved all of the senators except Riegle, as well as Federal Home Loan Bank Board Chairman Edwin Gray.

The second took place a week later with all five senators and San Francisco regulators who were probing Lincoln's operations.

The unusual sessions were held after Keating complained to the senators that his thrift was the victim of a "vendetta" by the bank board.

McCain has portrayed himself as a virtual bystander in the sessions and maintains that his involvement stemmed from the fact that Keating, chairman of Phoenix-based American Continental Corp., is a major employer in Arizona. He said last week that the contributions of $112,000 that Keating raised for his campaigns played no role in his decision to go to the sessions.

Gray has testified before the House Banking Committee that the first meeting included an effort by DeConcini to cut a deal for Lincoln in which the thrift would change its way of doing business if the bank board would scrap a rule limiting the high-risk investments in which Lincoln specialized.

DeConcini has denied that offer took place, and the other senators have said they do not remember such a deal being suggested.

Lincoln has been seized by the federal government, and the cost of bailing out the insolvent thrift has been estimated at up to $2 billion.

McCain, who often has been mentioned as a potential presidential candidate, has launched an all-out public-relations blitz over the matter, which is being probed by the House, the Senate, the FBI and various government agencies.

Rep. David Dreier, R-Calif., asserted during the House Banking Committee hearing that McCain had been portrayed favorably on Monday evening's *MacNeil-Lehrer Report*, carried on public television. Dreier slammed the other senators as not being as forthcoming as McCain.

That brought sarcastic remarks from Democrats on the panel.

McCain's response to the Ethics Committee contained no new information about his involvement.

And the senator told the panel in his conclusion that he has "every confidence" that it will "clear my name."

"I have committed my adult life to military and public service," wrote McCain, a former Navy pilot and Vietnam War prisoner.

"The three things I cherish most are the love of my family, my honor and the trust bestowed upon me by the people of Arizona."

He vowed to answer any questions about the matter at any time but urged the panel to act quickly and to "publicly confirm that John McCain did not act improperly or abuse the office."



News photographers snap pictures of thrift regulator M. Danny Wall before his testimony. Wall told a congressional panel Tuesday that "my decisions in the Lincoln case were my own. I was not under the spell of Charles Keating."

FD-350 (Rev. C 8-81)

(Mount Clipping in Space Below)

Keating saga shifts from quiet Fifth to a swim with sharks

You weren't *really* surprised when Charlie Keating pleaded the Fifth before the House Banking Committee last week, were you?

Just because he had an unprecedented opportunity to tell his story to a national audience and 51 congressmen didn't mean it was to his legal advantage.

The real question, though, is why go to all the trouble of banning all TV cameras and radio microphones if all you're going to do is take the Fifth?

And didn't it strike you as ironic that when KAET-TV went back to its regular program, the show was a documentary on sharks and their eating habits?

Shadow of 'Rule of 9'

The state Senate's infamous "Rule of Nine" reared its ugly head again last week, casting doubts over prospects for meaningful action on Fiscal 2000 tax reform next month.

This, after Senate President Bob Usdane promised the governor and House and Senate leaders in September that he'd abolish the rule.

Usdane pledged to do away with the controversial rule — which requires certain bills to have the support of a majority of the 17-member GOP caucus before going to the floor for debate — in exchange for Democratic help in wrapping up the September special session on a paid King Day, prisons and miscellaneous other issues.

"They said they would not participate in another caucus with the Rule of Nine," Senate Democratic Leader Alan Stephens said of the GOP commitment. "They better resolve this ... or Fiscal 2000 just won't work."

Usdane says it wasn't really the Rule of Nine that scuttled auto-insurance reform last week, because he, as president, could have yanked the measure out of caucus and onto the floor anytime. He simply chose not to.

Sounds like a distinction without a difference.

"We've always said a special session on Fiscal 2000 will follow resolution of the auto-insurance issue, and that still goes," said a top adviser to Gov. Rose Mofford.

Guess who came to dinner

At least the Arizona Civil Liberties Union practices what it preaches.

Any other organization would have been ticked off by pickets marching outside to demand the recall of their dinner's honoree.

But that wasn't the case Nov. 18 at the ACLU's dinner to honor a longtime supporter, Sen. Dennis DeConcini. In fact, ACLU members actually praised the fact that two dozen protesters exercised their constitutional rights and held

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a demonstration outside the dinner at Marriott's Mountain Shadows Resort in Paradise Valley.

"It's a free country," one told *The Republic's* Pamela Manson.

It wouldn't seem like an ACLU dinner without protesters, another said.

DeConcini, by the way, wasn't even there. He got held up by Senate business in Washington.

The protesters mostly were upset over a bill DeConcini sponsored that would ban nine types of "assault rifles." DeConcini has also been under fire for interceding with federal regulators in behalf of Charlie Keating.

Kennedy connection

Phoenix attorney and college prof Dick Mahoney means business with his campaign for secretary of state.

The first-time candidate raised about $5,000 in cash and pledges last week at a fund-raiser in Washington, D.C. About 55 people attended, most of whom are old political buddies of his father, JFK confidant William Mahoney.

"It was a love fest of old John Kennedy and Bobby Kennedy friends," Dick Mahoney said.

Even Sen. Ted Kennedy was on hand.

That brings Mahoney's total to about $27,000 for an election still nearly a year away. He's taking on a fellow Democrat: competent if colorless Secretary of State Jim Shumway.

It'll certainly help pay the rent on Mahoney's Phoenix campaign office, which is already staffed by three full-time workers.

Spotlight on Corbin

Even Attorney General Bob Corbin couldn't escape the penetrating gaze of law-enforcement searchlights when he went deer hunting in southern Arizona earlier this month.

Corbin was sound asleep at his camp site just west of the Huachuca Mountains one pre-dawn Saturday when a helicopter noisily zoomed into the area and hovered just above the tent, flashing its spotlight on the license plate of the Bronco parked nearby.

"It was really something. The tent was shaking and everything," Corbin said. "I guess they're really serious about looking for drug smugglers down there."

He didn't bag a deer, either.

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(Mount Clipping in Space Below)

The Right Man for a Dirty Job

By Paul Gigot

When a final accounting is made for the savings and loan scandal, Dante's Inferno will have a waiting list. The line at Heaven's Gate, on the other hand, may begin and end with Henry Gonzalez.

As chairman of the House Banking Committee, the San Antonio Democrat is responsible for hearings that are providing the first public accounting for $300 billion worth of failed government. In the process, he's done the unthinkable and cast his spotlight not merely on the executive branch, but also on his colleagues in Congress. He's letting the muck fall where it may. Without his persistence, the nation would not be learning all it is about high-stepping banker Charles Keating, his five friends in the Senate, phantom regulator Danny Wall, and influence-peddling-as-usual in Washington.

Is this Congress's Watergate? "I think so," Mr. Gonzalez said in an interview over a 7:45 breakfast last week, only four hours after he'd left the House's last session. "Everybody contributed. The moral laxity—Congress, the executive branch, the private sector, everybody."

Politically Honest

Critics who are quick to bash Congress should also acknowledge when it is doing its proper job of oversight; the S&L hearings are one of those times. Unlike Reps. John Dingell (D., Mich.) or Tom Lantos (D., Calif.), two House inquisitors who blame everything all of the time on everyone but Congress, Mr. Gonzalez is politically honest. He's performing as a public educator, rather than in the typical congressional role of special-interest agitator.

It's a happy accident that Mr. Gonzalez is even in a position to do something about the S&L fiasco. His predecessor as committee chairman, and one of the scandal's main scoundrels, Fernand St Germain, would never have held hearings. ("I think that's safe to say," agrees Mr. Gonzalez, smiling.) Rhode Island voters luckily retired him. Donald Riegle (D., Mich.), Senate banking committee chairman, is one of the "Keating Five." Both the Reagan and Bush administrations have preferred to sweep any blame under the carpet and get on with bleeding taxpayers to pay for the cleanup. Many of his House colleagues are furious with Mr. Gonzalez.



Rep. Henry Gonzalez

The chairman is not the sort to let this no-one-here-but-us-public-servants-club get him down. Long a maverick, he is known as the "King of the Special Order" for his long, solo speeches on the House floor. He called for the impeachment of Ronald Reagan, after the Grenada invasion and again during Iran-Contra. In the early 1970s, he opposed wage and price controls. He's a New Deal liberal (1988 Americans for Democratic Action rating: 100%), and he did insist on pushing new housing subsidies as part of the S&L bill, a venial sin compared to the Keating crowd. But his liberalism is tempered with a populist, independent streak that gives him the integrity of the unpredictable. In inbred Washington, his idiosyncrasy is a virtue.

An attempt to pacify Mr. Gonzalez in the usual Washington style may even account for his tenacity now. Reading through the Bush administration's S&L reform bill earlier this year, he was offended when he saw that Danny Wall would not have to be reconfirmed as the industry's chief regulator. He thought a round of confirmation hearings would be just the thing to clear the air about what went wrong. But when he objected, he says, a White House official told him, "This is the only way we'll get it through Garn and the Senate." (Two White House officials at the meeting say they don't recall that exchange.)

Critics of Congress should acknowledge when it is doing its proper job of oversight; the S&L hearings are one of those times. Mr. Gonzalez is performing as a public educator, rather than in the typical congressional role of special-interest agitator.

Later, Sen. Jake Garn (R., Utah) invited Mr. Gonzalez for a heart-to-heart in his Capitol hideaway. The subject was again Danny Wall, a former aide to the senator. Mr. Garn didn't want Mr. Wall to be reconfirmed if William Seidman, the chief bank regulator, didn't also have to be confirmed again. The two agreed that both would have to be reconfirmed. But a short time later, Sen. Riegle, the committee chairman, came back to Mr. Gonzalez and

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told him other senators objected to the House telling the Senate what to do: Neither Mr. Seidman nor Mr. Wall would be reconfirmed.

A spokeswoman for Mr. Garn says the senator went out of his way not to lobby either the White House or other senators on Mr. Wall's behalf. But that isn't how Mr. Gonzalez sees it. "There is no question that Garn surrounded Riegle," he says. "At first, Riegle said, 'I'm with you,' but later he said, 'there is serious concern in the Senate about the House telling the Senate who it can confirm.' " Whatever the truth, the Gonzalez hearings are in part the reconfirmation hearings Danny Wall never had.

As for the five senators who met with regulators on behalf of Mr. Keating, Chairman Gonzalez is unsympathetic. He pulls from his pocket a piece of paper quoting a line from former Illinois Sen. Paul Douglas: "A legislator should not immediately conclude that the constituent is always right and the administrator is always wrong, but as far as possible should try to find out the merits of each case and only make such representations as the situation permits."

For Mr. Gonzalez, that's the rub. "Of course, the question is, when does 'the situation permit'? But if a legislator doesn't know the difference by the time he gets to Congress, then it's too late," Mr. Gonzalez says. "I don't care what code of ethics you have." Anyone who doesn't know the difference between genuine "constituent service" and influence peddling probably doesn't belong in Washington. Yet Congress talks about a formal code of ethics almost as a way to justify influence peddling: Whatever isn't expressly illegal is somehow thought to be all right. In Congress, the last refuge of a scoundrel is ethics reform.

Mr. Gonzalez also breaks from the Washington pack by lamenting the perverse incentives of federal deposit insurance. In 1982, he opposed the Garn-St Germain bill that raised the amount of deposits covered per account to $100,000 from $40,000. The effect was to let S&L operators socialize their risk, while keeping profits private.

"We never had one minute of hearings on that," says Mr. Gonzalez. "It was very mysterious the way it happened." Late at night, in a House-Senate conference, Mr. St Germain asked for the $100,000 limit. No one objected—and few in the press even noticed.

The chairman says he's now considering ways to limit deposit insurance, something George Bush's S&L "reform" avoided altogether. He's especially worried because he thinks insurance has created the same disastrous incentives in the banking industry as it did earlier in S&Ls. It's become, he says, "a capital plaything," a taxpayer subsidy to private interests rather than the protection for the little guy it was intended to be. One obstacle to deposit insurance reform will be Rep. Frank Annunzio (D., Ill.), a banking subcommittee chairman who is a long-time pal of the S&L industry. But Mr. Gonzalez says he'll hold hearings on insurance even if Mr. Annunzio objects.

Just the Beginning

Mr. Keating declined to testify last ~~week~~, so the S&L hearings will be dormant for a period. The banking ~~committee~~ staff is poring over the voluminous record, but Mr. Gonzalez intends to keep going. "This is just the beginning. We're going to have to pursue this," he says. "There's more than just Lincoln," Mr. Keating's failed S&L.

Mr. Gonzalez gets encouragement from his mail, most of which is inspired by C-Span's TV coverage of his hearings. ("I'm inundated," he says.) One letter in particular he prizes is from Raoul Berger, the noted jurist. Mr. Berger urged him on by quoting Winston Churchill: "Ministers have come under obligations to great interests. And it can be presumed or alleged that their votes or speeches have been corrupt." Henry Gonzalez likes the sound of that.

Mr. Gigot writes the Potomac Watch column on Fridays on this page.

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Comment

The Real Lesson From Lincoln S&L

By Warren T. Brookes

The Lincoln Savings and Loan scandal has already claimed one political victim, and could claim more. The recent resignation of M. Danny Wall as thrift regulator is likely to be followed by political, if not ethical, censure for the U.S. senators most closely involved with financier Charles H. Keating Jr.



Brookes

At the very least, three senators now on the Banking Committee, Donald Riegle Jr. (D-Mich) Chairman, and the two ranking members Alan Cranston (D-Cal) and Jake Garn (R-Utah) should now leave that committee, if there is any hope of restoring Senate credibility on banking regulation.

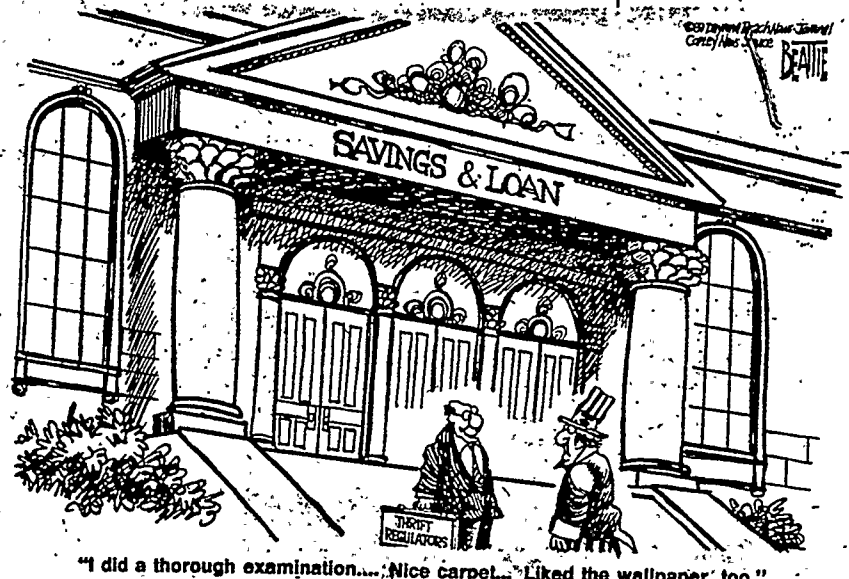
But, as we warned last June, the real lesson of Lincoln is not politics, but policy. The departure of Danny Wall, or the political demise of some senators, will not change a basic fact which Wall himself tried unsuccessfully to make clear: At the moment he finally seized Lincoln, its tangible net worth, as reported by Lincoln's accounting firm, was still higher than required by the supposedly 'get tough' S&L bailout bill passed by the Congress.

WHILE WALL was wrong to take regulatory control out of the San Francisco Home Loan Bank's purview, he's not wrong in contending it might have been very difficult to close Lincoln down in 1987, when its tangible net worth was over *double* the present standard.

In short, our basic regulatory premise is still fatally flawed because it rests wholly on using supposedly 'tough' capital standards to protect the taxpayers, while doing nothing to limit or reform deposit insurance.

Sadly, those standards are still based on valuing loan assets at book rather than at market value. This means that no matter how risky the loans might be, the tangible capital required to back them is only 1.5 to 3 percent of their book value.

Or, as Lincoln's San Francisco regulators worried, 3 percent of 'nothing' is worth exactly that, nothing. Beginning in 1984, Charles Keating systematically sold off Lincoln's safe home mortgage assets and converted that money into high risk land development loans and direct investments.



"I did a thorough examination.... Nice carpet... Liked the wallpaper, too."

AT SEIZURE, it turned out, the actual value of that more than 40 percent of loan assets in these high flying ventures was a fraction of the book value. The capital was more than wiped out.

In his October 19th testimony to the House Banking Subcommittee on Financial Institutions, Regulation and Insurance, bank expert Bert Ely showed that while the 2,249 most solvent thrifts now have a tangible net worth of 4.8 percent, or some $40.8 billion, those supposedly sol-

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vent thrifts also have $121 billion in 'problem assets,' or three times their total tangible capital. Should those 'problem assets' have to be marked down by as much as 1/3, (not unrealistic) the entire industry is bankrupt, and by 20 percent, the industry is 'insolvent' under new rules.

For example, there are some 545 nominally solvent but weak S&Ls now have $10.7 billion in tangible capital, which is 2.8 percent of total tangible assets, well above the Bush capital standard. But those 545 thrifts also have $72.3 billion in 'problem loans', or 7 times as much as their tangible capital.

It would only take a 15 percent markdown of those 'problem assets' to wipe out those 545 banks' total capital, and it would only take a 5 percent markdown to force them into receivership.

EVEN SO, in order to help thrifts meet the new capital standards the regulators are already allowing some of them to issue more subordinated debt, similar to that issued by Lincoln.

As Nobel economist and long time liberal James Tobin of Yale warned in a recent Wall Street Journal article, the Bush bill, "modestly strengthens capital requirements and does little if anything to restrict thrifts and banks to safer portfolios (of loan assets). The new (capital) requirements ... would not have prevented the disaster." Tobin argues that "deposit insurance is largely obsolete" and should only be allowed on those deposits that are backed by from 30-100 percent in liquid assets (Treasury Bills and the like). Banks and thrifts should be encouraged to offer higher interest rates for non-insured deposits, giving depositors "a much stronger incentive than they do now to evaluate the prudence, skill and honesty of their bankers." Fortunately, House Banking Chairman Henry Gonzalez, who has earned public plaudits for his investigation of the Lincoln matter, told WSJ's Paul Gigot recently that he was thinking of ways to limit deposit insurance which he said 'has become a capital plaything,' for the big guys rather than a protection to the small depositor.

The Bush Administration, which ran away from real deposit insurance reform, and from mark-to-market accounting, must now come forward to help Chairman Gonzales protect us from more Lincolns in our future.

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Comments by Bush Suggest Danny Wall Lacks President's Support in S&L Post

By Paulette Thomas
Staff Reporter of The Wall Street Journal

WASHINGTON—Danny Wall told a congressional subcommittee that he foresees doubling the pace of seizing sick savings and loan associationss, but his tenure as the nation's top thrift regulator appears to lack the full support of President Bush.

Mr. Bush, in an interview with editors of several Texas newspapers last week, wouldn't rule out calling for the resignation of Mr. Wall, who is the subject of an explosive series of congressional hearings over the demise of Lincoln Savings & Loan Association of Irvine, Calif. "I am not closing the door on it," Mr. Bush said, according to a transcript of the interview. "I just don't know at this juncture."

Mr. Bush was responding to an exhortation by Rep. Henry Gonzalez (D., Texas), chairman of the House Banking Committee, for Mr. Wall to step aside, at least while the committee explores why the thrift was allowed to remain open so long, piling up losses that will cost taxpayers more than $2 billion. Mr. Wall is scheduled to testify next week, along with Charles Keating Jr., the chairman of Lincoln's parent, American Continental Corp. of Phoenix, Ariz.

Mr. Bush, in the interview, said he hadn't pursued the matter with his staff. "When the question is put, if part of the savings and loan problem proves to be management or regulation people that aren't aggressive enough, would you make changes, the answer is yes, I have to do that."

Mr. Bush went out of his way to praise Mr. Gonzalez, who has held four hearings on the issue. A federal regulator testified that he was pressured by five U.S. senators to quickly end a longstanding and difficult examination of Lincoln. "I know it's painful for some, but I would salute Chairman Gonzalez's tenacity in these hearings," Mr. Bush said. "He's been very cooperative with the administration. And so I will have to give him an answer fairly soon on that."

Five senators, including four Democrats, have been accused of trying to delay the closure of Lincoln on behalf of Mr. Keating, who is a substantial contributor to influential politicians of both parties. The senators are Dennis DeConcini (D., Ariz.), Alan Cranston (D., Calif.), Donald Riegle (D., Mich.), John Glenn (D., Ohio) and John McCain (R., Ariz.).

A spokesman for Mr. Wall said it is inappropriate to speculate on such actions until Mr. Wall testifies. "Fair play dictates that all sides be heard from before any decisions are made. In that light, we are looking for our opportunity to testify next week."

Meanwhile, Mr. Wall told a house banking subcommittee that his agency intends to quicken the pace of seizing insolvent thrifts, to as many as six institutions per week from 2.4 currently.

Mr. Wall projected that as many as 576 undercapitalized S&Ls could be seized over the next two years and turned over to the Resolution Trust Corp., the new agency that will sell or merge sick S&Ls.

In making his forecast, Mr. Wall made a pitch for Congress to agree with the RTC on a plan to raise interim funding for taking control of the sick S&Ls. A dispute over how the tens of billions of dollars should be raised, and the effect on the federal budget deficit, must be resolved before the agencies can speed up the pace.

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Keating affair has press squirming

Editor:

In William P. Cheshire's Nov. 19 "Keating Five" column he claims that congressional "interference" makes bureaucrats squirm and has led them to roar about "the Keating Five" to obscure their own failures in the matter and to discourage future intervention on behalf of constituents. Such a claim is totally without merit.

First, since he cites no "bureaucrats" other than Mr. Gray, I suppose he considers him to be a spokesman for the bureaucracy. Clearly, this is erroneous since by the information presented in Mr. Cheshire's column Mr. Gray is a political appointee and not a bureaucrat at all.

Second, the bureaucracy is not "roaring" about "the Keating Five." Rather it is the press, both national and local, that is "roaring," perhaps in some attempt to obscure their own failures to report earlier on the Keating affair. A responsible and independent press should have asked where and how American Continental Corp. obtained its vast sums of money. Instead, the fawning and obsequious local press slavishly reported on Mr. Keating's "vision" for Estrella, the obscene salaries enjoyed by Judy Wischer and her compatriots and the grotesque opulence of the Phoenician Resort.

Finally, bureaucrats do not make laws, but they are responsible for enforcing them. While they are human and therefore far from perfect, most do try to enforce fairly and impartially the laws of this country. In contrast, congressional representatives write laws but do not enforce them. They expect to assist their constituents when problems arise with federal agencies, but are there proper limits to such assistance? We expect our representatives to listen more to their financial contributors, but at what point do our elected representatives become merely paid lobbyists for sale to the highest bidder?

ROBERT A. WILLIFORD
Phoenix

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THE LINCOLN HEARINGS

Highlights of Tuesday's testimony

Tuesday was the sixth day of House banking committee hearings into the collapse of the Lincoln Savings and Loan Association, which was controlled by Charles H Keating Jr.'s American Continental Corp. On this page are highlights of Tuesday's testimony. Keating was scheduled to testify but invoked his Fifth Amendment rights and refused to do so.

Rep. Henry Gonzalez, D-Texas, chairman of the House banking committee: "Both men (M. Danny Wall and Charles H Keating Jr.) are in a great position to shed light on why and how a savings and loan was allowed to drive over the cliff at a cost of $2 billion of public monies. These hearings have been tough assignments for the committee and the tensions have risen with the volatility of the issues, but this committee would be derelict in its duties if it failed to make an attempt to find out why the regulatory process failed so miserably, so often, at so many levels. . . .

"As today's testimony will demonstrate, there's a fundamental difference in the manner in which Washington and the San Francisco bank view the Lincoln problem. With a third of the nation's savings and loan assets under its regulatory wing, including the biggest of the big, the San Francisco Home Loan Bank viewed Lincoln as, and I quote, a ticking time bomb, end of quote, that required early action. Washington, it appears, looked on Lincoln as another case for the home loan bank board's traditional medicine of negotiation, accommodation, and faith that management would ultimately do the right thing.

"There is also evidence that the Washington regulators didn't truly sense who they were dealing with in Charles Keating. In one bank board meeting, chairman Wall tells his colleagues that he has known Keating for 13 years and describes him as a very active, very successful entrepreneurial businessman.

"Comparing Keating to the high flier that brought down Vernon Savings and Loan in Texas, Mr. Wall declared emphatically, 'He's no Don Dixon.' These high fliers cloaked in entrepreneurial trappings, crept into the savings and loan industry throughout the 1980s, a fact that the home loan bank board seemed not to understand until it was too late.

"Take two aspirins and call us back in the morning may have been adequate regulatory medicine for the traditional savings and loans that stayed in the home mortgage business. For the Charlie Keatings, the new breed of savings and loan operators, it was laughter. This was jet age banking up against horse and buggy regulation.

"The record suggests that Keating never made any secret of his plans. He left no doubt that he intended to push regulations to the limits, and beyond, and to take on high-risk ventures, everything from loan-shark land developments to Ivan Boesky junk bond deals. Lincoln was the cash machine for Keating and American Continental Corporation, their own personal ATM.

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FBI/DOJ

"As the weeks and months went by, the bank board found itself mired deep in the Keating scheme. In a May 1988 meeting, a troubled bank board member, Larry White, described the board's plight: 'We've got a high-risk institution, and to get out of this situation, we have to follow the words of Charles Keating, that it's a two-word admonition, trust me. And if you want me, Keating, to get us out of this situation, trust me, go with me a little bit longer, and I will get us out of this situation.'

"Even this year with Lincoln in its final hours chairman Wall continued down this trust-Keating trail, still trying to avoid conservatorship. Mr. Wall assured his colleagues that Keating would find a buyer. Notes produced by board member Roger Morgan quotes Danny Wall as saying on April 5: 'Conservatorship is not the only alternative; Keating is skilled enough to produce another acquirer.' This was nine days before Lincoln died and the body was willed to the federal government with no funeral expenses provided."

■

Rep. Jim Leach, R-Iowa: "Mr. Chairman, our witnesses have a lot to defend today. The leader of a moralizing campaign in Arizona against pornography, Mr. Keating appears by the record to be an economic pornographer, defiling the value of the savings of the elderly and adulterizing the safety and soundness of the American financial system. If the allegations the committee have heard so far are true, Charles Keating is a financiopath of obscene proportions — the Rev. Jim Bakker of American commerce, given license to steal from a bank board headed by the Neville Chamberlain of financial regulation, a cheerleader who saw no evil and thus spoke little truth."

■

Rep. Frank Annunzio, D-Ill.: "Mr. Chairman, one of the facets of the Lincoln Savings and Loan situation that has caused me great concern is the sale of subordinated debt of the savings and loan parent company, American Continental Corporation, in the lobbies of the thrift institution. We recently heard from people who purchased those bonds who said they felt that the bonds were federally insured and there was no possibility of loss of principal. . . .

"As we move forward in any banking legislation, we must carefully consider what activities can be conducted under the shield of federal insurance. Certainly we can write into the law restrictions on insurance coverage with certain products. But if those products are sold in a financial institution lobby or by employees at that financial institution how do we protect the insurance fund from claims by unhappy purchasers? . . .

"It is not enough to warn customers that their investments may not be federally insured. We must make certain that not even the appearance of federal insurance exists for anything but legitimate insured banks and thrift institutions."

■

Rep. Chalmus Wylie, R-Ohio: "I don't think that there's any doubt that in 1987 Danny Wall took the toughest assignment in Washington and under most difficult circumstances. I would agree with his testimony that upon reflection on the Lincoln matter things should have been (handled) differently, but as we all know hindsight has 20-20 vision.

"Let there be no doubt as opposed to Danny Wall, who has made a career of public service, it would appear that Charles Keating has made a career of self-service."

■

Rep. Charles Schumer, D-N.Y.: "I'd also like to say that I am glad, Mr. Chairman, that Mr. Keating is finally appearing before this committee because it's time we had Mr. Keating's explanation. He certainly has a lot of explaining to do. This country's taxpayers were left holding the bag for $2 billion when Keating's savings and loan went bust. For that much money, Americans deserve answers to their questions. . . .

"I'd like to ask Mr. Keating after costing average Americans $2 billion how he can continue to live his fancy life, take his expensive trips, and look himself in the mirror. . . . As Americans begin to understand the magnitude of what hap-

pened, I think there's going to be real outrage from coast to coast."

■

Rosemary Stewart, director of enforcement for the Office of Thrift Supervision: "The supervisory agreement has been characterized in terms that I would not even wish to repeat. These documents have been called unenforceable. The most serious error is that everyone continues to report that we executed a memorandum of understanding as the enforcement document. The enforcement document in this action was a supervisory agreement, the most commonly used tool of the Federal Home Loan Bank Board at the time....

"The memorandum of understanding was not the enforcement document..."

■

Darrel Dochow, senior deputy director for supervision operations, Office of Thrift Supervision: "Not once in this entire process, from the time I assumed my responsibilities in September of 1987 as executive director to today, did I receive any pressure from Senate or House members or their staffs to take ... any specific action on Lincoln....

"I didn't think moving them (Lincoln) to Washington (D.C.) or any other district was going to give them easy supervision. In fact, I think Lincoln would attest to that today....

"The Lincoln situation was considered unique and complex; in fact, so unique and complex that it would not set precedent for other financial institutions to receive similar treatment. It was approached as a novel, one-time-only situation that would not pave the way for other institutions to shop districts or supervisors....

"It's easy to use hindsight in second-guessing the judgments that were made in this matter. It's easy to use hindsight in guessing whether conservatorship action should have been taken earlier. Some of the judgments that were made were mine and I accept responsibility for those judgments. Knowing what we know now, a different approach, even if litigated over many many months, if not years, might have been more effective."

■

M. Danny Wall, director of the Office of Thrift Supervision: "Many people have said that I wasn't tough enough. Some people have said that this was a no-win job. Maybe both had been some people's views. But I would submit to you that I have said to 553 institutions: 'You're out of business.'...

"Not only did Mr. Keating not offer me a job anywhere in this process, he opposed me for this position....

"No political figure influenced my decisions. I don't know how I can say that more emphatically!...

"I look back and I second-guess. You bet I do. Maybe sometimes almost to distraction. We have made thousands of decisions in this process and there are thousands more decisions that have to be made and somebody has to make them and somebody has to have the responsibility, and in that sense I have the responsibility....

"If I had known then what I know now, would I have done things differently? Certainly. We all would. In every action, in almost every decision we made — even though at the time it appeared and had been certified as being a solvent institution in full capital compliance by one of the Big Eight accounting firms. ...

.... "Hindsight has caused us to realize a lot of things, including that we had the smoking gun as of August 4, 1987, but we didn't know we had it."

■

Gonzalez: "I certainly don't want to be uncharitable or unkind, but I want to be as harsh as truth and as uncompromising as justice. Do you really truly believe that these excuses are comforting either to

myself ... or to the American people? That a huge regulatory bureaucracy could do nothing, did nothing and watched the institution go down before their eyes.

"The bottom line remains: $2 billion of public monies were lost and thousands of retirees were swindled out of their life's savings."

■

Wall: "We can and must guard against allowing the mistakes of the past to be repeated. The lesson of Lincoln is that we must continually adjust our political, supervisory and regulatory compass to ensure that our insured financial institutions never deviate from the course set for them as safe havens for the savings of Americans' deposits.

"We must work together to assure the American people that scoundrels will never again be able to pick the taxpayers' pocket."

■

Leach to Wall: "There has this morning been a lot of finger pointing. Your Washington team suggests that the San Francisco board is more than slightly at fault. But like a gun when fired, responsibility points to the person pulling the trigger. You sir, for two and a half years, have held the gun. You and your staff cannot shirk responsibility...."

■

Rep. Bill McCollum, R-Fla., to Wall: "Have you had, since you've been in your office, conversations with Sen. (Dennis) DeConcini (D-Ariz.) about this whole matter of Lincoln?"

Wall: "I had two calls from Sen. DeConcini early this year, in March and/or April, where we had under consideration one of the series of three applications to sell Lincoln. His call to me was urging that we give prompt consideration to two different of the three proposals. It was not something that was falling on deaf ears. We were trying to do it anyway. He was urging we give prompt consideration, not what the consideration be, yes or no...."

■

Rep. Carroll Hubbard, D-Ky., to Stewart: "This is a $2 billion loss. ... What red flags were missed over the years here along the way that caused the Keating mess?"

Stewart: "As early as the beginning of the 1986 examination, the Washington supervision office ... was telling attorneys in my office that Lincoln had all the red flags. It had a high level of direct investments. It had high-risk loans concentrated in one area, Arizona. I don't believe there was any failure to spot the red flags. The failure was to document in such a nature that some action could be taken based on those...."

Rep. Thomas Carper, D-Del., who was questioning Wall when Keating walked into the room, stirring a huge commotion by TV crews: "Mr. Chairman, I can only assume that these television camera people heard that I was asking questions (chamber erupts in laughter). And just in case they're not sure, I'm sitting right up here (more laughter) on the second row."

■

Schumer: "It seems to me in broad retrospect, the whole idea of holding out and holding out and holding out for a peaceful resolution gave Charlie Keating the ability to get away with what he got away with. And it would seem to me, certainly in retrospect, that there was too much emphasis on a peaceful resolution."

■

Rep. Bruce Vento, D-Minn., to Stewart: "But you had these agreements or recommendations or options seven or eight months before you finally made a decision in May. You practically were fiddling while Rome was burning ...

"The only criteria then was the insolvency then? The other issues are not important. If they're not insolvent, you can't do anything. In other words, what you're saying to me, more or less here, if this particular phenomena occurred again we couldn't do anything to stop losing $2 billion....

"Well, you were all wrong, you were all wrong, and we want to hear you say that you were wrong. You're not here saying anything. You're saying, 'Well, that's the way it is, we made the best judgment and that's it. Tough. $2 billion.' You were wrong."

■

Rep. Joseph Kennedy II, D-Mass.: "The fundamental fact is that by ignoring the fundamental wrongdoings that were taking place in that organization billions and billions of dollars are going to have to be coughed up by the American people."

■

Rep. Paul Kanjorski, D-Pa., to Stewart: "...: Have you see any criminality involved that comes across from all these examinations? Or do you have any suspicions? ... I can't believe that you as an attorney didn't see that you've got enough material here and essence of criminality. Did you see this or not?"

Stewart: "Criminal referrals were made in this case. Repeatedly...."

Kanjorski: "Have there been any? To date, have there been any charges filed against Mr. Keating or any of his cohorts for stuffing files, for washed transactions, for back scratching, for all the transactions we've heard talk about here?"

Stewart: "They're under investigation. ... by the Department of Justice."



John Blackmer, *The Phoenix Gazette*

Keating in the spotlight

House committee hearings into the Lincoln Savings and Loan failure climaxed Tuesday with the testimony of top regulators and the appearance of Charles H Keating Jr. Keating was sworn in (below right), but invoked his Fifth Amendment right to refuse to testify. Police keep the press at bay (below left and above) as Keating leaves.







Rep. Henry Gonzalez
Committee chairman



M. Danny Wall
Chairman, Office
of Thrift Supervision



Darrel Dochow
Office
of Thrift Supervision



Rosemary Stewart
Office
of Thrift Supervision



Rep. Jim Leach
Committee member

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Gray blames DeConcini, Cranston

WASHINGTON (AP) — Sens. Dennis DeConcini and Alan Cranston bear more blame than three other senators accused with them of improperly intervening with regulators in connection with the Lincoln Savings and Loan Association, a former top regulator says.

Edwin J. Gray, former chairman of the Federal Home Loan Bank Board, on Sunday insisted that the five lawmakers improperly pressured him as a favor to Lincoln owner Charles H. Keating Jr. "They were asking me to withdraw a regulation for their friend," Gray said. "I said, 'We're not going to do that.'"

Two congressional committees are investigating the failure of the Irvine, Calif.-based Lincoln S&L, which is expected to cost the taxpayers up to $2.5 billion — $50 for each American family, according to Rep. Jim Leach, R-Iowa.

The five senators intervened with federal regulators in 1987 on behalf of Lincoln and Keating, who gave them a total of $1.3 million in campaign and other political funds. The other three are Sens. John Glenn, D-Ohio; Donald W. Riegle Jr., D-Mich.; and John McCain, R-Ariz.

All five senators have said they violated no law or rule of the Senate, and they have disputed Gray's account of the 1987 meetings.

But the Senate Ethics Committee two weeks ago appointed an outside counsel to investigate charges that their intervention constituted a conflict of interest.

Asked on ABC's "This Week With David Brinkley" whether any of the senators were "more culpable than others," Gray said, "Yes absolutely ... Senator DeConcini, who made the proposal, who has continued to stonewall and deny it. And Senator Cranston," who received $850,000 in corporate donations from Keating for three voter registration projects he favored after the senators' two 1987 meetings with federal regulators.

Meanwhile, M. Danny Wall, the nation's chief savings and loan regulator, acknowledged on the Brinkley show that he made mistakes in connection with the massive Lincoln S&L failure, but said he has no plan "at this point" to resign.

Wall, head of the Office of Thrift Supervision, said he believed that as congressional investigations proceed, "time will indeed be kind to us." President Bush said two weeks ago he had not ruled out replacing Wall.

McCain and Glenn insisted on the Brinkley show that they did nothing wrong in connection with the Lincoln case.

"Any implication that I have done something wrong in this case is just flat wrong, and I resent it with every fiber in my being," Glenn said.

McCain said, "It was a serious mistake on my part" to have not immediately made reimbursements for trips taken on Keating's corporate plane, but he insisted that inquiries eventually will clear him of any rule-breaking.

"I did nothing that I wouldn't do for any major employer, or economic factor, in my state," McCain said.

According to regulators, Lincoln's money — in the form of S&L deposits insured by the federal government — was lost to an elaborate "pyramid scheme" of phony real estate and other deals by Keating.

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Keating case a raging fire for senators

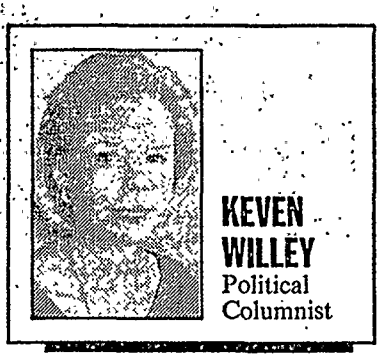
So, are Arizona Sens. Dennis DeConcini and John McCain *really* feeling heat over the Keating-Lincoln Savings fiasco, or is this a one-alarm fire stoked by the local media?

It's a forest fire.

The fact that cavalier Charlie's shenanigans became the subject of nationally televised congressional hearings ought to be the first clue.

If that doesn't convince you, take a look at the actions of the embarrassed senators who went to bat for Keating. And at the exposure the whole mess is getting on television, newspapers and magazines all over the world.

- The London-based *Economist* magazine went so far this week as to call the Lincoln Savings debacle the Iran-contra affair of the U.S. thrift industry.
- The Keating calamity regularly makes network news and has been spotlighted in the past two weeks on the *MacNeil Lehrer Report, Nightline, This Week With David Brinkley* and National Public Radio's *Morning Edition.*
- Each of the "Keating Five" senators has hired hot-shot Washington lawyers. Most specialize in white-collar crime.
- The conduct of the five senators — Democrats DeConcini, Donald Riegle of Michigan, Alan Cranston of California, John Glenn of Ohio and Republican McCain — has provided fodder for front-page



KEVEN WILLEY
Political Columnist

stories and stinging editorials in newspapers across the country.

Reform is the issue

With any luck, this imbroglio will lead to campaign-finance reform. That's really the big issue here. We've simply created a system that rewards elected officials who prostitute themselves for special interests, and it's a system that desperately needs overhauling.

In the meantime, you probably shouldn't bet the house and kids that Keating will ever do time over this. Not with his coterie of attorneys and the way our justice system works.

But it's pretty clear that the Keating Five have been severely damaged by the whole episode.

Wagging tongues already contend that the debacle has shattered McCain's dreams of running for president and that DeConcini will make his third term his last. It's far too early to tell — McCain's not up for re-election until 1992, and DeConcini not until 1994 — but the senators' own actions seem to mirror these fears.

Of the five, McCain has been by far the most open in his damage-control efforts, starting with his unusual 90-minute October news conference in Phoenix. Since then, he has focused much of his attention nationally, accepting nearly every invitation to appear on national news programs, including most recently the Brinkley show and *Nightline.*

Clearly, he's worried about his national image.

DeConcini, meanwhile, has targeted his efforts on Arizona. He's done scads of interviews with broadcast and print media.

DeConcini, who's always excelled in constituent service, knows where his bread is buttered.

Other strategies

Other senators have adopted their own strategies.

Riegle, for example, has been among the most tight-lipped. And he's taking his licks for it.

Riegle's "reluctance to divulge the exact role he played in this fiasco is disheartening and should give even his staunchest backers reason to pause," the *Grand Rapids Press* editorialized recently.

"At the least, the senator exercised bad judgment . . ." the editorial continued. "At the worst, he's guilty of selling his position."

In Ohio, *The Columbus Dispatch* was hard on Glenn last week, saying, "For Sen. Glenn, it's not 'national hero' these days; it's 'purchased politician' or one of the 'Keating five' or 'senator for sale.' "

Dayton Daily News Editor Max Jennings, formerly of *The Mesa Tribune,* was more charitable, saying, "Glenn and the rest got sandbagged. That happens in politics, and Glenn can be forgiven for that, but only if he acknowledges what happened and washes his hands of the Keating money."

In California, pollster Mervin Field says Cranston is in "deep trouble" politically because of congressional testimony from elderly residents who blame him for the loss of their life savings in Keating-related investments.

The issue is more partisan in other states. Michigan's GOP chairman called for Riegle to step down as chairman of the Senate Banking Committee. Republicans there and in California and Ohio can hardly contain their glee as Riegle, Cranston and Glenn struggle to explain why voters should not assume that the lawmakers placed the interests of a high-flying "fat cat" above the little people who will be paying the tab for Lincoln's collapse for decades.

In Arizona, it's tough for either party to take potshots because both parties' senators are involved.

Yep, it's a raging forest fire. And you can bet it's going to blacken a lot of political rangeland before it's through.

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(Mount Clipping in Space Below)

Dismissal of S&L regulator is urged

Bush supports embattled Wall

By Sam Stanton
Republic Washington Bureau

WASHINGTON — Consumer advocates and thrift groups Wednesday increased pressure on President Bush to fire M. Danny Wall as the nation's top thrift regulator because of his oversight of Lincoln Savings and Loan.

Wall ignored the renewed pleas for his ouster, and the White House stuck to its official position that no decision has been made to relieve Wall as director of the Office of Thrift Supervision.

Top members of Congress have called for Wall's firing because of Lincoln's collapse and the crisis in the nation's savings-and-loan industry. Several groups added their names Wednesday to the list of those wanting Wall gone.

Citizens Against Government Waste, Ralph Nader's Public Citizen organization, the National Taxpayers Union Foundation, and nationally known thrift analyst Bert Ely said at a joint press conference that Wall's mishandling of the S&L crisis requires his removal.

"The amount of money that has been lost in this thing, people just do not comprehend," taxpayers-foundation Chairman James Davidson said.

"It's more than it took to build the interstate highway system. We could rebuild the interstate highway system with the money that has been poured into this black hole for the S&Ls.

"Every time you sit in a traffic jam for the rest of your life, think of the fact that you don't need to be there if these people had not whittled away these hundreds of billions. This is more than the cost of the Vietnam War. We should have a memorial on the mall for this lost money."

The S&L crisis is expected to cost taxpayers at least $150 billion. The direct cost of the Vietnam War has been estimated at $140.6 billion, according to the Encyclopedia of American Economic History.

Davidson and the others stressed Lincoln's failure, as well as the overall thrift crisis, as justification for Wall to either quit or be fired. They joined earlier calls for his ouster from Senate Majority Leader George Mitchell, D-Maine; *The Wall Street Journal*; and House Banking Committee Chairman Henry Gonzalez, D-Texas.

But Wall spokesman Karl Hoyle said his boss, who headed the Federal Home Loan Bank Board until the

— See BUSH, page D7

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Bush urged to fire S&L regulator over Lincoln debacle

— BUSH, *from page D1*

Office of Thrift Supervision took its place, should be lauded for his performance.

"Dan's job was to salvage what was left of the industry, to set it back straight, to return it back to some kind of working order," Hoyle said.

Hoyle said Wall had not been contacted by the White House or by his superiors at the Treasury Department about resigning.

Bush said earlier this month that he would consider replacing Wall if he found him to be at fault, but a few days later, the administration said it had no intention of pushing Wall out.

White House spokesman Marlin Fitzwater repeated that stance Wednesday morning, saying "There's been no consideration of Mr. Wall's tenure."

Wall has become a lightning rod for criticism of the government's handling of the S&L crisis, and recently concluded House hearings on Lincoln's collapse led to the renewed calls for Wall's ouster.

Wall, who testified Tuesday before the House Banking Committee, said he had moved as quickly as possible to close Irvine, ~~Calif.-based~~ Lincoln and denied that he hesitated because of pressure from five senators, including Arizona's.

But the groups calling for Wall's ouster said Wednesday that Wall had to have been influenced by the intense interest that those senators exhibited in how Charles H. Keating Jr. and his Lincoln thrift were being treated.

"When you have that many senators who are ganging up together, it has an effect," Public Citizen President Joan Claybrook said.

"It is a very inappropriate thing for them to have done."

The five senators — ~~Dennis~~ DeConcini, D-Ariz.; John McCain, R-Ariz.; Alan Cranston, D-Calif.; John Glenn, D-Ohio; and Donald Riegle, D-Mich. — met with federal regulators in April 1987 to ask why their examination of Lincoln was taking so long.

All five, who now are under scrutiny by the Senate Ethics Committee and the FBI, have denied any wrongdoing.

The senators met twice in DeConcini's office on regulators' examination of Lincoln, and DeConcini and Cranston tried to persuade officials as late as last spring to help Keating sell his thrift rather than let it be seized by the government.

Those efforts failed, and regulators took over Lincoln on April 14.

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What was said at key meeting in Lincoln case

These notes are excerpted from the April 9, 1987, meeting between five U.S. senators and San Francisco-based regulators of the Federal Home Loan Bank Board.

The notes, taken by William K. Black, then-deputy director of the Federal Savings and Loan Insurance Corp., have become a key to the investigation into the collapse of Charles H Keating Jr.'s Lincoln Savings and Loan. They are central to the question of whether the five senators intervened improperly with federal regulators in an attempt to persuade them to ease up on Lincoln following Keating's complaint that the government was unfairly restricting his ability to do business. All five senators received donations from Keating, but deny impropriety.

While extensive, these notes are not an official transcript of the meeting. Nevertheless, they have been examined by the participants and none has disputed their accuracy.

PARTICIPANTS:

WILLIAM K. BLACK, then-deputy director of the Federal Savings and Loan Insurance Corp. (FSLIC).

JAMES CIRONA, president of the Federal Home Loan Bank of San Francisco.

SEN. ALAN CRANSTON, D-Calif.

SEN. DENNIS DECONCINI, D-Ariz.

SEN. JOHN GLENN, D-Ohio.

SEN. JOHN MCCAIN, R-Ariz.

MICHAEL PATRIARCA, Director of Agency Functions, FSLIC.

SEN. DONALD RIEGLE, D-Mich.

RICHARD SANCHEZ, supervisory agent for Lincoln.

DeConcini: . . . We wanted to meet with you because we have determined that potential actions of yours could injure a constituent. This is a particular concern to us because Lincoln is willing to take substantial actions to deal with what we understand to be your concerns. Lincoln is prepared to go into a major home loan program — up to 55 percent of its assets. We understand that that's what the Bank Board wants S&Ls to do. It's prepared to limit its high risk bond holdings and real estate investments. It's even willing to phase-out of the insurance process if you wish. They need to deal with, one, the effect of our reg . . .

— See NOTES, page C6

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Notes from key meeting excerpted

—NOTES, *from page C1*

Lincoln is a viable organization. It made $49 million last year, even more the year before. They fear falling below 3 percent and becoming subject to your regulatory control of the operations of their association. They have two major disagreements with you. First, with regard to direct investment. Second, on your reappraisal. They're suing against your direct investment regulation. I can't make a judgment on the grandfathering issue. We suggest that the lawsuit be accelerated and that you grant them forbearance while the suit is pending. I know something about the appraisal values . . . of the Federal Home Loan Bank Board. They appear to be grossly unfair. I know the particular property here. My family is in real estate. Lincoln is prepared to reach a compromise value with you.

Cranston: I'm sorry I can't join you, but I have to be on the floor to deal with the bill. I just want to say that I share the concerns of the other senators on this subject. . . .

McCain: . . . One of our jobs as elected officials is to help constituents in a proper fashion. ACC (American Continental Corp.) is a big employer and important to the local economy. I wouldn't want any special favors for them. It's like the Apache helicopter program that Dennis and I are active on. The Army wants to cut back the program. Arizona contractors make major components of the Apache helicopter. We believe that the Apache is important to our national defense. That's why we meet with (name omitted) and try to keep the program alive.

I don't want any part of our conversation to be improper. We asked (Bank Board) Chairman (Edwin J.) Gray about that and he said it wasn't improper to discuss Lincoln. I'd like to mention the appraisal issue. It seems to me, from talking to many folks in Arizona, that there's a problem. Arizona is the second-fastest growing state. Land values are skyrocketing. That has to be taken account of in appraisals. . . .

Glenn: . . . ACC is an Ohio-chartered corporation. I've known them for a long time, but it wouldn't matter if I didn't. Ordinary exams take maybe up to six months. Even the accounting firm says you've taken an unusually adversary view toward Lincoln. To be blunt, you should charge them or get off their backs. If things are bad there, get to them. Their view is that they took a failing business and put it back on its feet. It's now viable and profitable. They took it off the endangered species list. Why has the exam dragged on and on and on? I asked Gray about this. Lincoln has been told numerous times that the exam is being directed to continue by Washington. Gray said this wasn't true.

Riegle: . . . The appearance from a distance is that this thing is out of control and has become a struggle between Keating and Gray, two people I gather who have never even met. The appearance is that it's a fight to a death. This discredits everyone if it becomes the perception. If there are fundamental problems at Lincoln, OK.

I've had a lot of people come through the door feeling that they've been put through a meat grinder. I want professionalism. And your backgrounds attest to that professionalism. But I want not just professionalism, but fairness and the appearance of fairness. So I'm very glad to have this opportunity to hear your side of the story.

Glenn: I'm not trying to get anyone off. If there is wrongdoing I'm on your side. But I don't want any unfairness against a viable entity. . . .

Cirona: First, if there's any fault to be had concerning the length of the examination, it's on my shoulders. We determine how examinations are conducted. Gray never gave me instructions on how to conduct this exam or any other exam. At this meeting you'll hear things that Gray doesn't know.

DeConcini: Did Gray ever talk to you about the examination of Lincoln? . . .

Patriarca: . . . We received no instructions from Gray about the exam of Lincoln. We decide how to do the exam.

Cirona: This meeting is very unusual, to discuss a particular company.

DeConcini: It's very unusual for us to have a company that could be put out of business by its regulators. . . .

Sanchez: An appraisal is an important part of underwriting. It is very important. If you don't do it right you expose yourself to loss. Our 1984 examination showed significant appraisal deficiencies. Mr. Keating promised to correct the problem. Our 1986 examination showed that the problems had not been corrected, that there were huge appraisal problems. There was no meaningful underwriting on most loans. We have independent appraisals. Merrill Lynch appraised the Phoenician. It shows a significant loss. Other loans had similar losses.

DeConcini: Why not get an independent appraiser?

Sanchez: We did.

DeConcini: No, you hired them. Why not get a truly independent one or use arbitration, if you're trying to bend over backwards to be fair. There's no appeal from your reappraisal. Whatever it is you take it.

Sanchez: If it meets our appraisal standards.

Cirona: The Phoenician reappraisal process is not complete. We have received Lincoln's rebuttal and forwarded it to our independent appraisers. . . .

Sanchez: Lincoln had underwriting problems with all of their investments, equity securities, debt securities, land loans and direct real estate investments. It had no loan underwriting policy manual in effect when we began our 1986 exam. When the examiners requested such a manual they were informed that it was being printed. The examiners looked at 52 real estate loans that Lincoln had made since the 1984 exam. There were no credit reports on the borrowers in all 52 of the loan files.

DeConcini: I have trouble with this discussion. Are you saying that their underwriting practices were illegal or just not the best practice?

Cirona: These underwriting practices violate our regulatory guidelines.

Black: They are also an unsafe and unsound practice.

DeConcini: Those are two very different things.

Sanchez: You need credit reports for proper underwriting. . . .

Riegle: . . . Do we have a history of loans to folks with inadequate credit?

Sanchez: $47 million in loans were classified by examiners due to lack of adequate credit to assure repayment of the loans.

Patriarca: They're flying blind on all of their different loans and investments. That's what you do when you don't underwrite. . . .

Glenn: How many loans have gone belly-up?

Sanchez: We don't know at this point how many of the 52 have defaulted. These loans generally [redacted] interest reserves.

Glenn: Well, the interest reserve should have run out on many of these.

Cirona: These are longer-term investments.

Black: I know that Lincoln has refinanced some of these loans.

Glenn: Some people don't do the kind of underwriting you want. Is their judgment good?

Patriarca: That approach might be OK if they were doing it with their own money. They aren't, they're using federally insured deposits.

Riegle: Where's the smoking gun? Where are the losses?

DeConcini: What's wrong with this if they're willing to clean up their act?

Cirona: This is a ticking time bomb.

Sanchez: I had another case which reported strong earnings in 1984. It was insolvent by 1985.

Riegle: These people saved a failing thrift. ACC is reputed to be highly competent.

Black: Lincoln was not a failing thrift before ACC acquired it. It met its net worth requirement. It had returned to profitability before it was acquired. It had one of the lowest ratios of scheduled assets in the 11th District, the area under our jurisdiction. Its losses were caused by an interest spread problem from high interest rates. It, as with most other California thrifts, would have become very profitable as interest rates fall.

DeConcini: I don't know how you can consider it a success story. It lost $24 million in 1982 and 1983. After it was acquired by ACC it made $49 million in one year.

McCain: I haven't gotten an answer to my question about why the exam took so long.

Sanchez: It was an extremely complex examination because of their various investments. The examiners were actually in the institution from March to October — eight months. The asset classification procedure is very time consuming.

McCain: What's the longest exam you ever had before?

Cirona: Some have technically never ended, where we had severe problems with a shop.

McCain: Why would Arthur Young say these things about the exam — that it was inordinately long and bordered on harassment?

Glenn: And Arthur Anderson said they withdrew as Lincoln's prior auditor because of your harassment. . . .

Patriarca: I'm relatively new to the savings and loan industry, but I've never seen any bank or S&L that's anything like this. This isn't even close. You can ask my banker you know about these practices. They violate the law and regulations and common sense.

Glenn: What violates the law?

Patriarca: Their direct investments violate the regulation. Then there's the file stuffing. They took undated documents purporting to show underwriting efforts and put them into the files sometimes more than a year after they made the investments.

Glenn: Have you done anything about these violations of law?

Patriarca: We're sending a criminal referral to the Department of Justice. Not maybe, we're sending one. This is an extraordinarily serious matter. It involves a whole range of imprudent actions. I can't tell you strongly enough how serious this is. This is not a profitable institution. Prior year adjustments will reduce the reported $49 million profit. They didn't earn $49 million. Let me give you one example. Lincoln sold a loan with recourse and booked a $12 million profit. The purchaser rescinded the sale, but Lincoln left the $12 million profit on its books. Now, I don't care how many accountants they get to say that's right, it's wrong. The only thing we have as regulators is our credibility. We have to preserve ti.

DeConcini: Why would AY say these things? They have to guard their credibility too. They put the firm's neck out with this letter.

Patriarca: They have a client. The $12 million in earnings was not unwound.

DeConcini: You believe they'd prostitute themselves for a client?

Patriarca: Absolutely, it happens all the time. . . .

Cirona: I also wanted to note that the Bank Board has had a lot of problems with AY, and is thinking of taking disciplinary action against it.

Black: Not for its actions here. Primarily because of its Texas office, which has never met a direct investment. They think everything is a loan. This has quite an effect on the income you can claim.

Empire of Texas is a perfect example. It did acquisition, development and construction loans that were really direct investments because the borrowers had no equity in the projects. It booked all the points and fees up front as income. It created interest reserves so the loans couldn't go into default. It provided takeout financing and then end loans so that the loans couldn't go into default for many years. All of this led it to report record profits. Even when the losses started, as long as it grew fast enough and could book new income up front it could remain "profitable." It gets to be kind of a pyramid scheme with rapid growth. Lincoln has grown very fast. . . .

Black: Yes, I can tell you from my experience as former litigation director, where I sued for many of these failed shops, that it is routine for the accounting firm to serve as management's expert witnesses and adopt an extremely adversarial tone.

What it all comes down to is that Congress has been on our a--, and many of us think rightly, to act before an institution fails. That's what we're doing here, and I think it is laudable.

DeConcini: What?

Black: Laudable.

Sanchez: Our exams has found that . . . they will fail to meet their net worth requirement. They have $103 million in goodwill on their books. If this were backed out they would be $78 million insolvent.

Patriarca: They would be taken over by the regulators if they were a bank.

DeConcini: You're saying they're insolvent.

Black: They'd be insolvent on a tangible capital basis, which is basically the capital standard for banks.

DeConcini: They'd be insolvent if they were a bank, but by law you have to use a regulatory capital standards, and under that standard they have $25 million in capital. Is that what you're saying?

Patriarca: By regulation we have adopted a regulatory capital standard.

DeConcini: And you'll take control of them if they fail your net worth standard, you'll take operational control of them.

Cirona: That's speculative. We'd take steps to reduce their risk exposure.

Riegle: What would you require them to sell?

Cirona: We'd probably have them decrease their growth. Time and again we've found rapid growth associated with loss. Lincoln has grown rapidly.

Black: Are you sure you want to talk about this? We haven't made any recommendation to the Bank Board yet. The Bank Board decides what action to take. These are very confidential matters.

DeConcini: No, then we don't want to go into it. We were just asking very hypothetically, and that's how you (indicating Mr. Cirona) were responding.

Cirona: That's right.

DeConcini: Can we do something other than liquidate them?

Cirona: I hesitate to tell an association what to do. We're not in control of Lincoln, and won't be. We want to work the problem out.

McCain: Have they tried to work it out?

Cirona: We've met with them numerous times. I've never seen such cantankerous behavior. At one point they said our examiners couldn't get any association documents unless they made the request through Lincoln's New York litigation counsel.

Riegle: Well, that does disturb me, when you have to go through New York litigation counsel. What could they do? Is it too late?

Cirona: It's never too late.

McCain: What's the best approach? Voluntary guidelines instead of compulsory order?

DeConcini: How long will it take you to finish the exam?

Patriarca: Ten days.

Glenn: Have they been told what you've told us?

Patriarca: We provided them with our views and gave them every opportunity to have us hear what they had to say. We gave them our classification of asset materials and went through them loan by loan. This is one of the reasons the exam has taken so long. . . .

DeConcini: . . . The criminality surprises me. We're not interested in discussing those issues. Our premise was that we had a viable institution concerned that it was being over regulated.

Glenn: What can we say to Lincoln?

Black: Nothing with regard to the criminal referral. They haven't, and won't be told by us that we're making one.

Glenn: You haven't told them?

Black: No. Justice would skin us alive if we did. Those referrals are very confidential. We can't prosecute anyone ourselves. All we can do is refer it to Justice.

DeConcini: They make their own decision whether to prosecute?

Black: Yes. I also want to mention that we are already investigating Arthur Andersen because of their role in the file stuffing. We don't know whether they knew the purpose for which they were preparing the materials. . . .

With regard to what you can say to Lincoln, you might want to simply have them call us. If you really want to talk to them you can say that it will take us 7 to 10 days to finish the exam.

Riegle: Is this institution so far gone that it can't be salvaged?

Patriarca: I don't know. They've got enough risky assets on their books that a little bad luck could nail them. You can't remove the risk of what they already have. You can reduce what new risks they would otherwise add on.

Black: They have huge holdings in Tucson and Phoenix. The market can't absorb them for many years. You said earlier that ACC was extremely good, but ACC has gotten out of its former primary activity, homebuilding . . . They also had to get out of their second leading activity, mortgage banking. They're now down to Arizona.

That's not a bad market, but no one knows how well it will do over the many years that it would take to absorb such huge holdings in Tucson and Phoenix.

DeConcini: So you don't know what you'd do with the property even if you took them over?

Black: Bill Black doesn't. Bill Black is a lawyer. We hire experts to do this work. Our study of their Arizona holding was done by top experts. Our study of below investment grade corporate debt securities; what folks usually call junk bonds, but I avoid it because I don't know where you stand on such bonds; was done by top outside experts. I see in this Arthur Young letter that they criticize us for having an accountant with "only" eight years of experience — well I think . . . I don't see how you can claim eight years as inexperienced. But we didn't simply rely on him, we had. wasn't it Kenneth? . . .

Sanchez: Yes, Kenneth, Leventhal.

Black: We h[illegible]Kenneth, Leventhal, outside accountants, work on this. These are also some of the reasons the exam took time.

Patriarca: I think my colleague Mr. Black put it right when he said that it's like these guys put it all on 16 Black in Roulette. Maye they'll win, but I can guarantee you that if an institution continues such behavior it will eventually go bankrupt.

Riegle: Well, I guess that's pretty definitive.

DeConcini: I'm sorry, but I really do have to leave now.

THE REGULATORS



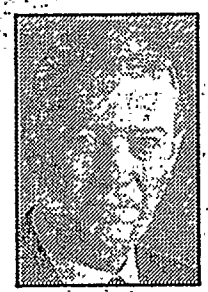
Michael Patriarca
"It's like these guys put it all on 16 Black in Roulette. Maye they'll win, but I can guarantee you that if an institution continues such behavior it will eventually go bankrupt."



William Black
"It gets to be kind of a pyramid scheme with rapid growth. Lincoln has grown very fast."



Richard Sanchez
"Our exams has found that . . . they will fail to meet their net worth requirement. They have $103 million in goodwill on their books. If this were backed out they would be $78 million insolvent."



James Cirona
"This meeting is very unusual, to discuss a particular company . . . These underwriting practices violate our regulatory guidelines . . . This is a ticking time bomb."

THE SENATORS



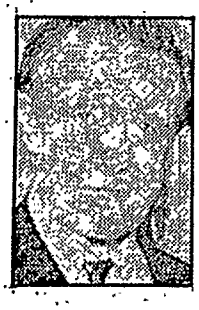
Sen. John Glenn
"To be blunt, you should charge them or get off their backs. If things are bad there, get to them. Their view is that they took a failing business and put it back on its feet. It's now viable and profitable. They took it off the endangered species list. Why has the exam dragged on and on and on?"



Sen. Dennis DeConcini
"What's wrong with this if they're willing to clean up their act?"



Sen. John McCain
"Why would Arthur Young say these things about the exam — that it was inordinately long and bordered on harassment?"



Sen. Donald Riegle
"Is this institution so far gone that it can't be salvaged?"



Sen. Alan Cranston
"I just want to say that I share the concerns of the other senators on this subject."

FD-350 (Rev. 5-8-81)

(Mount Clipping in Space Below)

DeConcini invested in Lincoln

Campaign cash put into thrift

By Anne Q. Hoy
Republic Washington Bureau

WASHINGTON — While Charles H Keating Jr. was investing in the political fortunes of Sen. Dennis DeConcini, the Arizona Democrat was investing in Keating's thrift, records show.

DeConcini's 1988 senatorial campaign invested $100,000 in a jumbo 240-day certificate of deposit at the Irvine, Calif.-based Lincoln Savings and Loan in fall 1987, according to documents obtained by *The Arizona Republic.*

It was the only out-of-state deposit made by DeConcini's $3.2 million campaign. The campaign received about $48,000 from Keating and his associates for last year's re-election bid.

DeConcini spokesman Bob Maynes said the senator has a policy of spreading around his campaign war

— *See* **DECONCINI,** *page A7*

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DeConcini invested in Keating thrift in '88

— DECONCINI, *from page A1*

chest by depositing similar amounts in various Arizona banks and thrifts.

Maynes said DeConcini considered Lincoln an Arizona institution because it had $1.3 billion invested in Arizona. Lincoln was owned by Keating's Phoenix-based American Continental Corp. until federal regulators seized the thrift in April.

Although DeConcini's investment was entirely legal, it was unusual because of its unconventional eight-month maturity period. Also, the senator allowed the certificate to mature and then waited one month before doing anything with the funds.

The interest paid on the certificate of deposit was about average. The 240-day certificate earned 7.45 percent, and then earned 5.5 percent when it was moved in May 1988 to a regular savings account for one month, according to congressional sources.

Interest totaled $5,444

At the time, $100,000 certificates of deposits nationally were earning 7.33 percent for six months and 7.66 percent for 12 months.

DeConcini's certificate earned $4,898.63, but by the time the funds were transfered from the California thrift to First Interstate Bank of Arizona in Phoenix on June 8, 1988, the total interest amounted to $5,444.90, the records show.

The interest earnings increased slightly because DeConcini's then-campaign treasurer, Thomas Karlsen, withdrew the funds a month after the certificate matured. During that month, Lincoln moved the $100,000 plus interest into the 5.5 percent standard savings account, where it earned an additional $546.27.

A June 6, 1988, note obtained by *The Republic* asked that the funds be transferred by wire to Arizona.

"Thanks so much for everything," Karlsen wrote to a Lincoln bank manager. "Unfortunately, the campaign is under way, and the funds are needed."

Karlsen is facing mail-fraud charges stemming from the alleged theft of $500,000 from DeConcini's campaign in an unrelated issue.

Fred Eiland, spokesman for the Federal Election Commission, said election laws allow campaigns to deposit contributions across state lines as long as the campaign properly reports its earnings, as the DeConcini campaign did.

Deposit raises questions

The deposit has been questioned privately by some members of the House Banking Committee, which has been probing the record collapse of Lincoln. Lincoln was seized by regulators in April, and the collapse is expected to cost taxpayers more than $2.5 billion.

Documents regarding DeConcini's transaction have been obtained and reviewed by the Banking Committee, sources said.

Among questions committee members have considered is whether Lincoln solicited out-of-state funds from DeConcini. The California Division of Savings and Loans, that state's thrift-regulatory agency, sanctioned Lincoln on Dec. 20, 1988, for illegally soliciting deposits in Arizona through American Continential.

Maynes said the funds were not solicited by Lincoln.

He said DeConcini made similar investments at five Arizona banks and four Arizona thrifts during the 1988 campaign.

The banks were Valley National, First Interstate, Arizona Bank, United Bank and Great Western Bank. The thrifts were Pima Savings, Western Savings, MeraBank and Great American Bank.

'Keating Five' probed

The FBI and the Senate Ethics Committee is scrutinizing the political relationship that DeConcini and four other senators, including Arizona Republican John McCain, forged with Keating.

The ethics panel is examining whether the senators interceded with federal thrift regulators in Keating's behalf in return for $1.4 million that Keating poured into their campaigns.

Both Arizona senators and Sens. Alan Cranston of California and John Glenn of Ohio met with the nation's top thrift regulator, Edwin Gray, in Keating's behalf during an unusual meeting in DeConcini's office April 2, 1987. The senators, joined by Sen. Donald Riegle, D-Mich., then met with San Francisco regulators a week later and made another pitch to get regulators off Keating's back.

As late as April, DeConcini called a top California thrift official to help Keating after having made earlier calls to federal officials seeking their clout to help Keating sell the troubled thrift.

FD-350 (Rev. 5-8-81)

(Mount Clipping in Space Below)

Dismissal of S&L regulator is urged

Bush supports embattled Wall

By Sam Stanton
Republic Washington Bureau

WASHINGTON — Consumer advocates and thrift groups Wednesday increased pressure on President Bush to fire M. Danny Wall as the nation's top thrift regulator because of his oversight of Lincoln Savings and Loan.

Wall ignored the renewed pleas for his ouster, and the White House stuck to its official position that no decision has been made to relieve Wall as director of the Office of Thrift Supervision.

Top members of Congress have called for Wall's firing because of Lincoln's collapse and the crisis in the nation's savings-and-loan industry. Several groups added their names Wednesday to the list of those wanting Wall gone.

Citizens Against Government Waste, Ralph Nader's Public Citizen organization, the National Taxpayers Union Foundation, and nationally known thrift analyst Bert Ely said at a joint press conference that Wall's mishandling of the S&L crisis requires his removal.

"The amount of money that has been lost in this thing, people just do not comprehend," taxpayers-foundation Chairman James Davidson said.

"It's more than it took to build the interstate highway system. We could rebuild the interstate highway system with the money that has been poured into this black hole for the S&Ls.

"Every time you sit in a traffic jam for the rest of your life, think of the fact that you don't need to be there if these people had not whittled away these hundreds of billions. This is more than the cost of the Vietnam War. We should have a memorial on the mall for this lost money."

The S&L crisis is expected to cost taxpayers at least $150 billion. The direct cost of the Vietnam War has been estimated at $140.6 billion, according to the Encyclopedia of American Economic History.

Davidson and the others stressed Lincoln's failure, as well as the overall thrift crisis, as justification for Wall to either quit or be fired. They joined earlier calls for his ouster from Senate Majority Leader George Mitchell, D-Maine; *The Wall Street Journal*; and House Banking Committee Chairman Henry Gonzalez, D-Texas.

But Wall spokesman Karl Hoyle said his boss, who headed the Federal Home Loan Bank Board until the

— See BUSH, page D7

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FBI/DOJ

Bush urged to fire S&L regulator over Lincoln debacle

— BUSH, *from page D1*

Office of Thrift Supervision took its place, should be lauded for his performance.

"Dan's job was to salvage what was left of the industry, to set it back straight, to return it back to some kind of working order," Hoyle said.

Hoyle said Wall had not been contacted by the White House or by his superiors at the Treasury Department about resigning.

Bush said earlier this month that he would consider replacing Wall if he found him to be at fault, but a few days later, the administration said it had no intention of pushing Wall out.

White House spokesman Marlin Fitzwater repeated that stance Wednesday morning, saying "There's been no consideration of Mr. Wall's tenure."

Wall has become a lightning rod for criticism of the government's handling of the S&L crisis, and recently concluded House hearings on Lincoln's collapse led to the renewed calls for Wall's ouster.

Wall, who testified Tuesday before the House Banking Committee, said he had moved as quickly as possible to close Irvine, ~~Calif.-based~~ Lincoln and denied that he hesitated because of pressure from five senators, including Arizona's.

But the groups calling for Wall's ouster said Wednesday that Wall had to have been influenced by the intense interest that those senators exhibited in how Charles H. Keating Jr. and his Lincoln thrift were being treated.

"When you have that many senators who are ganging up together, it has an effect," Public Citizen President Joan Claybrook said.

"It is a very inappropriate thing for them to have done."

The five senators — ~~Dennis~~ DeConcini, D-Ariz.; John McCain, R-Ariz.; Alan Cranston, D-Calif.; John Glenn, D-Ohio; and Donald Riegle, D-Mich. — met with federal regulators in April 1987 to ask why their examination of Lincoln was taking so long.

All five, who now are under scrutiny by the Senate Ethics Committee and the FBI, have denied any wrongdoing.

The senators met twice in DeConcini's office on regulators' examination of Lincoln, and DeConcini and Cranston tried to persuade officials as late as last spring to help Keating sell his thrift rather than let it be seized by the government.

Those efforts failed, and regulators took over Lincoln on April 14.

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(Mount Clipping in Space Below)

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Keating case a raging fire for senators

So, are Arizona Sens. Dennis DeConcini and John McCain *really* feeling heat over the Keating-Lincoln Savings fiasco, or is this a one-alarm fire stoked by the local media?

It's a forest fire.

The fact that cavalier Charlie's shenanigans became the subject of nationally televised congressional hearings ought to be the first clue.

If that doesn't convince you, take a look at the actions of the embarrassed senators who went to bat for Keating. And at the exposure the whole mess is getting on television, newspapers and magazines all over the world.

- The London-based *Economist* magazine went so far this week as to call the Lincoln Savings debacle the Iran-contra affair of the U.S. thrift industry.
- The Keating calamity regularly makes network news and has been spotlighted in the past two weeks on the *MacNeil Lehrer Report, Nightline, This Week With David Brinkley* and National Public Radio's *Morning Edition.*
- Each of the "Keating Five" senators has hired hot-shot Washington lawyers. Most specialize in white-collar crime.
- The conduct of the five senators — Democrats DeConcini, Donald Riegle of Michigan, Alan Cranston of California, John Glenn of Ohio and Republican McCain — has provided fodder for front-page



KEVEN WILLEY
Political Columnist

stories and stinging editorials in newspapers across the country.

Reform is the issue

With any luck, this imbroglio will lead to campaign-finance reform. That's really the big issue here. We've simply created a system that rewards elected officials who prostitute themselves for special interests, and it's a system that desperately needs overhauling.

In the meantime, you probably shouldn't bet the house and kids that Keating will ever do time over this. Not with his coterie of attorneys and the way our justice system works.

But it's pretty clear that the Keating Five have been severely damaged by the whole episode.

Wagging tongues already contend that the debacle has shattered McCain's dreams of running for president and that DeConcini will make his third term his last. It's far too early to tell — McCain's not up for re-election until 1992, and DeConcini not until 1994 — but the senators' own actions seem to mirror these fears.

Of the five, McCain has been by far the most open in his damage-control efforts, starting with his unusual 90-minute October news conference in Phoenix. Since then, he has focused much of his attention nationally, accepting nearly every invitation to appear on national news programs, including most recently the Brinkley show and *Nightline.*

Clearly, he's worried about his national image.

DeConcini, meanwhile, has targeted his efforts on Arizona. He's done scads of interviews with broadcast and print media.

DeConcini, who's always excelled in constituent service, knows where his bread is buttered.

Other strategies

Other senators have adopted their own strategies.

Riegle, for example, has been among the most tight-lipped. And he's taking his licks for it.

Riegle's "reluctance to divulge the exact role he played in this fiasco is disheartening and should give even his staunchest backers reason to pause," the *Grand Rapids Press* editorialized recently.

"At the least, the senator exercised bad judgment . . .", the editorial continued. "At the worst, he's guilty of selling his position."

In Ohio, *The Columbus Dispatch* was hard on Glenn last week, saying, "For Sen. Glenn, it's no 'national hero' these days; it's 'purchased politician' or one of the 'Keating five' or 'senator for sale.' "

Dayton Daily News Editor Max Jennings, formerly of *The Mesa Tribune,* was more charitable, saying, "Glenn and the rest go sandbagged. That happens in politics, and Glenn can be forgiven for that, but only if he acknowledges what happened and washes his hands of the Keating money."

In California, pollster Mervin Field says Cranston is in "deep trouble" politically because of congressional testimony from elderly residents who blame him for the loss of their life savings in Keating-related investments.

The issue is more partisan in other states. Michigan's GOP chairman called for Riegle to step down as chairman of the Senate Banking Committee. Republicans there and in California and Ohio can hardly contain their glee as Riegle, Cranston and Glenn struggle to explain why voters should not assume that the lawmakers placed the interests of a high-flying "fat cat" above the little people who will be paying the tab for Lincoln's collapse for decades.

In Arizona, it's tough for either party to take potshots because both parties' senators are involved.

Yep, it's a raging forest fire. And you can bet it's going to blacken a lot of political rangeland before it's through.

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Gray blames DeConcini, Cranston

WASHINGTON (AP) — Sens. Dennis DeConcini and Alan Cranston bear more blame than three other senators accused with them of improperly intervening with regulators in connection with the Lincoln Savings and Loan Association, a former top regulator says.

Edwin J. Gray, former chairman of the Federal Home Loan Bank Board, on Sunday insisted that the five lawmakers improperly pressured him as a favor to Lincoln owner Charles H. Keating Jr. "They were asking me to withdraw a regulation for their friend," Gray said. "I said, 'We're not going to do that.'"

Two congressional committees are investigating the failure of the Irvine, Calif.-based Lincoln S&L, which is expected to cost the taxpayers up to $2.5 billion — $50 for each American family, according to Rep. Jim Leach, R-Iowa.

The five senators intervened with federal regulators in 1987 on behalf of Lincoln and Keating, who gave them a total of $1.3 million in campaign and other political funds. The other three are Sens. John Glenn, D-Ohio; Donald W. Riegle Jr., D-Mich.; and John McCain, R-Ariz.

All five senators have said they violated no law or rule of the Senate, and they have disputed Gray's account of the 1987 meetings.

But the Senate Ethics Committee two weeks ago appointed an outside counsel to investigate charges that their intervention constituted a conflict of interest.

Asked on ABC's "This Week With David Brinkley" whether any of the senators were "more culpable than others," Gray said, "Yes absolutely ... Senator DeConcini, who made the proposal, who has continued to stonewall and deny it. And Senator Cranston," who received $850,000 in corporate donations from Keating for three voter registration projects he favored after the senators' two 1987 meetings with federal regulators.

Meanwhile, M. Danny Wall, the nation's chief savings and loan regulator, acknowledged on the Brinkley show that he made mistakes in connection with the massive Lincoln S&L failure, but said he has no plan "at this point" to resign.

Wall, head of the Office of Thrift Supervision, said he believed that as congressional investigations proceed, "time will indeed be kind to us." President Bush said two weeks ago he had not ruled out replacing Wall.

McCain and Glenn insisted on the Brinkley show that they did nothing wrong in connection with the Lincoln case.

"Any implication that I have done something wrong in this case is just flat wrong, and I resent it with every fiber in my being," Glenn said.

McCain said, "It was a serious mistake on my part" to have not immediately made reimbursements for trips taken on Keating's corporate plane, but he insisted that inquiries eventually will clear him of any rule-breaking.

"I did nothing that I wouldn't do for any major employer, or economic factor, in my state," McCain said.

According to regulators, Lincoln's money — in the form of S&L deposits insured by the federal government — was lost to an elaborate "pyramid" scheme" of phony real estate and other deals by Keating.

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(Mount Clipping in Space Below)

What was said at key meeting in Lincoln case

These notes are excerpted from the April 9, 1987, meeting between five U.S. senators and San Francisco-based regulators of the Federal Home Loan Bank Board.

The notes, taken by William K. Black, then-deputy director of the Federal Savings and Loan Insurance Corp., have become a key to the investigation into the collapse of Charles H Keating Jr.'s Lincoln Savings and Loan. They are central to the question of whether the five senators intervened improperly with federal regulators in an attempt to persuade them to ease up on Lincoln following Keating's complaint that the government was unfairly restricting his ability to do business. All five senators received donations from Keating, but deny impropriety.

While extensive, these notes are not an official transcript of the meeting. Nevertheless, they have been examined by the participants and none has disputed their accuracy.

PARTICIPANTS:

WILLIAM K. BLACK, then-deputy director of the Federal Savings and Loan Insurance Corp. (FSLIC).

JAMES CIRONA, president of the Federal Home Loan Bank of San Francisco.

SEN. ALAN CRANSTON, D-Calif.

SEN. DENNIS DECONCINI, D-Ariz.

SEN. JOHN GLENN, D-Ohio.

SEN. JOHN MCCAIN, R-Ariz.

MICHAEL PATRIARCA, Director of Agency Functions, FSLIC.

SEN. DONALD RIEGLE, D-Mich.

RICHARD SANCHEZ, supervisory agent for Lincoln.

DeConcini: . . . We wanted to meet with you because we have determined that potential actions of yours could injure a constituent. This is a particular concern to us because Lincoln is willing to take substantial actions to deal with what we understand to be your concerns. Lincoln is prepared to go into a major home loan program — up to 55 percent of its assets. We understand that that's what the Bank Board wants S&Ls to do. It's prepared to limit its high risk bond holdings and real estate investments. It's even willing to phase-out of the insurance process if you wish. They need to deal with, one, the effect of our reg . . .

— See NOTES, page C6

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Notes from key meeting excerpted

— NOTES, *from page C1*

Lincoln is a viable organization. It made $49 million last year, even more the year before. They fear falling below 3 percent and becoming subject to your regulatory control of the operations of their association. They have two major disagreements with you. First, with regard to direct investment. Second, on your reappraisal. They're suing against your direct investment regulation. I can't make a judgment on the grandfathering issue. We suggest that the lawsuit be accelerated and that you grant them forbearance while the suit is pending. I know something about the appraisal values . . . of the Federal Home Loan Bank Board. They appear to be grossly unfair. I know the particular property here. My family is in real estate. Lincoln is prepared to reach a compromise value with you.

Cranston: I'm sorry I can't join you, but I have to be on the floor to deal with the bill. I just want to say that I share the concerns of the other senators on this subject. . . .

McCain: . . . One of our jobs as elected officials is to help constituents in a proper fashion. ACC (American Continental Corp.) is a big employer and important to the local economy. I wouldn't want any special favors for them. It's like the Apache helicopter program that Dennis and I are active on. The Army wants to cut back the program. Arizona contractors make major components of the Apache helicopter. We believe that the Apache is important to our national defense. That's why we meet with (name omitted) and try to keep the program alive.

I don't want any part of our conversation to be improper. We asked (Bank Board) Chairman (Edwin J.) Gray about that and he said it wasn't improper to discuss Lincoln. I'd like to mention the appraisal issue. It seems to me, from talking to many folks in Arizona, that there's a problem. Arizona is the second-fastest growing state. Land values are skyrocketing. That has to be taken account of in appraisals. . . .

Glenn: . . . ACC is an Ohio-chartered corporation. I've known them for a long time, but it wouldn't matter if I didn't. Ordinary exams take maybe up to six months. Even the accounting firm says you've taken an unusually adversary view toward Lincoln. To be blunt, you should charge them or get off their backs. If things are bad there, get to them. Their view is that they took a failing business and put it back on its feet. It's now viable and profitable. They took it off the endangered species list. Why has the exam dragged on and on and on? I asked Gray about this. Lincoln has been told numerous times that the exam is being directed to continue by Washington. Gray said this wasn't true.

Riegle: . . . The appearance from a distance is that this thing is out of control and has become a struggle between Keating and Gray, two people I gather who have never even met. The appearance is that it's a fight to a death. This discredits everyone if it becomes the perception. If there are fundamental problems at Lincoln, OK.

I've had a lot of people come through the door feeling that they've been put through a meat grinder. I want professionalism. And your backgrounds attest to that professionalism. But I want not just professionalism, but fairness and the appearance of fairness. So I'm very glad to have this opportunity to hear your side of the story.

Glenn: I'm not trying to get anyone off. If there is wrongdoing I'm on your side. But I don't want any unfairness against a viable entity. . . .

Cirona: First, if there's any fault to be had concerning the length of the examination, it's on my shoulders. We determine how examinations are conducted. Gray never gave me instructions on how to conduct this exam or any other exam. At this meeting you'll hear things that Gray doesn't know.

DeConcini: Did Gray ever talk to you about the examination of Lincoln? . . .

Patriarca: . . . We received no instructions from Gray about the exam of Lincoln. We decide how to do the exam.

Cirona: This meeting is very unusual, to discuss a particular company.

DeConcini: It's very unusual for us to have a company that could be put out of business by its regulators. . . .

Sanchez: An appraisal is an important part of underwriting. It is very important. If you don't do it right you expose yourself to loss. Our 1984 examination showed significant appraisal deficiencies. Mr. Keating promised to correct the problem. Our 1986 examination showed that the problems had not been corrected, that there were huge appraisal problems. There was no meaningful underwriting on most loans. We have independent appraisals. Merrill Lynch appraised the Phoenician. It shows a significant loss. Other loans had similar losses.

DeConcini: Why not get an independent appraiser?

Sanchez: We did.

DeConcini: No, you hired them. Why not get a truly independent one or use arbitration, if you're trying to bend over backwards to be fair. There's no appeal from your reappraisal. Whatever it is you take it.

Sanchez: If it meets our appraisal standards.

Cirona: The Phoenician reappraisal process is not complete. We have received Lincoln's rebuttal and forwarded it to our independent appraisers. . . .

Sanchez: Lincoln had underwriting problems with all of their investments, equity securities, debt securities, land loans and direct real estate investments. It had no loan underwriting policy manual in effect when we began our 1986 exam. When the examiners requested such a manual they were informed that it was being printed. The examiners looked at 52 real estate loans that Lincoln had made since the 1984 exam. There were no credit reports on the borrowers in all 52 of the loan files.

DeConcini: I have trouble with this discussion. Are you saying that their underwriting practices were illegal or just not the best practice?

Cirona: These underwriting practices violate our regulatory guidelines.

Black: They are also an unsafe and unsound practice.

DeConcini: Those are two very different things.

Sanchez: You need credit reports for proper underwriting. . . .

Riegle: . . . Do we have a history of loans to folks with inadequate credit?

Sanchez: $47 million in loans were classified by examiners due to lack of adequate credit to assure repayment of the loans.

Patriarca: They're flying blind on all of their different loans and investments. That's what you do when you don't underwrite. . . .

Glenn: How many loans have gone belly-up?

Sanchez: We don't know at this point how many of the 52 have defaulted. These loans generally [redacted] interest reserves.

Glenn: Well, the interest reserve should have run out on many of these.

Cirona: These are longer-term investments.

Black: I know that Lincoln has refinanced some of these loans.

Glenn: Some people don't do the kind of underwriting you want. Is their judgment good?

Patriarca: That approach might be OK if they were doing it with their own money. They aren't, they're using federally insured deposits.

Riegle: Where's the smoking gun? Where are the losses?

DeConcini: What's wrong with this if they're willing to clean up their act?

Cirona: This is a ticking time bomb.

Sanchez: I had another case which reported strong earnings in 1984. It was insolvent by 1985.

Riegle: These people saved a failing thrift. ACC is reputed to be highly competent.

Black: Lincoln was not a failing thrift before ACC acquired it. It met its net worth requirement. It had returned to profitability before it was acquired. It had one of the lowest ratios of scheduled assets in the 11th District, the area under our jurisdiction. Its losses were caused by an interest spread problem from high interest rates. It, as with most other California thrifts, would have become very profitable as interest rates fall.

DeConcini: I don't know how you can consider it a success story. It lost $24 million in 1982 and 1983. After it was acquired by ACC it made $49 million in one year.

McCain: I haven't gotten an answer to my question about why the exam took so long.

Sanchez: It was an extremely complex examination because of their various investments. The examiners were actually in the institution from March to October — eight months. The asset classification procedure is very time consuming.

McCain: What's the longest exam you ever had before?

Cirona: Some have technically never ended, where we had severe problems with a shop.

McCain: Why would Arthur Young say these things about the exam — that it was inordinately long and bordered on harassment?

Glenn: And Arthur Anderson said they withdrew as Lincoln's prior auditor because of your harassment. . . .

Patriarca: I'm relatively new to the savings and loan industry, but I've never seen any bank or S&L that's anything like this. This isn't even close. You can ask my banker you know about these practices. They violate the law and regulations and common sense.

Glenn: What violates the law?

Patriarca: Their direct investments violate the regulation. Then there's the file stuffing. They took undated documents purporting to show underwriting efforts and put them into the files sometimes more than a year after they made the investments.

Glenn: Have you done anything about these violations of law?

Patriarca: We're sending a criminal referral to the Department of Justice. Not maybe, we're sending one. This is an extraordinarily serious matter. It involves a whole range of imprudent actions. I can't tell you strongly enough how serious this is. This is not a profitable institution. Prior year adjustments will reduce the reported $49 million profit. They didn't earn $49 million. Let me give you one example. Lincoln sold a loan with recourse and booked a $12 million profit. The purchaser rescinded the sale, but Lincoln left the $12 million profit on its books. Now, I don't care how many accountants they get to say that's right, it's wrong. The only thing we have as regulators is our credibility. We have to preserve ti.

DeConcini: Why would AY say these things? They have to guard their credibility too. They put the firm's neck out with this letter.

Patriarca: They have a client. The $12 million in earnings was not unwound.

DeConcini: You believe they'd prostitute themselves for a client?

Patriarca: Absolutely, it happens all the time. . . .

Cirona: I also wanted to note that the Bank Board has had a lot of problems with AY, and is thinking of taking disciplinary action against it.

Black: Not for its actions here. Primarily because of its Texas office, which has never met a direct investment. They think everything is a loan. This has quite an effect on the income you can claim.

Empire of Texas is a perfect example. It did acquisition, development and construction loans that were really direct investments because the borrowers had no equity in the projects. It booked all the points and fees up front as income. It created interest reserves so the loans couldn't go into default. It provided takeout financing and then end loans so that the loans couldn't go into default for many years. All of this led it to report record profits. Even when the losses started, as long as it grew fast enough and could book new income up front it could remain "profitable." It gets to be kind of a pyramid scheme with rapid growth. Lincoln has grown very fast. . . .

Black: Yes, I can tell you from my experience as former litigation director, where I sued for many of these failed shops, that it is routine for the accounting firm to serve as management's expert witnesses and adopt an extremely adversarial tone.

What it all comes down to is that Congress has been on our a--, and many of us think rightly, to act before an institution fails. That's what we're doing here, and I think it is laudable.

DeConcini: What?

Black: Laudable.

Sanchez: Our exams has found that . . . they will fail to meet their net worth requirement. They have $103 million in goodwill on their books. If this were backed out they would be $78 million insolvent.

Patriarca: They would be taken over by the regulators if they were a bank.

DeConcini: You're saying they're insolvent.

Black: They'd be insolvent on a tangible capital basis, which is basically the capital standard for banks.

DeConcini: They'd be insolvent if they were a bank, but by law you have to use a regulatory capital standards, and under that standard they have $25 million in capital. Is that what you're saying?

Patriarca: By regulation we have adopted a regulatory capital standard.

DeConcini: And you'll take control of them if they fail your net worth standard, you'll take operational control of them.

Cirona: That's speculative. We'd take steps to reduce their risk exposure.

Riegle: What would you require them to sell?

Cirona: We'd probably have them decrease their growth. Time and again we've found rapid growth associated with loss. Lincoln has grown rapidly.

Black: Are you sure you want to talk about this? We haven't made any recommendation to the Bank Board yet. The Bank Board decides what action to take. These are very confidential matters.

DeConcini: No, then we don't want to go into it. We were just asking very hypothetically, and that's how you (indicating Mr. Cirona) were responding.

Cirona: That's right.

DeConcini: Can we do something other than liquidate them?

Cirona: I hesitate to tell an association what to do. We're not in control of Lincoln, and won't be. We want to work the problem out.

McCain: Have they tried to work it out?

Cirona: We've met with them numerous times. I've never seen such cantankerous behavior. At one point they said our examiners couldn't get any association documents unless they made the request through Lincoln's New York litigation counsel.

Riegle: Well, that does disturb me, when you have to go through New York litigation counsel. What could they do? Is it too late?

Cirona: It's never too late.

McCain: What's the best approach? Voluntary guidelines instead of compulsory order?

DeConcini: How long will it take you to finish the exam?

Patriarca: Ten days.

Glenn: Have they been told what you've told us?

Patriarca: We provided them with our views and gave them every opportunity to have us hear what they had to say. We gave them our classification of asset materials and went through them loan by loan. This is one of the reasons the exam has taken so long. . . .

DeConcini: . . . The criminality surprises me. We're not interested in discussing those issues. Our premise was that we had a viable institution concerned that it was being over regulated.

Glenn: What can we say to Lincoln?

Black: Nothing with regard to the criminal referral. They haven't, and won't be told by us that we're making one.

Glenn: You haven't told them?

Black: No. Justice would skin us alive if we did. Those referrals are very confidential. We can't prosecute anyone ourselves. All we can do is refer it to Justice.

DeConcini: They make their own decision whether to prosecute?

Black: Yes. I also want to mention that we are already investigating Arthur Andersen because of their role in the file stuffing. We don't know whether they knew the purpose for which they were preparing the materials. . . .

With regard to what you can say to Lincoln, you might want to simply have them call us. If you really want to talk to them you can say that it will take us 7 to 10 days to finish the exam.

Riegle: Is this institution so far gone that it can't be salvaged?

Patriarca: I don't know. They've got enough risky assets on their books that a little bad luck could nail them. You can't remove the risk of what they already have. You can reduce what new risks they would otherwise add on.

Black: They have huge holdings in Tucson and Phoenix. The market can't absorb them for many years. You said earlier that ACC was extremely good, but ACC has gotten out of its former primary activity, homebuilding . . . They also had to get out of their second leading activity, mortgage banking. They're now down to Arizona.

That's not a bad market, but no one knows how well it will do over the many years that it would take to absorb such huge holdings in Tucson and Phoenix.

DeConcini: So you don't know what you'd do with the property even if you took them over?

Black: Bill Black doesn't. Bill Black is a lawyer. We hire experts to do this work. Our study of their Arizona holding was done by top experts. Our study of below investment grade corporate debt securities; what folks usually call junk bonds, but I avoid it because I don't know where you stand on such bonds; was done by top outside experts. I see in this Arthur Young letter that they criticize us for having an accountant with "only" eight years of experience — well I think . . . I don't see how you can claim eight years as inexperienced. But we didn't simply rely on him, we had. wasn't it Kenneth? . . .

Sanchez: Yes, Kenneth, Leventhal.

Black: We had Kenneth, Leventhal, outside accountants, work on this. These are also some of the reasons the exam took time.

Patriarca: I think my colleague Mr. Black put it right when he said that it's like these guys put it all on 16 Black in Roulette. Maye they'll win, but I can guarantee you that if an institution continues such behavior it will eventually go bankrupt.

Riegle: Well, I guess that's pretty definitive.

DeConcini: I'm sorry, but I really do have to leave now.

THE REGULATORS



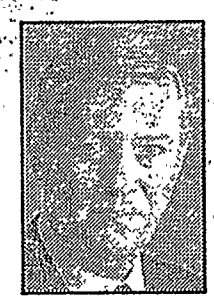
Michael Patriarca
"It's like these guys put it all on 16 Black in Roulette. Maye they'll win, but I can guarantee you that if an institution continues such behavior it will eventually go bankrupt."



William Black
"It gets to be kind of a pyramid scheme with rapid growth. Lincoln has grown very fast."



Richard Sanchez
"Our exams has found that . . . they will fail to meet their net worth requirement. They have $103 million in goodwill on their books. If this were backed out they would be $78 million insolvent."



James Cirona
"This meeting is very unusual, to discuss a particular company . . . These underwriting practices violate our regulatory guidelines . . . This is a ticking time bomb."

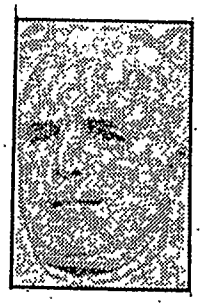
THE SENATORS



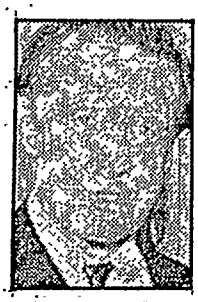
Sen.John Glenn
"To be blunt, you should charge them or get off their backs. If things are bad there, get to them. Their view is that they took a failing business and put it back on its feet. It's now viable and profitable. They took it off the endangered species list. Why has the exam dragged on and on and on?"



Sen. Dennis DeConcini
"What's wrong with this if they're willing to clean up their act?"



Sen. John McCain
"Why would Arthur Young say these things about the exam — that it was inordinately long and bordered on harassment?"



Sen. Donald Riegle
"Is this institution so far gone that it can't be salvaged?"



Sen. Alan Cranston
"I just want to say that I share the concerns of the other senators on this subject."

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(Mount Clipping in Space Below)

The Right Man for a Dirty Job

By Paul Gigot

When a final accounting is made for the savings and loan scandal, Dante's Inferno will have a waiting list. The line at Heaven's Gate, on the other hand, may begin and end with Henry Gonzalez.

As chairman of the House Banking Committee, the San Antonio Democrat is responsible for hearings that are providing the first public accounting for $300 billion worth of failed government. In the process, he's done the unthinkable and cast his spotlight not merely on the executive branch, but also on his colleagues in Congress. He's letting the muck fall where it may. Without his persistence, the nation would not be learning all it is about high-stepping banker Charles Keating, his five friends in the Senate, phantom regulator Danny Wall, and influence-peddling-as-usual in Washington.

Is this Congress's Watergate? "I think so," Mr. Gonzalez said in an interview over a 7:45 breakfast last week, only four hours after he'd left the House's last session. "Everybody contributed. The moral laxity—Congress, the executive branch, the private sector, everybody."

Politically Honest

Critics who are quick to bash Congress should also acknowledge when it is doing its proper job of oversight; the S&L hearings are one of those times. Unlike Reps. John Dingell (D., Mich.) or Tom Lantos (D., Calif.), two House inquisitors who blame everything all of the time on everyone but Congress, Mr. Gonzalez is politically honest. He's performing as a public educator, rather than in the typical congressional role of special-interest agitator.

It's a happy accident that Mr. Gonzalez is even in a position to do something about the S&L fiasco. His predecessor as committee chairman, and one of the scandal's main scoundrels, Fernand St Germain, would never have held hearings. ("I think that's safe to say," agrees Mr. Gonzalez, smiling.) Rhode Island voters luckily retired him. Donald Riegle (D., Mich.), Senate banking committee chairman, is one of the "Keating Five." Both the Reagan and Bush administrations have preferred to sweep any blame under the carpet and get on with bleeding taxpayers to pay for the cleanup. Many of his House colleagues are furious with Mr. Gonzalez.



Rep. Henry Gonzalez

The chairman is not the sort to let this no-one-here-but-us-public-servants-club get him down. Long a maverick, he is known as the "King of the Special Order" for his long, solo speeches on the House floor. He called for the impeachment of Ronald Reagan, after the Grenada invasion and again during Iran-Contra. In the early 1970s, he opposed wage and price controls. He's a New Deal liberal (1988 Americans for Democratic Action rating: 100%), and he did insist on pushing new housing subsidies as part of the S&L bill, a venial sin compared to the Keating crowd. But his liberalism is tempered with a populist, independent streak that gives him the integrity of the unpredictable. In inbred Washington, his idiosyncrasy is a virtue.

An attempt to pacify Mr. Gonzalez in the usual Washington style may even account for his tenacity now. Reading through the Bush administration's S&L reform bill earlier this year, he was offended when he saw that Danny Wall would not have to be reconfirmed as the industry's chief regulator. He thought a round of confirmation hearings would be just the thing to clear the air about what went wrong. But when he objected, he says, a White House official told him, "This is the only way we'll get it through Garn and the Senate." (Two White House officials at the meeting say they don't recall that exchange.)

Critics of Congress should acknowledge when it is doing its proper job of oversight; the S&L hearings are one of those times. Mr. Gonzalez is performing as a public educator, rather than in the typical congressional role of special-interest agitator.

Later, Sen. Jake Garn (R., Utah) invited Mr. Gonzalez for a heart-to-heart in his Capitol hideaway. The subject was again Danny Wall, a former aide to the senator. Mr. Garn didn't want Mr. Wall to be reconfirmed if William Seidman, the chief bank regulator, didn't also have to be confirmed again. The two agreed that both would have to be reconfirmed. But a short time later, Sen. Riegle, the committee chairman, came back to Mr. Gonzalez and

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told him other senators objected to the House telling the Senate what to do: Neither Mr. Seidman nor Mr. Wall would be reconfirmed.

A spokeswoman for Mr. Garn says the senator went out of his way not to lobby either the White House or other senators on Mr. Wall's behalf. But that isn't how Mr. Gonzalez sees it. "There is no question that Garn surrounded Riegle," he says. "At first, Riegle said, 'I'm with you,' but later he said, 'there is serious concern in the Senate about the House telling the Senate who it can confirm.' " Whatever the truth, the Gonzalez hearings are in part the reconfirmation hearings Danny Wall never had.

As for the five senators who met with regulators on behalf of Mr. Keating, Chairman Gonzalez is unsympathetic. He pulls from his pocket a piece of paper quoting a line from former Illinois Sen. Paul Douglas: "A legislator should not immediately conclude that the constituent is always right and the administrator is always wrong, but as far as possible should try to find out the merits of each case and only make such representations as the situation permits."

For Mr. Gonzalez, that's the rub. "Of course, the question is, when does 'the situation permit'? But if a legislator doesn't know the difference by the time he gets to Congress, then it's too late," Mr. Gonzalez says. "I don't care what code of ethics you have." Anyone who doesn't know the difference between genuine "constituent service" and influence peddling probably doesn't belong in Washington. Yet Congress talks about a formal code of ethics almost as a way to justify influence peddling: Whatever isn't expressly illegal is somehow thought to be all right. In Congress, the last refuge of a scoundrel is ethics reform.

Mr. Gonzalez also breaks from the Washington pack by lamenting the perverse incentives of federal deposit insurance. In 1982, he opposed the Garn-St Germain bill that raised the amount of deposits covered per account to $100,000 from $40,000. The effect was to let S&L operators socialize their risk, while keeping profits private.

"We never had one minute of hearings on that," says Mr. Gonzalez. "It was very mysterious the way it happened." Late at night, in a House-Senate conference, Mr. St Germain asked for the $100,000 limit. No one objected--and few in the press even noticed.

The chairman says he's now considering ways to limit deposit insurance, something George Bush's S&L "reform" avoided altogether. He's especially worried because he thinks insurance has created the same disastrous incentives in the banking industry as it did earlier in S&Ls. It's become, he says, "a capital plaything," a taxpayer subsidy to private interests rather than the protection for the little guy it was intended to be. One obstacle to deposit insurance reform will be Rep. Frank Annunzio (D., Ill.), a banking subcommittee chairman who is a long-time pal of the S&L industry. But Mr. Gonzalez says he'll hold hearings on insurance even if Mr. Annunzio objects.

Just the Beginning

Mr. Keating declined to testify last week, so the S&L hearings will be dormant for a period. The banking committee staff is poring over the voluminous record, but Mr. Gonzalez intends to keep going. "This is just the beginning. We're going to have to pursue this," he says. "There's more than just Lincoln," Mr. Keating's failed S&L.

Mr. Gonzalez gets encouragement from his mail, most of which is inspired by C-Span's TV coverage of his hearings. ("I'm inundated," he says.) One letter in particular he prizes is from Raoul Berger, the noted jurist. Mr. Berger urged him on by quoting Winston Churchill: "Ministers have come under obligations to great interests. And it can be presumed or alleged that their votes or speeches have been corrupt." Henry Gonzalez likes the sound of that.

Mr. Gigot writes the Potomac Watch column on Fridays on this page.

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(Mount Clipping in Space Below)

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DeConcini, McCain sag in 2 polls

Links to Keating are questioned — Babbitt gets boost

By Jerry Kammer
The Arizona Republic

Despite attempts to distance themselves from Charles H Keating Jr., Arizona Sens. Dennis DeConcini and John McCain are getting bad marks from the public for their relationship with the troubled Phoenix financier and developer.

A Rocky Mountain Poll of Maricopa County adults found that less than 10 percent were "very satisfied" with the senators' answers to questions about their connections with Keating.

More than 40 percent said they were "openly dissatisfied," while the remainder were either "partially satisfied" or "unsure."

The Rocky Mountain Poll also found that former Gov. Bruce Babbitt could mount a strong challenge for McCain's Senate seat.

Meanwhile, more than half of those polled statewide by *The Arizona Republic* said they were not familiar with the senators' ties to Keating. But 39 percent described DeConcini's relationship to the chairman of American Continental Corp. as improper while 9 percent said it was proper.

Thirty-five percent said the McCain-Keating relationship was improper, while 9 percent found no fault with it.

Keating, who contributed heavily to the campaigns of both senators, is the target of a $1.1 billion civil-racketeering suit filed in September by federal regulators.

The suit alleges that he and a small group of insiders looted American Continental's thrift, Lincoln Savings and Loan of Irvine, Calif. It claims that Keating improperly used

— *See* **STATE'S**, *page A6*

Charles H Keating Jr. / He is the target of a $1.1 billion civil-racketeering suit filed by federal regulators.

Dennis DeConcini / A spokesman says the results of the two polls were not surprising.

John McCain / His popularity is expected to surge after he tells his side of the story.

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FBI/DOJ

State's senators get bad marks in 2 pollings

—STATE'S, *from page A1*

political influence to delay the federal takeover of Lincoln until April, adding to the cost of a federal bailout expected to reach about $2 billion.

Both polls were conducted before last weekend's revelations that the FBI is investigating the senators' 1987 intervention in Keating's behalf with federal regulators who had clashed with Keating over his management of the thrift.

One question in The Arizona Republic Poll hinged on revelations that two DeConcini aides, Ron Ober and Earl Katz, had amassed more than $50 million in business loans from Lincoln.

By a ratio of nearly 7-to-1, those responding to The Arizona Republic Poll said it is not proper for a senator's aides to have significant business dealings with their campaign contributors.

Two other questions focused on a series of trips McCain and his family took in 1984-86 to Keating's vacation home in the Bahamas, flying in aircraft owned or leased by American Continental. McCain says that because of a record-keeping oversight, he failed to pay for the trips until this year.

Seventy-two percent said it was not proper for McCain to accept free flights on Keating's aircraft, while 62 percent said it was not proper for McCain to vacation at Keating's home.

The Rocky Mountain pollsters concluded that although DeConcini "appears to have suffered the most" from his Keating ties, "it may be Senator McCain who is most at risk since his re-election comes up again sooner . . ."

McCain faces a 1992 contest for a second term in the Senate, while DeConcini won his third term last year. He will be up for re-election in 1994.

POLL METHOD

The Arizona Republic Poll is based on telephone interviews conducted Nov. 2-5 with 809 Arizona adults.

Random-digit dialing was used to select the sample to ensure that unlisted telephone numbers were included.

In theory, in 19 cases out of 20, the results based on such samples will differ by no more than 3 percentage points in either direction from results of interviews with all Arizona adults in telephone households.

The margin of error for subgroups within the sample may be larger.

Asked to choose between Babbitt and McCain in a hypothetical Senate race, 42 percent said they would vote for the former Democratic governor, while 37 percent opted for the Republican incumbent. Twenty-one percent said they were not sure.

The Rocky Mountain pollsters found the results significant because "Republican candidates must usually pile up a strong vote" in Maricopa County, where the GOP has a 53 percent to 36 percent lead in voter registration.

Scott Celley, McCain's spokesman, said he is not surprised at the drubbing the senator took in the two polls.

"The regular appearance of Senator McCain's name in conjunction with the other senators that were involved in this savings and loan business, and the constant flow of new and different stories about the whole savings and loan issue certainly would be expected to have a detrimental impact of some sort," Celley said.

However, he said he expects McCain's popularity to surge after he has time "to get around the state" and tell his side of the story.

Celley said McCain regrets the vacations in the aftershock of the publicity surrounding his connection with Keating.

"At the time, they were friends," Celley said of Keating and McCain.

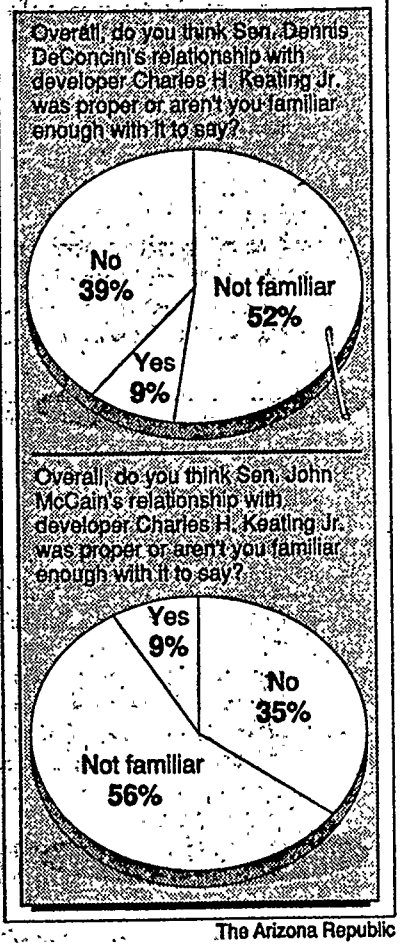
Bob Maynes, spokesman for DeConcini also said he is not surprised by the poll results.

"One would certainly expect a drop in job ratings, given the frequency of negative stories in the major Arizona media," Maynes said. "Actually, it is a little bit surprising that the decline was not further."

He said DeConcini went to "bat for someone who may have broken the law, and that criticism is inevitable."

Contributing to this article was Carol Sowers of *The Arizona Republic*.

ETHICS IN GOVERNMENT
THE ARIZONA REPUBLIC POLL
A telephone poll of 809 adults living in Arizona.



The Arizona Republic

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FBI probing 5 senators

Keating links focus — thrift regulator could be ousted

Republic Wire Services

WASHINGTON — The FBI has begun an investigation of the role five senators played in intervening with regulators in 1987 in behalf of controversial Arizona financial executive Charles H Keating Jr., according to sources who were questioned.

And in an interview published Saturday, President Bush, commenting on the Lincoln Savings and Loan scandal for the first time, said that he is considering whether to remove M. Danny Wall as the nation's chief thrift regulator in the wake of a congressional investigation.

FBI agents interviewed Edwin Gray, former head of the Federal Home Loan Bank Board, and several of his top aides, the sources said, providing the first indication that the Justice Department is inquiring about the conduct of the five senators. An FBI spokesman declined to comment Saturday.

The senators being investigated are Dennis DeConcini and John McCain of Arizona, Alan Cranston of California, John Glenn of Ohio and Donald Riegle of Michigan. All are Democrats except McCain, who is a Republican. The Senate Ethics Committee has asked the senators to respond to complaints that their intervention was "prompted" by

— See FBI, page A8

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FBI/DOJ

FBI probes senators in Keating S&L case

—FBI, *from page A1*

$1.3 million in campaign contributions and corporate funds raised for them and their causes by Keating, the multimillionaire Phoenix developer and financier who is chairman of American Continental Corp. and the former head of Lincoln Savings and Loan.

For campaign contributions, McCain received $112,000, Riegle received $76,000, DeConcini and Cranston both received $48,000 and Glenn received $34,000. In addition, Cranston solicited $850,000 in corporate contributions for three voter-registration projects and Glenn accepted a $200,000 corporate contribution for his political-action committee.

The senators have insisted they did nothing improper.

Fateful meeting

Four of the senators on April 2, 1987, met alone with Gray, then the government's top savings-and-loan regulator, to question his agency's treatment of Keating's Lincoln Savings and Loan of Irvine, Calif. Riegle, who did not attend that meeting, joined the other four at a second meeting a week later with Gray's subordinates.

Bush said that if he decides that part of the nationwide savings-and-loan crisis occurred because federal regulators were not aggressive enough in cracking down on problem thrifts, he will make changes, adding, "I have to do that."

He acknowledged that he is concerned that the credibility of the government's regulatory structure has been threatened but said he does not want to prejudge Wall.

But the president praised Rep. Henry Gonzalez, D-Texas, chairman of the House Banking Committee, for his tenacity in pursuing an inquiry into the collapse of Lincoln, expected to be the nation's biggest thrift failure, with an estimated cleanup cost of $2 billion.

Although he saluted Wall's chief accuser, the president did not say a single good word about Wall, who is accused of blocking efforts by federal regulators in San Francisco to seize Lincoln in 1987 on grounds that they were too "zealous."

Wall, who also headed the Federal Home Loan Bank Board from July 1987 until it was replaced by the Office of Thrift Supervision last August, could not be reached Saturday for comment.

Touching a gray area

The Justice Department's decision to pursue an inquiry of the senators is unusual in that it touches on a gray ethical area, the actions members of Congress take in behalf of contributors. The question is just how far these actions can go.

The focus of the FBI questioning last week, the sources said, was the first meeting, on April 2, 1987. Gray testified to a congressional committee last week that DeConcini asked him at that meeting to ease regulatory pressure on Lincoln, saying that in return, Lincoln would modify its lending practices, which regulators considered far too risky. Gray declined to comment Saturday.

DeConcini and the other senators dispute Gray's statement that they sought to negotiate favorable treatment for Lincoln at the April 1987 meeting. DeConcini said its thrust was to express the senators' concerns that an examination of Lincoln's books was taking too long and to "get off their (Lincoln's) backs" if the thrift hadn't violated the law.

The initial questioning that occurred last week is typically used by prosecutors to determine whether there are grounds to present evidence to a grand jury.

Spokesmen for Cranston, DeConcini and McCain said Saturday that the FBI hadn't contacted their offices. Cranston and McCain have volunteered to meet with the FBI. Glenn and Riegle could not be reached for comment.

Murray S. Flander, Cranston's spokesman, said, "Once again, everything is emanating from the regulators. They are the accusers. ... How do we know what they're telling us is correct?"

'I'm not closing the door'

Wall also met privately three times with Keating, the Arizona financier who controlled Lincoln's parent firm, while the case was pending. The parent company filed for Bankruptcy Court protection one day before the government finally seized Lincoln in April.

In a series of interviews, Wall has defended his actions as prudent oversight and charged that Gonzalez's investigation has been unfair and one-sided. He and Keating are scheduled to testify before the committee Nov. 21.

Asked whether he were leaving the door open to replace Wall, Bush replied, "I didn't say that, but I'm not closing the door on it. I just don't know at this juncture.

"But when the question is put, 'If part of the savings-and-loan problem proves to be management or regulation people that aren't aggressive enough, would you make changes?' the answer will be 'yes.' I have to do that."

Bush added, however, "I just don't want to ... prejudge on my part the Wall situation at this time."

Compiled from reports by *The Washington Post* and *the Los Angeles Times.*

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Inyestors blame losses on 'Keating 5'

By Sam Stanton and Anne Q. Hoy
Republic Washington Bureau

WASHINGTON — Tearful investors who claimed that Arizona developer Charles H Keating Jr. bilked them out of their life savings blamed their losses on five senators Tuesday and branded them the "Keating Five."

Those and other investors would not have become victims if savings and loans regulators hadn't undermined a securities investigation, the head of the Securities and Exchange Commission told the House Banking Committee, which is investigating the collapse of Keating's Lincoln Savings and Loan, based in Irvine, Calif.

The three California investors who testified during the panel's fourth round of hearings were hardest on Sen. Alan Cranston, D-Calif., but none of the other senators, including Arizona's John McCain and Dennis DeConcini, was spared.

"Up against the likes of Charles Keating and the influence he was able to buy from elected officials and others in high office, we didn't stand a chance," said Shirley Lampel, a Tustin, Calif., widow who said she lost $30,000.

"We had been targeted by Keating, and with the help of the 'Keating Five' and others, the henhouse door

See **'KEATING 5'**, *page A2*

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'Keating 5' blamed for losses

'KEATING 5', *from page A1*

was open, the fox got in."

The five senators are Cranston, DeConcini, McCain, Don Riegle of Michigan and John Glenn of Ohio. All but McCain are Democrats.

The three investors were among 23,000 people who bought more than $230 million in unsecured debentures by American Continental Corp., the Phoenix-based parent of Lincoln. Those debentures, known as junk bonds, proved worthless.

The bonds were sold in the lobby of Keating's thrift until California regulators halted that practice in August 1988. The three investors said Lincoln officials told them that the debentures were federally insured.

The testimony was given as SEC Chairman Richard C. Breeden revealed that the agency has stepped up its investigation of "possible accounting fraud" and questionable bond-selling practices by American Continental.

Breeden also said a May 1988 "memorandum of understanding" between the Federal Home Loan Bank Board and Lincoln gave American Continental a powerful legal tool to resist the SEC's probe into whether the company had filed false financial statements.

According to Breeden, the memorandum "said in essence that the financial statements were all right," allowing American Continental to argue that the SEC investigation should be dropped.

Phoenix meeting reported

Also Tuesday, the *American Banker* newspaper reported that Riegle flew to Phoenix and met with Keating in March 1987, less than a month before the senators tried to intercede with federal regulators in Keating's behalf.

Later that month, Riegle received $66,100 from Keating and his supporters.

Riegle, chairman of the Senate Banking Committee, has portrayed himself as an insignificant player in the Keating affair. He didn't tell the Senate Ethics Committee about the Phoenix meeting or about others he held concerning Lincoln's troubles.

On Monday, Riegle stormed to McCain's office when a Senate page inadvertently delivered to McCain's office a 2-inch-high stack of Riegle's documents concerning Keating, congressional sources said.

The documents apparently included Riegle's handwritten recollection of several 1987 meetings with regulators and the other senators, they said.

The foul-up occurred because McCain's mail room has the same suite number as Riegle's, but they are in different buildings.

Riegle, DeConcini and McCain have been pointing fingers at each other over who set up a meeting between the five senators and a top thrift regulator April 2, 1987. Riegle said he attended a second meeting with the regulator, on April 9, 1987, only as a banking specialist.

But both Arizona senators have said Riegle was the driving force behind the April 2 meeting.

At Tuesday's hearing, committee Chairman Henry Gonzalez, D-Texas, revealed that former SEC Commissioner Barbara Thomas had received a $250,000 loan with "unusual" and favorable terms from Keating.

WHAT THEY TOLD THE HEARING

Highlights of Tuesday's hearing on the collapse of Lincoln Savings and Loan:

- Three tearful holders of American Continental junk bonds say Lincoln officials assured them the bonds were federally insured.
- Investors brand five senators the "Keating Five" for their intervention in Keating's behalf and blame them partly for their losses.
- The Securities and Exchange Commission says it is expanding its probe of American Continental and Lincoln.
- SEC Chairman Richard C. Breeden says the Federal Home Loan Bank Board last year signed a memorandum of understanding that allowed American Continental to resist the agency's investigation.

Next hearing: Tuesday.

Witnesses scheduled: Charles H. Keating Jr., M. Danny Wall, director of the Office of Thrift Supervision.

The loan was disclosed amid testimony that Thomas called the SEC after she had left her post to vouch for Keating, whom she knew was under investigation by the SEC.

She also asked the bank board for confidential information about its investigation of Lincoln, officials said.

'Image of security'

Breeden said the SEC had no authority to stop American Continental from selling the debentures in the lobby of the thrift. But he acknowledged that the "federally insured" seal on Lincoln's door "was designed to create this image of security."

He also told the panel that it was unusual, but not unheard of, for a firm to issue a debt sale that large without an independent underwriter.

The three investors testified that they were not told that the debentures weren't underwritten by a Wall Street investment firm. They also did not receive a prospectus, as required by law, explaining the risks.

"On the door ... I saw 'FSLIC' (Federal Savings and Loan Insurance Corp.) — how reassuring," Lampel said. "The investment was described as safe and solid. I had no fear."

Connie Wicksman, a 78-year-old immigrant from England who lives in Glendale, Calif., blamed Cranston.

"I felt that he was the one who really swindled us, because he should have told the papers that he was getting all this money and wasn't taking care of us," she said.

A Cranston spokesman told reporters that the senator had done nothing wrong, and "there is nothing to feel responsible about."

Cranston and affiliated voter-registration groups received nearly $1 million in campaign contributions from Keating sources.

The rest of the "Keating Five" also received large contributions from Keating, and each denies impropriety.

Senators named in suit

However, the senators are named in a class-action lawsuit filed by the bondholders against Keating over the sale of the bonds, and the senators' actions in Keating's behalf have come under FBI scrutiny.

Breeden told the committee that when the SEC began investigating American Continental in February 1987, the firm's accountants "stonewalled" requests for documents.

When the SEC subpoenaed the documents, critical areas were obliterated by rubber-stamp marks that said the information was confidential.

Committee members expressed concern that accountants for Arthur Young & Co. had given American Continental and Lincoln Savings clean bills of health when government auditors were checking into the firms.

But representatives of Arthur Young, which now is called Ernst & Young, on Tuesday denied any wrongdoing.

An Arthur Young official said his firm and Keating agreed in 1988 to stop handling American Continental's books after Keating tried to have one accountant removed from the account.

Arthur Young's co-chief executive, William Gladstone, said he refused.



Shirley Lampel, a Tustin, Calif., widow, displays a $30,000 certificate she purchased from American Continental Corp. She said she lost the $30,000. She said, "We had been targeted by (American Continental Chairman Charles H) Keating, and with the help of the 'Keating Five' and others, the henhouse door was open, the fox got in."

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(Mount Clipping in Space Below)

REVIEW & OUTLOOK

Congress's Watergate

Back around the time of Watergate, Congress enacted various laws—affecting the budget, political campaigns, ethics—that weakened the presidency while aggrandizing its own political power. The country is now getting a pretty clear idea of why the Founding Fathers worried about what happens to men when they get their hands on unchecked political power.

The American Revolution was fought in the name of containing the powers of kings, of course, and thus the sentiment of the new nation was against executive power. But experience quickly demonstrated that in the new form of government the legislature, with the power of the purse, was prone to overreach. See the complaints of Madison and Jefferson in Federalist 48, reprinted alongside.

The legislative branch is in theory checked by the voters, but over the past 15 years it has moved away from this essential discipline. Incumbents command resources that make them almost immune to challengers. Congress enacts laws from which it exempts itself, breeding the notion that Members are in some sense above the laws. One haywire effort to resist this trend was Abscam, the FBI's 1980 bribery investigation of Congress. The Members responded by dragging Justice Department officials in for grueling oversight hearings that made it clear Justice's budget was in danger if it initiated any future probes.

* * *

The end product of these developments is now Congress's most visible attribute—unaccountable power. That in turn has caused abuse of authority and scandal. Now, on the heels of the Jim Wright affair, we have five Senators who are enmeshed in the savings-and-loan scandal. The FBI has launched an investigation of the role the Senators may have played in helping their political benefactor Charles Keating keep federal regulators at bay for two years. The Senators and their federal regulatory allies may not have done anything beyond existing law, but the case focuses ~~much~~ needed attention on the current Washington system. The delay in closing Mr. Keating's insolvent Lincoln Savings & Loan of California may cost taxpayers $1.5 billion.

This month, viewers of C-SPAN have been getting an eye-opening look at the closed world of how Congress intervenes with executive-branch and independent agencies in a series of extraordinary House Banking Committee hearings. In yesterday's hearing, SEC Chairman Richard Breeden testified that a 1988 agreement between the Federal Home Loan Bank Board, headed by former Senate aide M. Danny Wall, and Lincoln Savings undermined his agency's investigation of Lincoln's financial statements.

The basic accusation is that Alan Cranston of California, Dennis DeConcini and John McCain of Arizona, John Glenn of Ohio and Donald Riegle of Michigan used their political muscle to help delay a federal crackdown on Lincoln, whose chairman was Charles Keating.

It is a commentary on the culture of Washington that it has taken so long for this story to achieve its current prominence. We and Brooks Jackson of our Washington bureau have been writing about it for six

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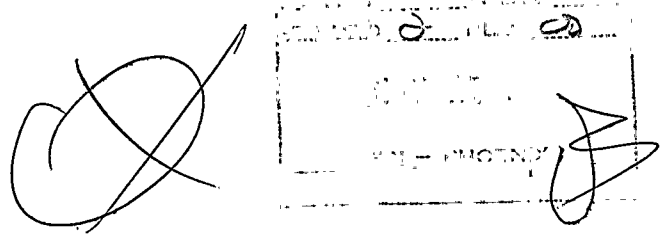
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months. The Arizona Republic, San Francisco Chronicle, Cleveland Plain Dealer and Detroit News have also been probing. But the Capitol Press Corps stirred itself only when a Congressman held a hearing, apparently the local benchmark of news. That said, it should be noted that House Banking Chairman Henry Gonzales of Texas is displaying a lot of courage in taking this on. At yesterday's hearing, he said he planned to carry his investigation of the S&L scandal "beyond Lincoln."

* * *

The Senators say their efforts on Mr. Keatings's behalf were merely "constituent service." All five Senators somehow claimed him as a constituent. An Arizona resident from a prominent Ohio Republican family, Mr. Keating controlled Lincoln in California as well as a large hotel in Michigan.

Senator McCain has likened his intervention with the federal regulators examining Lincoln to "helping the little lady who didn't get her Social Security." But Charles Keating was asking for a lot more than a lost check—and was willing to pay for it. He and his allies gave the Senators a total of $1.4 million for their campaigns and their pet political causes.

Darry Sragow, Senator Cranston's 1986 campaign manager, says that unlike the consultants in the HUD scandals, the Senator used the more than $900,000 in Keating money he solicited to further his "political" interests rather than his financial interests. Meanwhile, Capitol Hill thunders on about the "influence peddling" of HUD consultants.

The obvious truth is that Congress's dramatically broadened definition of "constituent service" is largely a cover for what the legislative branch has become—an unseemly trade in which Jim Wright-style arm-twisting is the quid pro quo for the PAC contributions that in turn keep 99% of the House and 90% of the Senate re-elected. In sum, the Senators saw nothing wrong here because they simply don't feel accountable. There is no effective check on congressional behavior.

Indeed, the more we get to the bottom of Washington's other seamy story—the whodunit at HUD—the more we see Congress's fingerprints next to those of the infamous "consultants." A letter from New York's GOP Senator Al D'Amato has surfaced supporting a dubious HUD grant in Buffalo. Within months of the grant approval, the sponsors organized a fundraiser for him that raised $40,000.

Undoubtedly, Members of Congress ought to be able to act as ombudsmen for their constituents in difficult cases. But these recent events are clearly very much beyond that simple role. Despite all the publicity that accumulates about the way Congress works—the franking privilege, the PACs, the gerrymanders, "constituent service," the S&L fiasco—the Members just keep rolling along. Entrenched, immune, above their own laws.

Surely it is time to start an effort to cut congressional power back to size. The American system has the means to do so. There was even a famous phrase once to describe it: Throw the rascals out!

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(Mount Clipping in Space Below)

Arizona senators dancing a minuet past Keating tar pit

Seems like Arizona's senators are more interested in playing word games with House Banking Committee Chairman Henry Gonzalez than in getting to the bottom of the Charlie Keating/Lincoln Savings fiasco.

Gonzalez says he won't subpoena the five senators who interceded in Keating's behalf with federal regulators — including Arizona Sens. Dennis DeConcini and John McCain — because the action may not hold up in court. But Gonzalez says the senators are welcome to testify before his committee if they wish.

DeConcini and McCain say they'd be more than happy to testify before the investigating committee if — get this — they're asked.

But, as the senators know full well, Gonzalez says he won't ask. Such verbal minuets allow DeConcini and McCain to appear cooperative without really being so at all.

Of course, the senators *could* ask to testify themselves. But they haven't.

Sort of makes you wonder why.

No news is . . .

Speaking of Keating, he's apparently been lining his bird cages with something other than *The Arizona Republic* or *The Phoenix Gazette* lately.

Chris Economaki, editor and publisher of *National Speed Sport News*, says there wasn't a local newspaper to be found at the Phoenician Resort last week because owner Keating has banned the Valley's major papers from his hotel.

Keating, who's been embarrassed by a number of *Republic* revelations about his alleged "milk 'em and bilk 'em" shenanigans with Lincoln Savings, was quoted by a woman working at the hotel desk as having banned the papers from his property.

It is the third time in about a year that Keating has tried to censor the news.

Economaki was in town for the races at Phoenix International Raceway and told *The Republic's* Bob McManaman that top-notch drivers staying at the hotel were upset that local newspapers were unavailable.

In fact, several other writers said they tried picking up papers at nearby convenience stores but didn't have much luck.

Keating may think he can control news in his own little world. But not anywhere else. At least not anymore.

'We have met the enemy . . .'

Democratic National Committee Chairman Ronald Brown delivered an unexpectedly provocative analysis of party politics in his keynote Monday at the state party's annual fund-raising shindig.

Too bad the unenlightened dronings of state Chairman Sam Goddard at the conclusion of the dinner obscured Brown's message.

To his credit, the take-no-guff Brown offered more than predict-

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KEVEN WILLEY
Political Columnist

able partisan jabs at President Bush. In a theory increasingly giving even some Republicans pause, Brown suggested that the GOP's traditional view of government as "the enemy" makes the party especially susceptible to corruption.

"How can you be a good secretary of HUD if you don't understand what the role of HUD is, if you're put there to dismantle the organization?" Brown asked, referring to the saga of corruption at the Department of Housing and Urban Development during the Reagan administration.

"You can't *possibly* be effective if you don't believe in the institution in the first place."

That's not to say that Republicans have a monopoly on scandal; former House Speaker Jim Wright is only the most recent example of Democratic culpability.

But as Brown pointed out, we have suffered a staggering "diminution of public spirit" in the past decade. Could it be at least partially attributable to the fact that many Republicans view it as somehow less immoral to corrupt government than to corrupt private enterprise?

It's worth thinking about.

Gilding the Rose

Voters beware: Gov. Rose Mofford's handlers are plotting an accelerated public-relations push with an eye to the 1990 elections.

Mofford political adviser Rip Wilson and press secretary Vada Manager met privately last week with state agency flacks to discuss how to boost the governor's image.

The message? Increase the public's perception of Mofford as actively involved in all aspects of the executive branch.

This might suggest to skeptics that Mofford, in fact, is not actively involved in all aspects of the executive branch.

Women lack power

Women in Arizona make up nearly half of the work force but less than one-sixth of state government leaders.

That's according to a study by Arizona State University researchers just published as part of a book called *Gender, Bureaucracy and Democracy.*

And if that's not enough: Women in the highest levels of state government are younger, better educated and advancing faster than their male counterparts, but they're still making less money and supervising fewer employees.

But the news isn't all bad: Nearly a third of the 90-member Arizona Legislature is composed of women, almost twice the national average of 16 percent.

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(Mount Clipping in Space Below)

Thrift Regulator's Resignation Sought By Consumer Groups

By a WALL STREET JOURNAL *Staff Reporter*

WASHINGTON—Several public-interest groups called for the resignation of Danny Wall, the nation's top thrift regulator, citing his underestimation of the size of the savings-and-loan debacle and his delay in closing insolvent Lincoln Savings & Loan Association.

The groups, which included Public Citizen, the Ralph Nader-affiliated government watchdog lobby, urged President Bush in a letter to dismiss Mr. Wall from his post as chairman of the Office of Thrift Supervision. "Mr. Wall may have cost citizens of this country more than any other political appointee in history," the letter said, saying some analysts estimate that his actions may have increased the government's cost of resolving the thrift crisis by $20 billion.

Previously, Senate Majority Leader George Mitchell (D., Maine) said that Mr. Wall should step aside, and President Bush has said he has an open mind about whether to seek Mr. Wall's resignation.

A spokesman for Mr. Wall said that he has been unfairly treated by Congress, and that Mr. Wall hasn't any plans to resign. Mr. Wall has been the top thrift regulator for two years.

The groups didn't call for the resignation of five U.S. senators who received large contributions from Charles Keating Jr., the chairman of Lincoln's parent company, American Continental Corp. Mr. Wall's predecessor has said the senators pressed for a delay of a federal seizure of Lincoln, which is expected to be the costliest thrift failure ever at $2.5 billion.

In a news conference, representatives of the groups acknowledged they were in an awkward position regarding the senators, because two of them, Alan Cranston (D., Calif.) and John Glenn (D., Ohio), have worked avidly for pro-consumer legislation.

But James Davidson, chairman of the National Taxpayers Union Foundation, said that Sen. Cranston's role in the Lincoln failure was cited by 85% of its 200,000 members as "the biggest outrage of the decade."

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LETTERS

DeConcini a man of integrity

Editor:

I write as an Arizonan who has followed Sen. Dennis DeConcini's career since the first campaign, and as someone who has supported him over the years

Sen. DeConcini has shown himself to be a man of principle and integrity who has always put what was right ahead of what was politic.

His correct but unpopular stands on the Panama Canal, certain judicial appointments and the Navajo-Hopi land dispute have earned him little popular support, but have demonstrated his commitment to principle.

His actions last year when revelations of theft from his campaign surfaced showed that his dedication to doing what is right even extended to a situation where doing what was right cost him financially.

Now we have the Lincoln Savings and Loan scandal. It is clear that Sen. DeConcini's actions with respect to Lincoln were a mistake. It is also clear that had Sen. DeConcini realized the extent of the financial mismanagement at Lincoln, he would never have interceded, no matter how much money his campaign had received from Charles Keating.

It is now time for Sen. DeConcini to acknowledge that he made some mistakes in dealing with the Lincoln matter. Good men and women, even great men and women, make mistakes. All that we have a reasonable right to ask is that these good and great men and women acknowledge their mistakes and work to correct them.

LAWRENCE A. RUZOW
Window Rock

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Senators' 'services' costly for all of us

As the role of the Keating Five in the Lincoln Savings and Loan disaster has gathered more attention, the question of what amounts to proper constituent service has become more prominent.

The senators have maintained that they gave Charles Keating no more help than they have given hundreds of other constituents. Sens. Dennis DeConcini and John McCain have responded indignantly to accusations that Keating's large campaign contributions prompted their intervention with federal regulators on his behalf.

DeConcini has emphasized that one of his duties is to respond to constituents who have a problem with the government. McCain compared his decision to meet with regulators to "helping the little lady who didn't get her Social Security check."

Those explanations, however, have not impressed Arizonans. In a recent poll of Maricopa County adults, more than 40 percent said they were "openly dissatisfied" with the senators' answers to questions about their connections to Keating.

What we find no less aggravating than the senators' eagerness to help Keating is their willingness to put all their other constituents at financial risk by doing so.

When the senators met with federal regulators in April 1987, they had heard Lincoln described as a "ticking time bomb" that was taking too many risks and should be taken over by the government. The implications of those warnings were obvious: If Lincoln's high-risk operations were allowed to continue, losses that ultimately would be paid by taxpayers could multiply.

That's precisely what happened. Because the government failed to take control of Lincoln until this year, its losses are estimated to have increased by more than a billion dollars. That money will come out of the pockets of every taxpayer in the country.

So we think the issue of constituent service goes well beyond the question of whether the senators should have answered Keating's plea for help. Responding to his call was one thing; making every constituent bear the huge risks was quite another.

Their decision to go to bat for Lincoln Savings turned out to be an enormous financial mistake. Aside from whether Keating deserved the lavish constituent service he was afforded, the senators' other constituents didn't deserve to pay for their poor judgment.

(Excerpted from the Scottsdale Progress. *Distributed by The Associated Press.)*

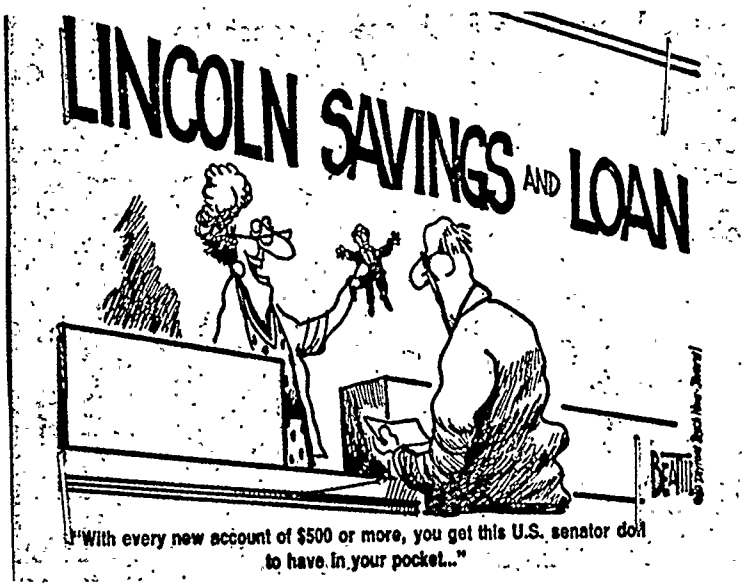
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"With every new account of $500 or more, you get this U.S. senator doll to have in your pocket..."

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(Mount Clipping in Space Below)

300 bondholders in Keating firm demand restitution by U.S.

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By Lisa Morrell
The Arizona Republic

SHERMAN OAKS, Calif. — More than 300 holders of now-worthless American Continental Corp. bonds signed petitions here Saturday demanding that the government cover the losses they suffered because state and federal officials failed to stop the "deceptive" bond sales.

The bondholders asked to be recognized as "victims . . . not idiots" for their investments.

The petitions, circulated during a heated first meeting of a group mobilizing bondholders in southern California, said the signers "hold the government accountable and responsible for not protecting our interests" against an alleged scheme to defraud investors by American Continental of Phoenix.

More than 23,000 people invested more than $230 million in American Continental, which filed for Chapter 11 reorganization and protection from creditors under the U.S. Bankruptcy Code on April 13. The bonds were purchased at Lincoln Savings and Loan, which was purchased by American Continental in 1984.

One bondholder, Ralph Wilson, asked why Charles H Keating Jr. has not been ousted from control of American Continental.

Investors' attorneys and the federal government may "at some point" in the bankruptcy proceedings push for a trustee to run American Continental's operations, said Ronald Rus, an attorney representing investors who filed one of 12 lawsuits against American Continental officers and directors and their hired accountants and law firms.

The government has charged Keating and 10 other American Continental executives with fraud and racketeering in a lawsuit filed Sept. 15 in U.S. District Court in Phoenix.

Many of those at the ACC Bondholders Action Committee meeting were elderly and seemed confused about the legal morass in which they found themselves. Many who were longtime Lincoln depositors said they thought their investments were safe because they were recommended by Lincoln employees they trusted.

They expressed anger at Keating and five senators who went to bat for him in a costly battle over Lincoln against federal regulators.

Sens. Dennis DeConcini, D-Ariz.; John McCain, R-Ariz.; Alan Cranston, D-Calif.; John Glenn, D-Ohio; and Donald Riegle, D-Mich., met with federal officials to inquire about their investigation into Lincoln.

Andrew Yun, whose father invested $200,000 in the bonds, condemned the five senators as "dishonest and cruel."

"Hang 'em," one audience member said.

The petitions claimed the government approved the bond sales even after thrift regulators knew that Lincoln Savings was in a shaky condition. Many of the "unsuspecting Lincoln customers" thought the bonds were federally insured, the petitions said.

The bondholders committee plans to send the petitions to Reps. Richard Lehman, R-Calif.; Nancy Pelosi, D-Calif.; and Henry Gonzalez, D-Texas. Gonzalez is leading the probe into the collapse of Lincoln.

Rus told bondholders he expects they will get back some of their money through the investors' lawsuits, which are seeking class-action status as one lawsuit. The suit is expected to go to trial in August, he said.

Rus said bondholders should not feel stupid or ashamed over losing their money.

"You have been caught in one of the most sophisticated financial shams ever," he said.

"We must be recognized as victims and not idiots for investing in the bonds," said Yun, 23.

One of the committee's goals is to get bondholders involved in decision-making processes that affect them, he said. Another goal is to help them deal emotionally with their losses.

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FD-350 (Rev. 5-8-81)

(Mount Clipping in Space Below)

Wall quits as top S&L regulator

Claims he's 'scapegoat' in Lincoln case

By Sam Stanton
Republic Washington Bureau

WASHINGTON — M. Danny Wall resigned Monday as the nation's top thrift regulator, saying calls for his ouster were attempts to make him a "scapegoat" for the collapse of the Lincoln Savings and Loan Association and other thrifts.

Wall announced his resignation as director of the Office of Thrift Supervision during a news conference in which he took a bitter swipe at Rep. Henry Gonzalez, D-Texas, House Banking Committee chairman, who has been calling for Wall's ouster since April. Wall's support in the Bush administration had been dwindling as Gonzalez's committee probed Wall's handling of Irvine, Calif.-based Lincoln Savings, formerly owned by Charles H. Keating Jr.

"Having failed to secure my departure legislatively, Mr. Gonzalez resorted to corruption of the truth and abandonment of our historical devotion to fair play and due process in his effort to remove me from office," Wall said in a four-page letter to President Bush that was released to reporters.

Wall said Gonzalez had made "simplistic efforts to find a scapegoat to shoulder the blame" for the crisis in the S&L industry.

Gonzalez, who has made brutal attacks on Wall's handling of the



Scott Applewhite/The Associated Press

M. Danny Wall announces his resignation in Washington. "I don't think it's a matter of running from a fight," he said Monday. "I think it's a matter of bringing a fight to a close."

nation's S&Ls, issued a statement saying Wall "has done the best thing for himself and the federal regulatory system."

"The savings and loan disaster has been extremely costly in terms of

— See WALL, page A10.

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Wall quits S&L post, takes shot at senator

—WALL, from page A1

dollars and public confidence," Gonzalez said. "It was essential that there be new leadership."

Gonzalez's hearings into Lincoln have become so widely watched that they have been parodied on NBC's *Saturday Night Live*.

Wall's resignation stems from one of the nation's worst financial scandals, one that will cost taxpayers as much as $2.5 billion and threatens the political careers of five U.S. senators, including Democrat Dennis DeConcini and Republican John McCain, both of Arizona.

His decision to leave, after calls for his head from leaders of Congress and some of the nation's most influential newspapers, was met with almost a sense of relief Monday from many officials.

'Public-spirited' move

Treasury Secretary Nicholas Brady said he wished Wall well, adding that although resignation must have been a difficult move for him, it was "one that was public-spirited."

Wall's predecessor at the bank board, Edwin Gray, said he felt "sadness" for Wall, adding that the job he is leaving is considered to be among the toughest in Washington.

However, he said, "Danny Wall's effectiveness was gone."

House Banking Committee member Jim Leach, R-Iowa, said the move was "virtually inevitable."

Wall said that he will remain in his post until the president appoints a successor and that he has no job plans. He also insisted that his leaving should not be construed as an admission of failure.

However, pressure for Wall to leave has been mounting as Gonzalez and others have pinned the blame for the S&L crisis squarely on his shoulders. Wall is a former Senate Banking Committee staffer and the last chairman of the Federal Home Loan Bank Board, which was restructured to become the Office of Thrift Supervision.

Wall, who was applauded loudly by workers at the thrift office when he strode into a packed auditorium for his news conference, had said as late as last week that he would not quit. But he conceded Monday that he had begun making plans to leave last month, after he had spent 10 hours testifying before the Banking Committee in its probe of Lincoln.

He insisted that he had not been pressured into resigning by the administration, but conceded that no one had asked him to stay, either, when he made his intentions known.

'Bringing fight to a close'

"I don't think it's a matter of running from a fight," Wall said.

"I think it's a matter of bringing a fight to a close. ... My decision to step down is to remove the distraction."

One administration source, speaking on condition of anonymity, said that before Wall testified before Gonzalez's committee on Nov. 21, he told his superiors at the Treasury Department that he planned to resign soon.

That source added that Wall had been asked to stay on until a successor could be named, a move that is expected to take several weeks.

Wall, who came to the bank board 2½ years ago, said he has survived repeated attempts on Capitol Hill to oust him from his job as overseer of the nation's thrifts.

"I am the 19th chairman of the Federal Home Loan Bank Board, and I have been in office longer than half of them," said Wall, whose term would have expired in July 1991.

Lincoln his undoing

However, the failure of Lincoln Savings proved to be Wall's undoing, despite his insistence that his handling of the thrift was proper.

Lincoln, which was owned by Keating's American Continental Corp. of Phoenix until Wall's agency seized it April 14, could cost taxpayers more than $2 billion. Keating's organization had been at war with the bank board for two years before the government moved in last spring.

Gonzalez and others portrayed Wall and his underlings as bowing to Keating's every wish and allowing the thrift to remain open despite warnings in 1987 that it should be closed.

Those warnings came from government regulators based in San Francisco, who testified earlier this fall that Wall ignored their requests for action on Lincoln.

Wall insisted in his testimony last month and in his announcement Monday that he felt no political pressure to keep Lincoln open, despite claims from some that the senators, now known as the Keating Five, may have influenced him.

Each of the five — Alan Cranston, D-Calif.; John Glenn, D-Ohio; Donald Riegle, D-Mich.; and DeConcini and McCain — received large contributions from Keating and had intervened with the San Francisco officials examining Lincoln.

But each senator has denied any wrongdoing, and Wall on Monday repeated his assertion that Lincoln was left open until this year because the San Francisco officials had not given him enough evidence to shut it down.

Wall also continued to praise their ability despite what he termed a "bureaucratic disagreement" between them and Washington.

Spokesmen for the San Francisco regulators and for Keating would not comment Monday on Wall's resignation.

But Gray said Wall's failure to follow the advice on closing Lincoln "was his greatest mistake."

M. DANNY WALL

BORN: Aug. 30, 1939

FAMILY: Married, two children

CAREER: 1963-64, Assistant director, Fargo (N.D.) Urban Renewal Agency. 1964-71, executive director, Fargo Urban Renewal Agency. 1971-75, executive director Salt Lake City Redevelopment Agency. 1975-79, director of legislation for Sen. Jake Garn, R-Utah. 1979-80, minority staff director, Senate Banking Committee. 1981-87, majority staff director, Senate Banking Committee. 1987 to Aug. 8, 1989, chairman, Federal Home Loan Bank Board. Became director of Office of Thrift Supervision on Aug. 9, when it replaced the bank board.

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(Mount Clipping in Space Below)

Varied tacks of 'Keating 5'

Styles differ in reactions to political crisis

By Anne Q. Hoy and Sam Stanton
Republic Washington Bureau

WASHINGTON — The approach of Sen. Dennis DeConcini, a lawyer, is judicial: Answer precisely the questions but volunteer little else.

The response of Sen. John McCain, a decorated Navy pilot, is to attack as if it were a combat exercise: With battle position under constant review, vigorously and loudly launch offensives on all fronts.

The strategies of the two Arizona senators to the Charles H Keating Jr. and Lincoln Savings and Loan Association scandal show stylistic differences between the two and their contrasting political aspirations.

But the approaches also reflect the seriousness of the scandal enveloping the senators and three other colleagues, Alan Cranston of California, Donald Riegle Jr. of Michigan and John Glenn of Ohio. The senators have come to be known as the Keating Five.

Mervin Field, a California pollster, said the Keating affair is unlike recent national scandals in that it does not just involve an impersonal federal bureaucracy and the "usual transgressions" of faceless public officials.

Villains and victims

Field said this scandal has identifiable "villains": an influence peddler (Keating) and those he tried to buy (the senators). There are real-life victims, too: U.S. taxpayers and about 23,000 mostly elderly investors whose American Continental Corp. bonds became worthless when the firm filed for Chapter 11 protection from creditors under the U.S. Bankruptcy Code.

"Once an elected official has to start explaining his acts in a defensive way, he's in trouble," Field said.

Norman Ornstein, a political analyst with the American Enterprise Institute, said all five senators are tainted. But he said it is too early to assess the long-term political damage.

Ornstein also said partisan politics could make matters worse for McCain, the only Republican in the group. He said Democrats are likely to work to counter McCain's efforts to distance himself.

"The political dynamics are such that Democrats are not going to allow this to move to the Keating Four," Ornstein said.

McCain, 52, a decorated Navy pilot who was a prisoner of war in North Vietnam, has been the only one of the five to take a high-visibility approach. Cranston, Riegle and Glenn only recently have even begun speaking publicly.

Opinion polls

McCain, in his first Senate term after two terms in the House, assembled former and current staffers in a meeting to review his efforts in Keating's behalf, and McCain said he plans to conduct public-opinion polls to assess the damage.

At the outset, he attempted to extricate himself from the affair by holding a full-blown news conference in Phoenix.

But McCain dumped this strategy within days after it became apparent that an investigation launched by the House Banking Committee would put the national spotlight on the issue and that the attention could not be contained.

McCain then embarked on an

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aggressive national-media campaign in an effort to portray himself as open and ethical. He has appeared on major news shows on every national television network.

He stresses how he told regulators during the second of two controversial April 1987 meetings that he wanted no special favors done for Keating, with whom he had been friends for about seven years.

GOP is watching

The national Republican Party, mindful that if McCain could distance himself from the affair it would become another Democratic ethics problem, has been watching the case and supports McCain's media strategy.

"Arizona is an important state for us, and so we always watch those who have served the party well," said Leslie Goodman, Republican National Committee spokeswoman. "We always watch the stars within the party."

McCain has been widely mentioned as a possible candidate on some future Republican presidential ticket.

His temper has flared during the ordeal. He has been verbally abusive and sarcastic in response to reporters' questions, except in public.

DeConcini, 51, a former prosecutor, also called together his past and current staff to comb through appointment books and telephone logs to bolster his claim that he often has gone to bat for constituents, even those who contributed generously to past campaigns.

He has been visible to his Arizona constituents, making numerous appearances each weekend, but he has avoided the national news media. He has answered precisely the questions posed about his role, but has offered to say little else.

DeConcini-recall bid

Even before the scandal, DeConcini's popularity was suffering as a result of questionable land deals and an uproar over his sponsorship of efforts to ban some assault weapons. The issue sparked a recall campaign, and it is not uncommon to see bumper stickers in Arizona that say, "Dump DeConcini."

But DeConcini, like Riegle, does not face re-election until 1994, and it is not even certain that he will opt for another race. He said last week that he broke his earlier pledge not to seek a third term because his agenda remained unfinished. But he said being "under siege" makes it difficult to fulfill that goal.

Until last week, Cranston had left his press secretary to fend off unrelenting press inquiries that peaked when a group of elderly bondholders singled out Cranston for blame for the loss of their investments. They said his role in the debacle betrayed their trust.

Cranston, along with DeConcini, has been criticized for continuing to help Keating, who heads American Continental, try to sell his thrift before the government seized it in April. The efforts were made despite earlier warnings that the Irvine, Calif.-based Lincoln was the target of a criminal probe by the Justice Department.

Field labeled the affair "excruciatingly damning" for the 75-year-old Cranston.

"It looks very, very black for him," he said.

Cranston, who has been a senator for 20 years, narrowly won re-election in 1986 but does not face re-election until 1992.

"Without Keating and the Lincoln Savings affair, it was going to be a rugged battle for Cranston because of his age and incumbency," Field said.

"Even though he has granted some interviews ... it is the kind of thing that is going to be very hard to extricate from since he faces a series of lawsuits, and investigations in California and Washington."

Riegle, 51, powerful Senate Banking Committee chairman, has employed a hybrid strategy of saying nothing to the national media except to shift the blame to DeConcini and McCain.

Riegle, first elected to Congress in 1966, has been so tight-lipped that he left out vital details in his official response to the Senate Ethics Committee, which is looking into the senators' conduct in relation to Keating.

Despite his efforts, Riegle's more-extensive role has emerged.

E. Spencer Abraham, chairman of the Michigan Republican State Committee, said that Riegle has been "studiously low-profiled" and predicted that his lack of candor will hurt him.

But Julie Weeks, vice president of political research at Detroit-based Market Opinion Research, a national GOP polling firm, said Riegle "hasn't been dinged with it very hard."

Time is on their side

Weeks said the political impact of the affair is lessened because none of the Keating Five faces re-election in 1990.

"If anyone were up in '90, they would be sweating bullets at this stage," Weeks said.

Glenn, 68, a 15-year senator who, in 1962 was the first American astronaut to orbit the Earth, has adopted the McCain "American Hero" approach: "My honor is vital, and I would never betray the trust voters have placed in me."

Jim Ruvolo, chairman of the Ohio Democratic Party, said Glenn waited to comment until he had gathered the facts. It was not until late November that he met with Ohio reporters to explain his role.

Ruvolo said the main goal of any politician caught up in a scandal such as the Keating affair is to get the issue behind him as quickly as possible in an effort to stem media coverage.

"The thing you have to avoid at all costs is Chinese water torture: drip, drip and drip," Ruvolo said.

'THE KEATING FIVE'



Sen. Dennis DeConcini, D-Ariz. / Next election: 1994

Conducted both April 1987 meetings with senators and regulators in his office. Asked regulators to grant "forbearance" to Lincoln. Accepted, and later returned, $48,000 in campaign money. Continued trying to help Keating until April 1989. Two campaign aides received millions in loans from Lincoln.



Sen. John McCain, R-Ariz. / Next election: 1992

Attended both April 1987 meetings. Received $112,000 in campaign money. Onetime friend of Keating. Took trips to Bahamas with Keating. Wife and father-in-law invested in Keating shopping center in Phoenix. That $359,000 investment could be threatened by government's $1.1 billion lawsuit against Keating.



Sen. Alan Cranston, D-Calif. / Next election: 1992

Attended first April 1987 meeting but only made brief appearance at second. Accepted $39,000 in direct contributions, plus $850,000 for affiliated voter-registration groups. Continued trying to help Keating until April.



Sen. Donald Riegle, D-Mich. / Next election: 1994

Met with officials from Keating's American Continental Corp. in February 1987, then met with nation's top thrift regulator, Edwin Gray, to suggest meeting with other senators. Attended only second April 1987 meeting. Toured American Continental properties in Arizona. Received $66,000 but returned it. Blames DeConcini and McCain for meetings.



Sen. John Glenn, D-Ohio / Next election: 1992

Attended both April 1987 meetings. Told regulators to charge Lincoln "or get off their backs." Accepted $34,000 in direct contributions, and $200,000 for political-action committees.

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(Mount Clipping in Space Below)

Valley tour lets McCain speak out

By CONNIE STEELE
Daily News-Sun staff

SUN CITY — U.S. Sen. John McCain, R-Ariz., is facing an ethics probe and the political fight of his life.

Questions about his past friendship with Charles H. Keating Jr., and whether Keating's campaign contributions prompted McCain to intercede on his behalf with federal thrift regulators have marred the senator's previously spotless career.

Saturday in a marathon tour of the Valley, McCain made five speeches and talked to members of the media.

"I'm pleased when I can get on TV and go direct to the people," he said, citing numerous appearances on network programs such as Night Line and Meet the Press.

Saturday night he spoke to about 160 members of the Republican Forum West, political issues group, at the Crestview Vacation Headquarters in Sun City West.

"Because I have so many constituents in this area, I thought it would be good to visit here," he said before the dinner meeting.

He had been invited to be the group's guest speaker last summer, but only recently accepted the invitation.

Among fellow Republicans, McCain's association with Keating was not brought up publicly except to tell the group, "One needs friends when one is beleaguered. I am deeply grateful for your friendship and support. We will emerge not only unscathed but better equipped for the job."

However, State Rep. Robert Williams, R-Sun City West, said privately, "It's very easy to get caught up in a spider's web with an unscrupulous man who you think is scrupulous.

"People are forgiving of a good person and I think he's a good person," Williams said of McCain.

"He tried to help a constituent and got burned. He's going to work his way out of it."

Another member of the group, Robert Holdway of Sun City West, said, "He faces a difficult task, but it's one he can overcome. If a senator is to respond to his constituency and conduct an investigation to see if his claims are valid, he shouldn't be pillaried."

McCain's aide, Wes Gullett, said the evening was an opportunity to discuss issues that wouldn't be discussed otherwise.

"The only thing the press is picking up on is the Keating thing and there's a lot more going on."

Catastrophic health insurance, economic recovery of Arizona and environmental issues were among those McCain touched on during a visit to the Daily News-Sun.

But despite making himself available to talk about any subject of interest, McCain made it clear he was in the area to tackle head on any questions voters might have regarding his relationship with Keating.

At issue is whether campaign contributions and gifts of personal travel prompted McCain to intercede with federal regulators on behalf of Keating and the failure of Lincoln Savings & Loan, a subsidiary of Phoenix-based American Continental Corp., of which Keating is chairman.

At the first of the two meet-

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Daily News-Sun photo by Connie Steele

WITH THE VOTERS — Sen. John McCain, R-Ariz., visited with voters Saturday as he talked with members of the Republican Forum West, at a dinner meeting in Sun City West.

ings, April 2, 1987, at Keating's request, McCain joined Sens. Dennis DeConcini, D-Ariz., Alan Cranston, D-Calif., and John Glenn, D-Ohio, to meet with Edwin Gray, then chairman of the Federal Home Loan Bank Board, to discuss regulation of Keating's savings and loan.

On April 9 the same four senators and Donald Riegle, D-Mich., met again in DeConcini's office with officials from the bank board's San Francisco office.

McCain contends that he did nothing for Keating that he wouldn't do for any constituent.

"The obligation of any elected official when a constituent comes to him and says he's not being treated fairly is to get the facts," said McCain Saturday. "I have done this hundred of times in seven years as an elected official."

Determining the facts of Keating's claim of unfair treatment by federal thrift regulators was the sole purpose of the meeting, McCain said.

In addition to Keating being a constituent with a problem, McCain said he attended the meetings because Keating had provided "supporting materials" from Arthur Young & Co., a national independent accounting firm, and a letter from Alan Greenspan, now chairman of the Federal Reserve Board, endorsing Lincoln Savings' investment policies and its management.

See Senator, A4

Senator spends time in Valley

—From A1

Even so, "I explicitly told Mr. Gray that I was there only for the purpose of hearing the reasons for the Bank Board's actions, and that I did not want to do anything, or ask anything, which might be construed as improper," McCain said in a response to the Senate Ethics Committee dated Nov. 21 of this year.

The response was developed in answer to allegations of the citizen advocacy group, Common Cause, which earlier had filed a letter with the Senate Select Committee on Ethics.

His response contains a chronological review of events and conversations leading up to the 1987 meetings among the five senators, Keating and Gray, the meeting's outcome and his subsequent actions.

Also outlined is how McCain failed to immediately reimburse Keating or American Continental for personal travel to his friend's home in the Bahamas. Included are copies of canceled checks that later reimbursed American Continental Corp. for the transportation.

A 1989 check for $3,754 paid American Continental for four flights during the years 1984, 1985 and 1986 on Keating's corporate aircraft.

"Along with my wife, Cindy, and our daughter Meghan, I vacationed with the Keatings there in 1984, 1985 and 1986. On each of these three family vacations, Mr. Keating made available American Continental Corp. aircraft for at least some portion of the air travel ...

"I believed I had paid for this travel in a timely fashion," McCain said in his response.

Saturday, McCain called the payment oversight "a serious error; one I cannot excuse."

Air transportation provided to McCain was suggested in the Common Cause letter to the Senate Ethics Committee as one of the ways in which attendance of McCain and the other senators at the two meetings with bank board officials had been "purchased" — allegations McCain denies.

McCain also contends that once he became aware of the serious legal and financial problems facing Keating, he did not again attempt any contact with thrift regulators.

Saturday, he explained the media spotlight by calling it a "sexy" issue that contains all of the elements to draw interest.

"It's five senators; it's Charlie Keating; it's savings and loans."

McCain said he is fighting back the only way he knows how, by taking his case to the people.

"I can't sit tight," he said. "It's been very traumatic for me," he said. "My strategy has been to make myself as available as I can. The other four senators haven't been as visible."

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How Keating corps aided politicians

Spent $2 million on 51 candidates in '83-88

By Sam Stanton and Anne Q. Hoy
Republic Washington Bureau

WASHINGTON — It was May 1986, and Rep. John McCain, R-Ariz., was running hard for the U.S. Senate when a call came in to his campaign headquarters.

An official of American Continental Corp. was on the line, explaining that there were some checks waiting to be picked up.

The campaign treasurer drove over to American Continental's headquarters in Phoenix and came away with $51,000 in personal checks from employees and associates of American Continental Chairman Charles H Keating Jr.

Three months later, on Aug. 28, 1986, in the harried Mesa office where Jay Rhodes was running his first campaign for Congress, nine

— See **KEATING**, *page A12*



Charles H Keating Jr. / Pattern of contributions questioned.

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Keating, associates pumped millions into campaigns

— KEATING, *from page A1*

personal checks arrived in the mail. Each was for $1,000. Each was from an American Continental officer or his or her spouse.

That is the way it went for years as Keating's family and American Continental officials and their spouses pumped nearly $2 million into the campaign war chests of at least 51 House, Senate and presidential candidates from 1983 through last year.

The aspirants were, or stood a good chance of being, in a position to help Keating and his far-flung business empire, particularly Lincoln Savings and Loan Association.

Although much attention has focused on the so-called Keating Five senators, records show that the Phoenix businessman lavished money on dozens of other politicians and that his associates and their families did the same, often making contributions on the same day as Keating.

An *Arizona Republic* survey of tens of thousands of pages of Federal Election Commission documents shows that since 1984 — the year Keating purchased Lincoln Savings — Keating or his associates and their families have doled out money to at least 24 senators, 13 House members, eight presidential candidates and unsuccessful candidates for the House and Senate.

They also gave to both major parties, numerous political-action committees and dozens of local and state candidates across the nation.

Keating spokesman Brad Boland denies any impropriety in the contributions, saying no employees were asked to contribute to politicians known to be helpful to Keating.

"I know for a fact that never happened," Boland said. "It was absolutely, positively voluntary.

"The politicians are always the ones that are asking for contributions. It's not like we went out and asked if we could contribute to their campaigns."

Boland himself, along with his wife, Elaine, gave $14,500 to candidates from Michigan, Colorado, Georgia, California, Nevada and Arizona.

Donations probed

But just how and why those contributions were made is now under federal scrutiny, partly because of the collapse of Keating's Lincoln Savings and partly because of suspicions that Keating tried to buy influence everywhere from Capitol Hill to the White House.

Even Keating has said he expected his contributions to politicians to influence lawmakers.

"I want to say in the most forceful way I can: I certainly hope so," Keating said in April.

The federal government has alleged in a $1.1 billion civil fraud and racketeering suit that Keating looted federally insured thrift deposits and funneled them into his favorite political candidates and causes.

Having accepted money from Keating sources now is considered a stain on a politician's reputation, and the list reads like a Who's Who of American politics.

Candidates ranging from George Bush to Gary Hart benefited from the largess of the Keating empire. And the unusual patterns of giving that emerge from federal election documents are under scrutiny.

Opposites attracted cash

Reviews of such documents show donors' often giving to candidates who opposed each other, to ideological opposites and to candidates in races far from the donor's home state, practices that the FEC termed puzzling.

"Most individual contributions come from people in their own state," said Scott Moxley, an FEC spokesman.

He said individual contributors normally give to only one candidate and do not usually give to opponents in the same race, as the Keating associates did.

In May 1986, for example, Lincoln Savings director Robert J. Kielty gave $1,000 to the Ed Zschau for U.S. Senate Committee, records show. Zschau, a California Republican, was trying to defeat incumbent Democrat Alan Cranston. In the same election, Kielty and his wife also gave a total of $4,000 to Cranston, the Senate majority whip.

Such apparent contradictions abound among Keating associates.

Scores of Phoenix-based employees gave $2,000 contributions to Sen. Donald Riegle, D-Mich., who as Banking Committee chairman was important to Keating but who had little else to do with Arizona.

The $66,000 from Keating and his associates, which Riegle since has returned, poured into his campaign weeks after Riegle took a helicopter tour of Keating's American Continental headquarters and gave a speech to company employees. Riegle claimed Keating as a constituent because the Phoenix financier was renovating the Pontchartrain Hotel in Detroit.

In position to help

Most, if not all, of the politicians receiving the money were in posts critical to the success of Keating's firms, including the now-defunct Lincoln Savings, based in Irvine, Calif..

Hefty contributions were made to Banking Committee members in both houses of Congress as well as to politicians in states in which Keating operated his businesses.

Recipients included then-House Banking Committee Chairman Fernand St Germain, D-R.I.; ranking committee Democrat Frank Annunzio, D-Ill.; and committee members Doug Bernard, D-Ga.; Dave Dreier, R-Calif.; Stephen Neal, D-N.C.; and Jim Kolbe, R-Ariz., when Kolbe was a member of the panel.

Keating and his friends also gave generously to key Senate Banking Committee members, including Riegle, the chairman; Jake Garn, the ranking minority leader; Cranston; Tim Wirth, D-Colo.; and Phil

Gramm, R-Texas.

Contributions also went to the top leaders of the Senate, including Majority Leader George Mitchell of Maine and Minority Leader Bob Dole, a Kansas Republican, according to an unofficial list of Keating contributors. The list, obtained by *The Republic,* is being used by the FEC in its probe.

Many politicians have told of attempts by Keating or his associates to gain favors from them after he had given them money, including requests that Keating allies be appointed to federal posts.

The politicians, including Arizona's

the FBI, the House Banking Committee and numerous other agencies.

'I have the right'

Numerous contributors declined to comment on whether they were told to make contributions as a condition of employment, which would be a violation of federal election laws.

"I did make political contributions, but I am not really willing to discuss this," said one donor, Michele C. Mencuccini.

"I have the right to make political contributions to whomever I choose."

Mencuccini, who worked for American Continental from 1984 to

senators — McCain, a Republican, and Dennis DeConcini, a Democrat — have said those efforts were unsuccessful.

But those two senators, and Riegle, Cranston and John Glenn, D-Ohio, now face a Senate Ethics Committee probe of their actions in Keating's behalf. At issue is whether the senators improperly coerced federal regulators into backing off in their probe of Lincoln two years before the thrift collapsed.

In addition, Keating's methods and the contributions have become the focus of probes by the FEC, the Securities and Exchange Commission,

1987, gave $1,000 each to McCain, Sen. Pete Wilson, R-Calif., Sen. Alan Cranston, D-Calif., and Rep. Doug Barnard, D-Ga., and $750 to Rep. Jon Kyl, R-Ariz.

Another Keating associate, former Lincoln Savings Senior Vice President Sheldon Weiner, was equally generous but would not discuss the matter.

Weiner would not say why he gave to rival Democratic presidential-nomination candidates Cranston and Walter Mondale or to then-Rep. McCain in 1984. Nor would he explain his 1986 contributions to several U.S. senators, including DeConcini, and Arizona's Rhodes.

FD-350 (Rev. 5-8-81)

(Mount Clipping in Space Below)

Keating alleges U.S. is looting Lincoln

Regulators blamed for $2 billion loss

By Jerry Kammer
The Arizona Republic

Under attack by federal regulators who accuse him of looting Lincoln Savings and Loan, Charles H Keating Jr. now contends that the government is doing the same thing.

Keating is blaming regulators for an estimated $2 billion in losses at Lincoln, claiming that the regulators drove the thrift into the ground with a calculated program of harassment and vendetta.

The allegations are contained in a 138-page report prepared for the federal Bankruptcy Court in Phoenix by attorneys for Keating's American Continental Corp., which is undergoing reorganization while being protected from creditors by the Bankruptcy Court.

The report claims that regulators' incompetence and pettiness destroyed Lincoln, not insider fraud as the government alleges in its $1.1 billion civil-racketeering suit against Keating and his business associates.

The report also attacks the media and the House Banking Committee, claiming that they distorted the significance of Keating donations to five U.S. senators who intervened with federal regulators on his behalf.

Keating is chairman of Phoenix-based American Continental, which operated Lincoln until the thrift was seized in April by regulators, who said it was unsafe and unsound. A projected $2 billion taxpayer bailout would make it the costliest failure in the savings and loan debacle.

Keating claims that the seizure of Lincoln was illegal and is suing to regain control of the thrift.

The American Continental report accuses regulators of targeting Keating for harassment because of his resistance to changes in federa

— See KEATING, page A5

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Keating says U.S. is looting Lincoln

— KEATING, *from page A1*

regulations governing thrifts.

After seizing Lincoln, regulators followed "a plan to reduce the value of Lincoln's assets" to justify the seizure while increasing the cost of the federal bailout, the report charges.

"In late 1988, philosophical and political goals and/or vengeance overcame whatever business sense the regulators possessed," the report charges. "They barred any skilled management of Lincoln's assets."

The report claims that regulators, because of their "deficient business analysis," are planning to sell the thrift's properties at prices below their true value.

Karl Hoyle, spokesman for the U.S. Treasury Department's Office of Thrift Supervision, defended the seizure of Lincoln as "necessary to protect the federal insurance fund" that safeguards thrift deposits.

"The purpose of the seizure was to remove those who were dissipating Lincoln's assets," Hoyle said. "That is why we took it from Mr. Keating."

Hoyle said that regulators have been criticized harshly for not seizing Lincoln sooner.

The American Continental report contends the furor over the intervention of the five senators with federal thrift regulators is exaggerated.

The senators, John McCain and Dennis DeConcini of Arizona, Alan Cranston of California, John Glenn of Ohio, and Donald Riegle of Michigan, received large campaign contributions from Keating. Their relationship with Keating is being investigated by the Senate Ethics Committee. McCain is a Republican; the others are Democrats.

The report claims that the media and the House Banking Committee "seem now to be eager" to find that the contributions "were somehow sinister, calculated to compel senators to attempt to influence improperly the (regulators)."

But it adds, "there is, of course, nothing improper about a constituent raising issues of possible regulatory impropriety with elected representatives, and the inference that lawful contributions compel men of integrity to act otherwise is simply unjustified."

The report also contends that allegations in the government's racketeering lawsuit "merely rehash further the allegations of the various (regulators') examinations" of the Irvine-Calif.-based thrift that invested heavily in undeveloped real estate, junk bonds and stocks.

The report also claims that midsummer news stories about the impending lawsuit, which was filed in September, demonstrate that the suit "has served the purposes of the federal regulators less as a lawsuit than as a vehicle and excuse for publicly pillorying defendants, humiliating them and their families, and permitting the media to act as billboards for the federal regulators' campaign of harassment and innuendo."

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5 senators are facing ethics probe

Links to Keating will be reviewed

By Sean Griffin
The Phoenix Gazette

WASHINGTON — The Senate ethics committee has authorized a formal investigation to determine whether five senators linked to Charles H Keating Jr. violated Senate ethics rules.

The committee's special counsel has been granted authority to subpoena witnesses and documents related to Keating's involvement with Sens. John McCain, R-Ariz., and Democrats Dennis DeConcini of Arizona, Alan Cranston of California, John Glenn of Ohio and Don Riegle of Michigan.

In a release issued today, committee chairman Howell Heflin, D-Ala. and ranking minority member Warren Rudman, R-N.H., emphasized that the committee's decision to proceed to what is known as a preliminary inquiry "is being undertaken for procedural reasons only."

The release stated that the committee "has taken no position as to the merits of the allegations or the weights of the evidence" compiled to date.

There are three formal stages and one informal stage in an ethics committee investigation. In the informal stage, the committee often selects a special counsel — in this case Washington attorney Robert Bennett — to help decide whether to proceed to the first formal stage, the preliminary inquiry.

Today's announcement ends the informal stage of the ethics committee

See ■ Senators, A-6

■ Senators

From A-1

probe and provides its counsel with some powerful investigatory tools to see whether the facts merit moving on to an initial review, the second formal stage.

The final stage is a committee investigation and can include courtroom-type presentations to the committee, typically behind closed doors.

"The bottom line is there is no increase in the level of suspicion implied by this step," said Paul Jacobson, a spokesman for Rudman. "It simply gives him the authority to go in and look around."

To date, the committee has solicited statements from each of the senators, asking them about the contributions they received from the American Continental Corp. executive and his associates, their attendance at two meetings with regulators overseeing Lincoln Savings and Loan Association, an American Continental subsidiary, and subsequent contact they had with regulators on behalf of Keating, American Continental or Lincoln.

All the senators have denied wrongdoing.

Scott Celley, a spokesman for McCain, said the preliminary inquiry phase, which under committee rules generally lasts no more than 60 days, was good news for McCain "because we are confident the committee will find that he did nothing wrong and did not abuse his office in any way."

DeConcini issued a brief statement, saying, "I welcome a thorough evaluation of the facts, and I feel confident that I will be exonerated."

Murray Flander, press secretary to Cranston, told The Associated Press the transition to a formal probe "will obviate any charges of whitewash afterward."

Glenn and Riegle could not be reached for comment.

The five senators received a total of $1.4 million from Keating and his associates and met with regulators in April 1987 after Keating complained of being harassed by thrift examiners.

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DeConcini will tell Keating tale on TV

By Keven Willey
The Arizona Republic

Sen. Dennis DeConcini plans to buy major blocks of television time beginning next month to combat what he sees as "public misperceptions" about his role in meetings with federal regulators regarding Charles H Keating Jr. and Lincoln Savings and Loan Association.

Mike Crusa, DeConcini's state director, confirmed Tuesday that the Arizona senator plans to purchase the air time, probably in five-minute segments, to get his side of the story "directly to the folks."

Crusa declined to say how much money will be spent on the spots, saying those decisions had not been made yet.

DeConcini is the first of the so-called Keating Five to take such action.

He and four other senators have been faulted for meeting privately in 1987 with federal regulators in Keating's behalf after getting more than $1.2 million in campaign funds from Keating and his associates.

Other senators attending the meetings were Republican John McCain of Arizona and Democrats John Glenn of Ohio, Donald Riegle of Michigan and Alan Cranston of California.

In the meetings, the senators complained to the regulators about the length of time spent on an examination of Lincoln Savings, which was owned by Keating's American Continental Corp. They complained that the examination bordered on harassment and urged the regulators to charge Lincoln with an offense or close their books.

Lincoln was seized in April by federal regulators, who now say that protecting the failing institution's depositors will cost taxpayers more than $1.5 billion.

Crusa said that the decision to buy television time was based on the results of a series of focus groups his office conducted in Maricopa County earlier this month. He said he is surprised and disappointed at what he calls the "depth of misunderstanding" of the public.

Crusa said many people are unaware that the senator returned money contributed by Keating and his associates.



Dennis DeConcini / His state director says people are unaware that the senator returned money contributed by Charles H Keating.

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Ed Buck may join DeConcini recall bid

McCain included on activist's list

By Don Harris and Jerry Kammer
The Arizona Republic

The man who led a drive to recall then-Gov. Evan Mecham may join forces with the leader of a petition drive to recall Sen. Dennis DeConcini.

Former anti-Mecham activist Ed Buck and Jon Seidl of Phoenix, who manufactures magazines for automatic weapons and is a critic of the Arizona Democrat's efforts to limit such sales, have discussed a possible alliance and said Tuesday that they will meet today in hopes of reaching an agreement.

"There is a definite possibility of that," Seidl said. "But until our next meeting tomorrow, I can't say anything other than that.

"Nothing is finalized; nothing is locked in, nothing is committed."

Buck said he hopes to work with Seidl to target not only DeConcini but Sen John McCain, R-Ariz., for their efforts to intercede with federal regulators in behalf of Charles H Keating Jr., whose Lincoln Savings and Loan later collapsed.

"What were good men going into office are now cheap politicians, bought politicians," said Buck, a Republican. "It's a wonderful defense for senators to say, 'I was only serving a constituent.' My response is: 'But at the expense of all the rest of your constituents.'"

Buck's drive to recall Mecham collected nearly 40 percent more signatures than needed and was praised by election officials for its organization and accuracy. No election was held, however, because Mecham was impeached and ousted by the Legislature.

McCain spokesman Scott Celley said he gives "very little, if any, significance" to the proposed joint recall effort. Celley said any effort to recall McCain would fail for lack of public support.

Bob Maynes, a DeConcini spokesman, said he has no idea what Seidl is up to, and would not speculate on the significance of Buck possibly joining the recall.

Seidl, who had promised a status report on the number of signatures gathered by early November, repeatedly has delayed making any announcements.

"It's hush-hush right now," Seidl said. "You'll hear big things after the weekend. There will be a major shake-up in the organization and in the recall."

He declined to elaborate, except to say that DeConcini will not be happy with the development.

Seidl has until Jan. 6 to collect valid signatures of 291,135 registered voters.

About a month ago, Seidl said he was calling off the drive in Tucson, DeConcini's home base, because even Republicans were fearful of reprisals.

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Records link Keating to BF Goodrich bid

AKRON, Ohio (AP) -- Phoenix financier Charles Keating Jr. teamed with corporate raider Sir James Goldsmith last year in an attempt to take over BF Goodrich, according to federal records.

Bank examiner records show that a subsidiary of a California savings and loan controlled by Keating bought shares of the Akron-based company and transferred them to an investment partnership Goldsmith controlled, according to a story Saturday in the Akron Beacon Journal.

The documents prepared by regulators say the Goldsmith partnership "was formed primarily as a vehicle to perform a hostile takeover of BF Goodrich."

The documents are records of federal examinations of Keating's Lincoln Savings and Loan Association of Irvine, Calif. Lincoln was closed by federal regulators last April, one day after its holding company, American Continental Corp. of Phoenix, filed for bankruptcy protection.

Regulators estimate that guaranteeing the federally insured deposits they claim the S&L lost through risky investments, real estate and tax transactions could cost taxpayers more than $2 billion.

Goldsmith never said he was trying to take over Goodrich, but speculation that he was attempting to do so coincided with a rise in Goodrich stock last year. Goodrich issued a statement in April 1988 saying Goldsmith had told Goodrich Chairman John D. Ong that there was no truth to reports he intended to acquire a major stake in the company.

Keating's activities are being investigated by the House Banking Committee and he is

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the subject of a federal grand jury investigation in Los Angeles. The U.S. Department of Justice is also investigating whether Keating, formerly of Cincinnati, broke any laws by generating $1.4 million in campaign contributions to U.S. Sens. John Glenn, D-Ohio; Dennis DeConcini, D-Ariz.; Donald Riegle, D-Mich.; Alan Cranston, D-Calif.; and Sen. John McCain, R-Ariz.

Goldsmith in 1986 attempted a hostile takeover of Goodyear, also based in Akron. The buyout filed, but Goldsmith sold his shares in the company for a profit of about $94 million.

His arrangement with the Keating-controlled subsidiary, AMCOR Investments, allowed Goldsmith to mask part of his interest in Goodrich, the documents the newspaper obtained under the Freedom of Information Act showed.

In return for transferring the stock to the partnership, AMCOR Investments was given an "equity interest" in Goldsmith's partnership, according to the documents.

They indicate the equity in the partnership was exchanged for 468,395 shares of Goodrich stock with a book value of $51.86 a share, a total of nearly $24.3 million. The records, dated July 11, 1988, say the Goodrich shares "have reportedly been sold" to fund another Goldsmith transaction.

Keating lawyer James Ham, in a telephone interview Saturday from Los Angeles, called the examination reports quoted by the newspaper misleading.

"If it's in the examination report, there is a likely chance the documents are misleading ... They've demostrated a misunderstanding of a number of facts," Ham said.

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(Mount Clipping in Space Below)

Lincoln's lending unsound, its lawyers warned firm in '86

By Jerry Kammer
The Arizona Republic

Attorneys for Lincoln Savings and Loan had serious concerns as early as 1986 about the way the thrift was lending its money and "found that it ... engaged in unsafe and unsound practices," according to a memorandum filed late Wednesday in U.S. Bankruptcy Court in Phoenix.

Loan analyses prepared by Lincoln's attorneys "document a consistent pattern of unsafe and unsound commercial lending" at the thrift, according to the memo, filed by attorneys representing federal regulators.

The memo is likely to become a key exhibit in a separate hearing that begins today in U.S. District Court in Washington, D.C. In the hearing, Lincoln's parent company, American Continental Corp., is challenging the government's seizure of the thrift.

American Continental is arguing before U.S. District Judge Stanley Sporkin that the federal takeover in April was "arbitrary, capricious and, therefore, unlawful."

Thrift regulators are expected to point to the warnings from Lincoln's New York law firm, Kaye,

— See LINCOLN, page A10

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Lincoln lending unsound, firm was told in '86

— LINCOLN, *from page A1*

Scholer, Fierman, Hays & Handler, to support the government's contention that the thrift was being operated improperly.

The regulators' memorandum uses the law firm's analyses of Lincoln loans to support their argument to U.S. District Judge Richard Bilby that American Continental is dissipating its cash in court battles designed to protect executives of American Continental rather than its creditors.

American Continental filed April 13 for protection from creditors under Chapter 11 of the federal bankruptcy code. Regulators seized Lincoln the next day.

The federal Resolution Trust Corp., which operates Lincoln, is American Continental's principal creditor. Bankruptcy Court proceedings are intended to protect creditors.

The memo argues that American Continental's challenge of the federal takeover is "frivolous" because the company's "litigation posture is contradicted" by its attorneys.

The memo contends that documents prepared by the New York firm show "there can be no doubt" that the firm warned Lincoln's management about its loan underwriting.

Federal regulations require thrifts to conduct careful underwriting, or ensuring that a borrower is a good credit risk.

Attorneys for the Resolution Trust Corp. refused to comment Wednesday. But their memorandum said Lincoln's New York law firm doubted the safety and soundness of:

- A $30 million unsecured loan to Tucson-based R.A. Homes.
- The refinancing of about $75 million in loans to Mesa developer Conley Wolfswinkel.
- A $50 million loan made to an unidentified borrower who, according to the firm, had a "ridiculous" financial statement showing $110 in assets.

In a $1.1 billion civil racketeering suit filed in September against Keating and several associates, regulators called the R.A. Homes and Wolfswinkel loans "sham transactions" that were part of a pattern of fraud at Lincoln.

The Arizona Republic on Sept. 14 described $50 million in loans from Lincoln to R.A. Homes, whose vice president is Ron Ober, who ran the 1988 re-election campaign of Sen. Dennis DeConcini, D-Ariz.

DeConcini has come under fire for intervening with federal regulators in behalf of Lincoln in April 1987, seven weeks before R.A. Homes received the $30 million loan from Lincoln.

Another Keating taking a beating

By Chris Knap
Orange County Register

ENCINO, Calif. — When John J. Keating and his partners formed a bank here seven years ago, they picked a name that sounded honest and substantial: Lincoln.

That was before Irvine, Calif.-based Lincoln Savings and Loan Association was purchased by Phoenix entrepreneur Charles H. Keating Jr. and was forced into federal receivership.

"Obviously, it's not a very good name anymore," John J. Keating said this week.

His bank is considering changing its name.

John Keating is no relation to Charles Keating, nor is Encino-based Lincoln National Bank affiliated with Lincoln Savings and Loan.

But try explaining that to consumers shopping for a bank.

See ANOTHER, page A10

Another Keating, another Lincoln

ANOTHER, from page A1

"People don't read," John Keating said. "They glance at the headlines, and they don't know, and they say, 'It must be the same.'

"We've had a nightmare with this damn thing."

John Keating had to run a meeting of his board of directors on the day a local newspaper carried the headline, "Keating and cronies to be investigated by the FBI."

Another time, his daughter came home from school to inform him that "so-and-so's grandfather is suing you," he said.

"I told her, 'Honey, no one is suing me.' "

The lawsuit is against Charles Keating and Lincoln Savings and Loan, filed on behalf of the more than 23,000 people who purchased now-worthless junk bonds from the failed thrift.

"For a while, I figured it's better to do nothing," John Keating said. "I thought they would close it (Lincoln Savings), and that would be that. I knew I had a big problem when I read that five (U.S.) senators were involved. Then I knew people would be making political hay out of it all next year.

"Now we are seriously considering changing the name of the bank."

John Keating believes that Lincoln National Bank lost a deal Monday because the borrowers thought the institution was bankrupt and switched to Bank of America.

"We don't know how many people are frightened off that we never do get to see," Keating said.

He said that the firm earned $4.4 million in the first nine months of the year but that its stock price has declined several points.

"I wouldn't be surprised at that," said Jerry Findley of Brea, Calif., author of *The Findley Reports*, a trade publication that rates bank stock.

Findley described Lincoln National as "an excellent institution" but said the Lincoln Savings collapse has been giving John Keating "fits."

John said he went to Detroit last week only to run into headlines about a third Keating, Detroit Newspaper Agency executive William Keating, brother of Charles and co-defendant with him in a civil suit brought by federal regulators.

"It's following me from town to town," John Keating lamented.

The Lincoln National Bank board of directors is trying to decide what the institution's new name should be.

John Keating joked that he plans to change his name, too.

He's chosen Fielding Mellish, the hapless dictator in the Woody Allen film *Bananas*.

"I'll just use something bizarre because this whole thing is bizarre," he said. "If you can't laugh at it, you can't do anything."

FD-350 (Rev. 5-8-81)

(Mount Clipping in Space Below)

Riches to ruin: The meteoric life of Charles Keating

'He took charge of everything'

As Charles H Keating Jr.'s financial empire collapses, thousands of investors have lost their life savings, many have lost their jobs, the Arizona economy has suffered, and dozens of politicians have become entangled in "Charlie's Web." Who is Charles Keating?

Story by Carol Sowers, Andy Hall, Jerry Kammer and Lisa Morrell with research assistance from John Doherty.

The window shattered as a squarish object was hurled from the second-floor office at the posh Phoenix headquarters of Charles H Keating Jr.'s American Continental Corp.

It was May 20, 1988. Decorum — and a computer — had just gone out the window.

A victory celebration had begun.

There was Keating, a trim, 6-foot-5 former champion swimmer, striking a *Superman* pose, unbuttoning his shirt in front of his employees to expose a T-shirt with a hand-drawn skull and crossbones over the letters "FHLBB" — Federal Home Loan Bank Board.

A secretary climbed atop a desk to photograph the revelers. Robert Kielty, an American Continental executive, joined her on the desk — close enough for Keating to lash their legs together with a roll of transparent tape.

Employees tossed beer bottles over expensive, carved wood desks and knocked over potted plants. Kielty grabbed a bottle of champagne and poured it down the front of another secretary's blouse.

"Get this champagne colder!" Keating yelled.

Some workers were amazed, watching the antics of their normally button-down boss, a public moralist who first gained national prominence as an anti-pornography crusader.

But Keating was celebrating. He

— *See* **A CLOSER LOOK**, *page A14*

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A closer look at the faces of Keating

— A CLOSER LOOK, *from page A1*

had just won a two-year battle with federal thrift regulators who had contemplated seizing Lincoln Savings and Loan, the centerpiece of his $6 billion financial empire.

He had only won time, though.

On April 14, 1989, less than a year after the victory celebration, the regulators seized Lincoln, contending that the thrift was financially "unsafe and unsound."

Lincoln's collapse is projected to cost taxpayers up to $2.5 billion, which would make it the costliest of the nation's nearly 300 thrift failures.

As the "why" questions are being asked, at least three portraits of Keating have emerged:

- An aggressive, visionary entrepreneur and tough competitor who would have succeeded if not for incompetent and vindictive federal regulators.
- An insatiable gambler who, because of S&L deregulation, was able to play recklessly with other people's money and did so extravagantly.
- A con artist who deliberately set out to make himself wealthy by looting his savings and loan and defrauding investors.

Criminal probe under way

Rep. Jim Leach, R-Iowa, during a House Banking Committee hearing, called Keating "a financiopath of obscene proportions, the Reverend Jim Bakker of American commerce. ..."

Keating has not been charged with any crimes, but federal criminal investigations are under way.

He and 10 associates, including five relatives, are named in a $1.1 billion racketeering lawsuit, the largest government bank-fraud civil suit in U.S. history.

"You know we're just ruined, our reputation, our image, our economics," a shaken Keating told *The Arizona Republic* in July in one of his last interviews with the press. "We're ruined people. We've been destroyed."

Charles Humphrey Keating Jr. was born on Dec. 4, 1923, the son of a Cincinnati dairy executive.

When Charlie was young, his father was stricken with Parkinson's disease, a degenerative disease.

Charlie watched as his mother, Adelle, turned his father in bed so the bedsores would heal.

His father's illness made Keating "appreciate life a lot more than anybody I've ever met," observed his only son, Charles Keating III.

"My dad loves to have a good time," Charles said. "He'll get totally crazy, and people will think he's being obnoxious, but he's just having fun."

There were unmistakable clues as Charles Keating Jr. grew up that he would be hard to ignore.

"I think he was always a leader, very aggressive," said Ted Thoma of Cincinnati, who has known Keating for 50 years and attended St. Xavier High School and the University of Cincinnati with Keating, where he became an All-American swimmer in 1946.

Keating organized his friends "into teams of every kind. He just took charge of everything," Thoma said.

"He was a one-man gang. We were followers."

Keating joined the Navy at 17 and learned to fly. He never saw combat but survived a crash during training near the end of World War II.

He later recounted that, as he was about to land his plane on a southern Florida runway, he was thinking about a date with a pretty young woman and forgot to lower his landing gear. He jumped out unhurt as the plane bounced down the airstrip and burst into flames.

When he returned to Cincinnati after the war, Keating persuaded University of Cincinnati officials to allow him into law school, even though he had finished only six months of undergraduate work.

"I was somewhat of an athlete, and the schools were all empty, and actually I had a lot of courses in the Navy that were highly acceptable," Keating told *The Republic*. "They just let me in."

In 1949, he married athletic, outgoing Mary Elaine Fette. They had six children, five girls and a boy.

In law school, Keating met John Meuthing, and in 1953 they formed a law firm. That move propelled Keating into the orbit of financier Carl

Lindner, who hired the firm to represent his American Financial Corp., now a multibillion-dollar holding company. In 1972, Keating became an American Financial executive vice president.

One of American Financial's first big acquisitions was Provident Bank in a hostile takeover that Keating finessed by spending months going door-to-door persuading stockholders to sell their stock.

Helped brother win post

He also jumped into politics in Cincinnati, helping his younger brother, Bill, win a City Council post and then two terms in Congress from 1970 through 1974.

Keating built a reputation in Cincinnati as a wily financier who stoked a blazing hatred against pornography. At the urging of a priest during a Catholic retreat, Keating gathered friends together in 1956 and established Citizens for Decent Literature.

He broke new ground in the prosecution of pornographers, participating in raids and for the first time using expert witnesses in trials to testify about the harmful effects of pornography, which he said was "engulfing this nation in a tidal wave of filth and turning her along the path of moral corruption and decay."

In 1973, celebrating an anti-pornography ruling by the U.S. Supreme Court, Keating thundered, "The decent people of America, backed by the United States Supreme Court, are going to wage a holy, yes, a holy war, against the merchants of obscenity. From this day forward I will not rest, and no one connected with CDL (Citizens for Decent Literature) will rest, until every pornographer in America is out of business, in jail, or both."

Keating's son said his father is convinced that, in the mid-70s, the publisher of a pornographic magazine urged that one of Keating's relatives be sexually assaulted. The assault occurred, and the resulting trauma, his son said, convinced Keating that his public activism bore a private price.

Citizens for Decent Literature changed its name in 1973 to Citizens for Decency Through Law. Keating took the organization with him in 1976 when he was moved to Phoenix to revive American Financial's ailing home-building subsidiary, Continental Homes.

Keating said he looked upon Arizona as a place to build "sort of a new life."

He bought Continental Homes from American Financial in 1978 and formed American Continental Corp., which prospered under his direction.

But, an old mistake came back to haunt him. In 1979, at the end of a lengthy investigation, the U.S. Securities and Exchange Commission accused Keating and Lindner of fraudulently diverting American Financial assets through $14 million in improper loans to associates.

The two signed a consent decree in which they admitted no guilt and Lindner agreed to pay his own corporation $1.4 million. Keating would regret signing the decree. He claimed that in 1981, President Reagan offered to appoint him ambassador to the Bahamas, but that controversy about the consent decree caused the offer to be withdrawn.

Continental Homes became one of the leading home builders in the state. But Keating's heart wasn't in it.

His associates said he longed for the challenge, exhilaration and risk of the stock market, land development, junk bonds and leveraged buy-outs. The 1982 deregulation of the savings and loan industry, which allowed thrifts to leave their traditional home-mortgage market and enter into the bigger world of high-stakes finance, gave him his chance.

Lincoln purchased in 1984

Keating made his move in 1984. With $51 million raised from a junk-bond issue by Michael Milken of Drexel Burnham Lambert, he bought Irvine, Calif.-based Lincoln Savings and Loan. The next year, he sold Continental Homes so he could concentrate on Lincoln.

"What attracted me was never the money or the reputation of American Continental; it was Charles Keating the man," said Patricia Johnson, who was recruited by Keating at a party to be the firm's public-relations director.

Soon after joining the company, Johnson got a taste of the money.

She had damaged a pair of shoes while gathering information for reporters after a fire destroyed six condominiums at The Phoenician Resort in July 1988.

The next morning, Johnson recalled, Keating insisted on replacing her shoes.

"Would $5,000 be enough?" Keating asked.

She received the check after Keating explained that some employees received clothing allowances.

Visitors to the swank offices of American Continental Corp., 2735 E. Camelback Road, where banks of computers monitored financial markets worldwide, would comment about the appearance of the staff.

"The employees all had to have a certain, wholesome look," said a former employee. "The Keating look."

To reward the talent and guarantee look, Keating on at least one occasion flew some female employees in a corporate jet to Beverly Hills, Calif., gave them $1,000 each and told them to go shopping on Rodeo Drive, said a former associate who was on such a trip.

Some male employees were rewarded with fishing trips to King Salmon, Alaska, said a former employee, who displays in his office pictures of fish he said he caught there.

Keating demanded loyalty, absolute and unquestioning. Those who showed independence were often fired, usually on a Friday afternoon.

In fact, firing people became a rite of passage for promising American Continental executives.

"In order to bring someone, especially a woman, out of the minor leagues, when they have just been promoted, we let them fire somebody," American Continental executive Judy Wischer told a women's seminar last year.

Employees rewarded

Those who performed as expected were paid handsomely.

"Charlie put his people in golden handcuffs," said a former employee.

Keating paid himself an estimated $3 million a year in salary, stocks and bonuses.

Six of American Continental's top executives were Keating relatives, and a number of other relatives, including his wife, were on the payroll at various times. Charles Keating III, who at 31 earned $800,000 a year as an American Continental vice president, acknowledged that his father stitched his business and family into a single, tight fabric.

In vigorous bursts of loyalty, his family and many of his employees share his victories and loathe his enemies.

In a March memo to employees, son-in-law Robert Hubbard, an American Continental vice president, warned them to beware of reporters' "insane quest to destroy ACC or CHK" and said an "out-of-control newspaper can be cruel in its disregard of a person's rights."

— See CHARLES, page A15

Charles Keating Jr.: From riches to ruin

— CHARLES, *from page A14*

Driven, determined, dogged, Keating was contemptuous of federal regulators. He scorned them as rigid, unimaginative bureaucrats incapable of understanding his entrepreneurial vision. He thought they were out to destroy him because he refused to bow to their rules.

Keating sought help in his battles against bureaucracy by lavishing campaign contributions on local, statewide and national incumbents and hopefuls.

"He never lost a zoning case," said former Phoenix City Councilman Ed Korrick, who said he was not among the politicians who received Keating money.

The most controversial flexing of Keating's political muscle came in April 1987, when he called on five U.S. senators to complain that thrift regulators were being unfair. The senators, who Keating had given a total of $1.4 million in campaign contributions, met twice with regulators. Those meetings have since been challenged as an abuse of power, although the senators deny any improprieties.

Threatened futures

The episode has threatened the political futures of the "Keating Five" — Republican John McCain of Arizona and Democrats Dennis DeConcini of Arizona, Alan Cranston of California, John Glenn of Ohio and Donald Riegle of Michigan — and is the subject of inquiries by the Senate Ethics Committee and the FBI.

Keating sees nothing wrong with paying for politicians' influence, saying in April that, "We have the right to seek their help when we need it and demand it when justified."

Keating bluntly explained the purpose of his huge, political contributions.

"One question, among the many raised in recent weeks, had to do with whether my financial support in any way influenced several political figures to take up my cause," he told reporters. "I want to say in the most forceful way I can: I certainly hope so."

But the government's racketeering suit, filed in September, contends that the money was never Keating's to give away and accuses him of looting Lincoln's federally insured deposits to fulfill his own political and social agendas.

From his huge donations to Mother Teresa, a nun who helps the destitute and dying, to the well-cut suits and $75 Hermes ties, Keating's searing desire has always been to look good.

Keating has carefully constructed an image as a doer of good deeds, philanthropist, defender of American virtue and devout Catholic.

At least twice, Keating has taken his family to the village of Medjugorje, Yugoslavia, where some Catholics claim the Virgin Mary appears to them.

And last year he flew a priest from Medjugorje to Phoenix, where more than 500 people joined Keating in reciting the rosary in the Crescent Hotel ballroom.

Friends and associates say he wants desperately to be liked. But he has ignited furious hatreds, especially among the 23,000 buyers of American Continental bonds, many of whom claim they were tricked into believing that the $230 million they collectively lost was federally insured.

"You don't go around taking people," said an angry 74-year-old man who bought $24,000 of Keating's uninsured bonds.

"There's been people shot for less."

Keating says he intends to repay the bondholders within 13 years.

Among Keating's defenders is Conley Wolfswinkel, a Mesa developer who received more than $100 million in loans from Lincoln Savings.

Wolfswinkel said he has "learned to really respect and admire" Keating and has enjoyed Keating's zest for making deals. He denounces regulators' claim in their racketeering suit that one huge Keating deal with Wolfswinkel was a "sham" sale that allowed Keating to record millions of dollars in phony profits.

Possessions sold

"I think that as the whole story unfolds and as testimony comes out on these deals, you're going to see this whole thing turn," he said.

He accused the regulators of making Keating a "scapegoat" for the thrift industry's problems.

Pressed to raise cash, Keating has sold two vacation houses on Cat Cay in the Bahamas and his boat, according to Keating's son. The private jets and helicopter are also sold, but Keating has hung onto his Paradise Valley home.

Until a takeover by federal thrift regulators in November, Keating also held onto his two hotels, the Crescent, off the Black Canyon Freeway at Dunlap Avenue, and its regal younger sister, The Phoenician Resort, embraced by Camelback Mountain. They are glittering monuments to Keating's

love of luxury and extravagance.

"Charlie only knows one class, and that's first class," said a former employee who recalled that when the hotels were under construction, Keating repeatedly and impetuously ordered costly changes.

Keating brought the same grandiose style to his savings and loan, taking risks with loans and investments that alarmed federal regulators. Ultimately, his high-flying brought him down, overwhelming Lincoln in a furious whirlwind of bad loans and failed investments.

Last July, lunching on halibut at The Phoenician's restaurant, Mary Elaine's, named after his wife, Keating said he regretted the purchase of Lincoln "daily, moment by moment." "It's ruined my life."

CHARLES H KEATING JR.'S HISTORY

1923: Born in Cincinnati, the first of two sons of a dairy executive.

1941: Joins the Navy and is trained as a pilot.

1948: Earns law degree at University of Cincinnati.

1949: Marries Mary Elaine Fette. They raise six children.

1953: Becomes a senior partner in a law firm that represents financier Karl Lindner's American Financial Corp.

1956: Forms anti-pornography organization, Citizens for Decent Literature, which is later renamed Citizens for Decency Through Law.

1969: Campaigns for younger brother, Bill, who wins his first of two terms in the U.S. House of Representatives.

1972: Becomes executive vice president and director of American Financial.

1976: Moves to Phoenix from Cincinnati to take over Continental Homes Inc. of Arizona for its parent company, American Financial Corp. He acquires the firm and creates American Continental Corp., becoming its chairman and president.

1979: Signs a consent decree with the U.S. Securities and Exchange Commission, which had alleged that during his tenure with American Financial he helped make $14 million in improper loans to insiders of a Cincinnati bank controlled by American Financial.

1984: Buys Lincoln Savings and Loan Association of Irvine, Calif., with $51 million raised in a junk-bond issue through Drexel Burnham Lambert's Michael Milken. Lincoln immediately turns away from home-mortgage lending and uses federally insured deposits for such high-risk investments as undeveloped land and junk bonds.

1985: Sells Continental Homes. Concentrating on Lincoln Savings, Keating battles regulators who want to limit its high-risk investing.

1986: Accuses thrift regulators of harassment as they begin a lengthy examination of Lincoln's books that will lead to allegations of fraudulent land transactions and mismanagement.

April 2, 1987: At Keating's request, Senators Dennis DeConcini, D-Ariz., and John McCain, R-Ariz., join Alan Cranston, D-Calif., and John Glenn, D-Ohio, to meet in DeConcini's office with Edwin Gray, then chairman of the Federal Home Loan Bank Board, to discuss regulation of Keating's S&L.

April 9, 1987: The four senators, along with Sen. Donald Riegle, D-Mich., meet again in DeConcini's office with officials from the bank board's San Francisco office.

May 1, 1987: The San Francisco-based regulators of the bank board recommend that Lincoln, although solvent, be seized for operating in a financially unsafe and unsound manner and dissipating its assets. Two months later, M. Danny Wall succeeds Gray as bank-board director.

May 20, 1988: The bank board shifts responsibility for supervision of Keating's thrift from San Francisco to headquarters in Washington. In Phoenix, Keating leads employees in raucous celebration.

December 1988: A bank-board report says Lincoln does not have the capital required by regulations.

April 13, 1989: American Continental Corp. files for protection from creditors under Chapter 11 of the U.S. Bankruptcy Code.

April 14, 1989: Bank board takes over Lincoln, claiming it is operating in an unsafe and unsound fashion. Losses are estimated to have increased by $1 billion in the two years since San Francisco recommended seizure.

Sept. 15, 1989: The Resolution Trust Corp., a new agency with jurisdiction over Lincoln and other insolvent thrifts, seeks $1.1 billion from Keating, his relatives and associates in a fraud and racketeering suit alleging that Keating diverted depositors' money for his own use.

Oct. 17, 1989: Rep. Henry Gonzalez, D-Texas, chairman of the House Banking Committee, launches the first of at least six hearings investigating Lincoln's collapse. Federal Deposit Insurance Corp. Chairman L. William Seidman estimates that taxpayers will have to spend $1.5 billion to $2 billion to cover Lincoln's federally insured losses.

Nov. 16, 1989: Federal regulators and FBI agents remove Keating and his associates from management of the Crescent and Phoenician hotels in Phoenix. The takeover is made possible when Keating's Kuwaiti partners, who own a 45 percent interest in the hotels, drop their support of Keating and allow federal officials to appoint new managers. A Lincoln subsidiary holds a 55 percent interest in both hotels, but management changes required the consent of holders of 75 percent of the stock.

Nov. 17, 1989: Senate Ethics Committee hires Washington, D.C., attorney Robert S. Bennett to investigate whether the senators who met in 1987 with federal regulators were improperly influenced by Keating's contributions to their campaigns and/or related political organizations.

Nov. 21, 1989: Keating invokes his Fifth Amendment right against self-incrimination and refuses to testify before the House Banking Committee.



The Arizona Republic

Keating, who has cultivated his image as a devout Catholic, has made huge donations to Mother Teresa, a nun who helps the destitute and dying.

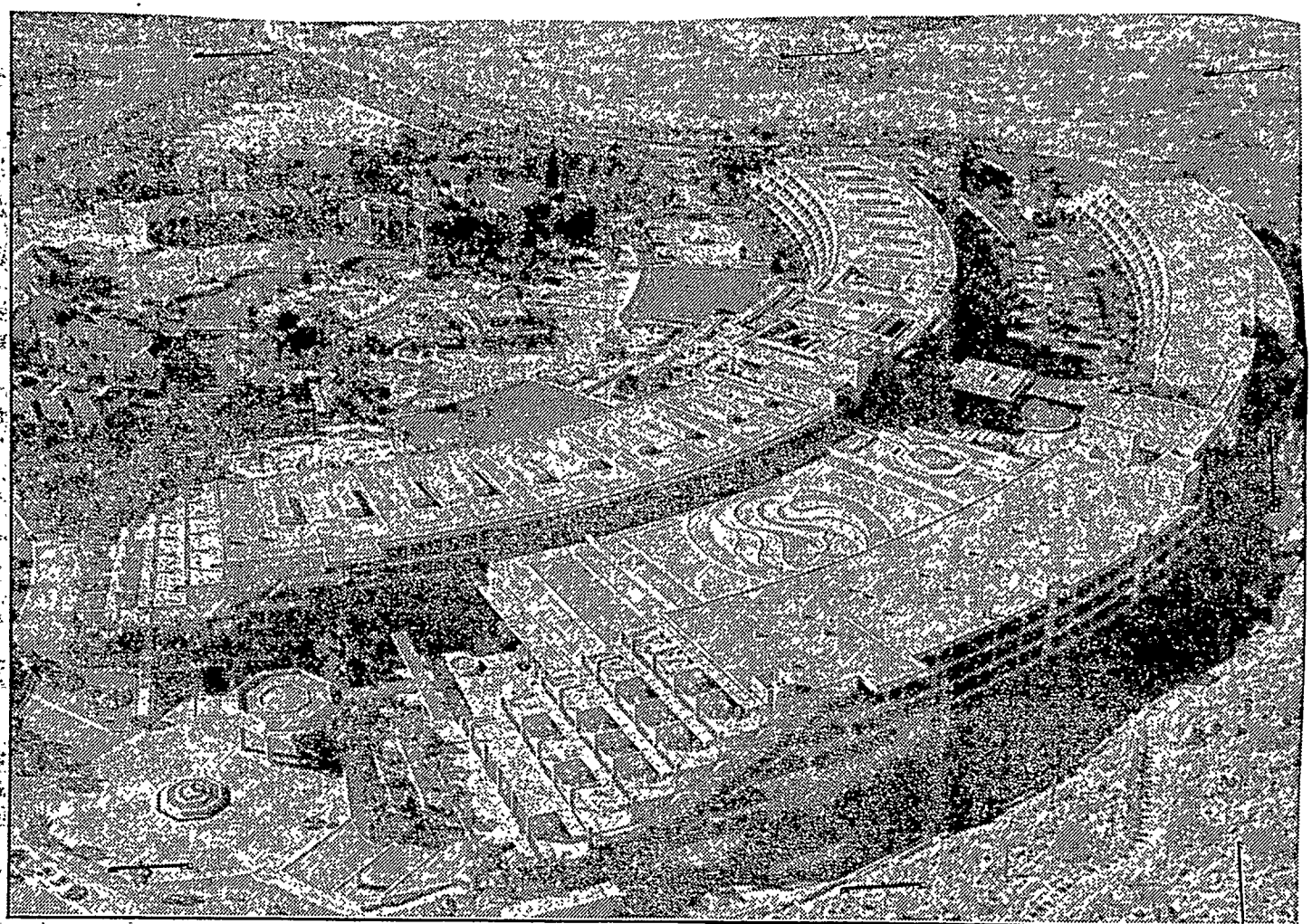


Keating held his wife, Mary Elaine, close during a news conference earlier this year. The other people are not identified. Six of American Continental's top executives were Keating relatives, and a number of other relatives, including his wife, were on the payroll at various times.



Michael Meister/The Arizona Republic

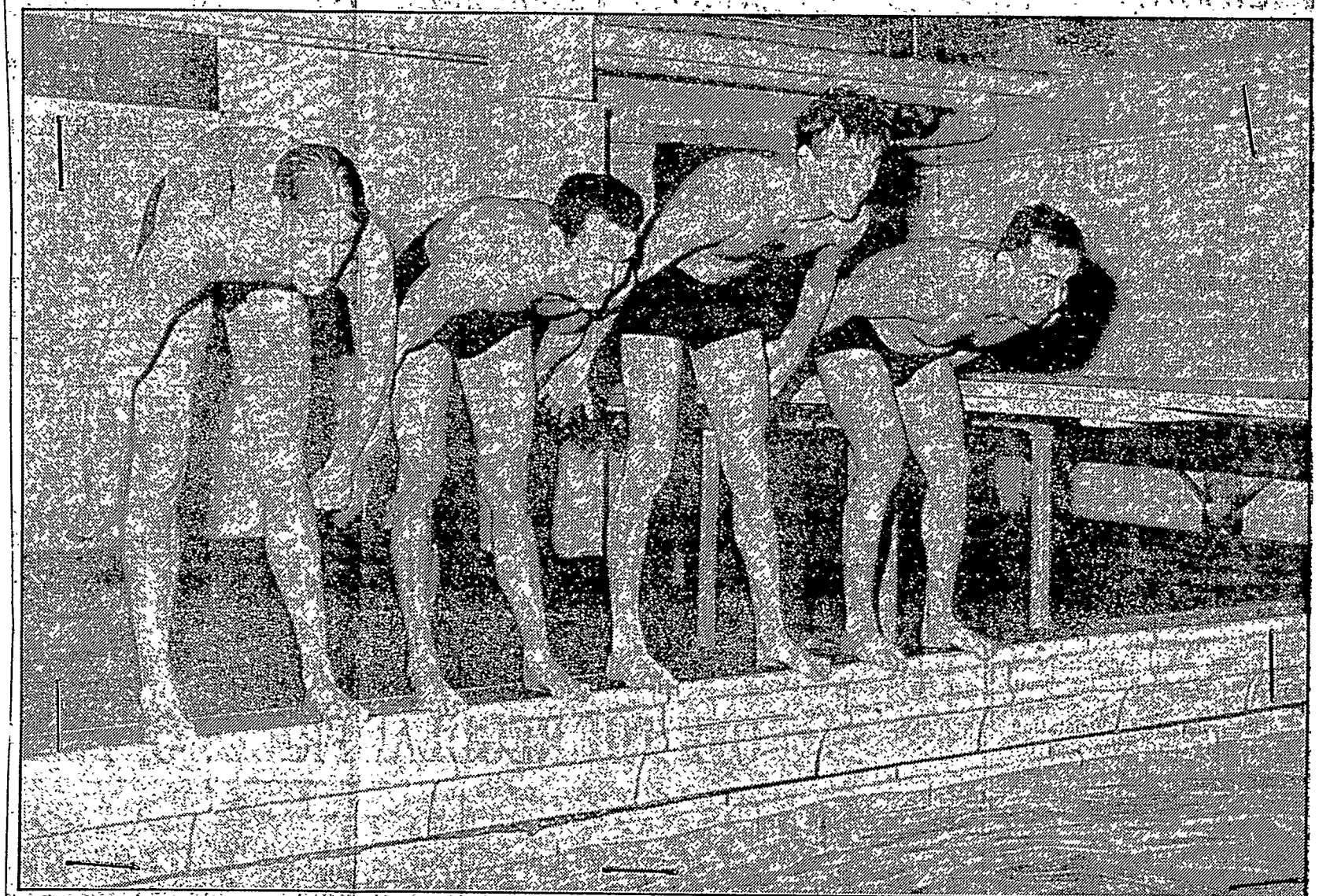
Friends and associates say Charles H Keating Jr. wants desperately to be liked. However, the entrepreneur who formed American Continental Corp. has ignited furious hatreds.



The Phoenician Resort (pictured), embraced by Camelback Mountain, and the Crescent, off the Black Canyon Freeway at Dunlap Avenue, are glittering monuments to Keating's love of luxury and extravagance. "Charlie only knows one class, and that's first class," says a former employee.

Tom Story/The Arizona Republic

CHARLES KEATING: FROM RICHES TO RUIN



Sports Information Office/University of Cincinnati

Charles H Keating Jr. (left) was a swimmer at the University of Cincinnati. A fellow student at the school says Keating "was always a leader, very aggressive."

FD-350 (Rev. 5-8-81)

(Mount Clipping in Space Below)

Financial victims of Keating empire

Creditors are left waiting in wings

By Lisa Morrell
The Arizona Republic

David York isn't interested in the national scandal surrounding the fallen empire of Arizona businessman Charles H. Keating Jr. and his Lincoln Savings and Loan.

All York wants is the $130,000 he claims he is owed for making the trellises and handrails for Keating's $260 million Phoenician Resort. The money could mean the difference between survival and extinction for York Metal Fabricators, his 25-year-old family business in Oklahoma City.

"We're struggling," York said. "I'm surprised we've hung on this long."

York said that once again, there will be no Christmas bonuses for his two dozen employees this year.

As a creditor, York became a victim when Lincoln's parent company, American Continental Corp., and 11 Lincoln subsidiaries filed for protection from creditors under Chapter 11 of the U.S. Bankruptcy Code on April 13. That was one day before federal thrift regulators seized Lincoln and its $5 billion in assets.

York and other creditors now have to wait for the Bankruptcy Court to resolve the matter.

He and thousands of others have been victimized by the thrift's failure because of the loss of investments, jobs, equity or just professional reputation.

Citizens' confidence in government and certain elected officials has been shaken.

Arizona's economy has been hurt by the repercussions of American Continental's failure.

Every U.S. taxpayer is victimized, because it ultimately will cost each one about $20 to cover Lincoln's federally insured losses.

Some victims may recover some of their losses through lawsuits, but nearly every one of them will lose financially or psychologically.

TAXPAYERS

The nation's 100 million taxpayers make up the largest group of victims in the fall of Keating's empire.

Lincoln's loss, estimated at $2 billion, is potentially the largest single

— See **CREDITORS**, *page A14*

American Continental Corp.'s failure will touch the life of virtually every person in the United States. Most are affected slightly. Thousands of victims, though, are suffering from the loss of their savings, their jobs or reputation. These are some of their stories, by Lisa Morrell of *The Arizona Republic*.

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Creditors reeling in the rubble of American Continental

— CREDITORS, *from page A1*

bailout in the nationwide S&L debacle.

The bailout is expected to cost $160 billion, more than the $140.6 billion spent by the United States to fight the Vietnam War.

"The S&L bailout, which was in many ways the biggest consumer rip-off in American history, was made necessary because of the activities of alleged swindlers like Mr. Keating," said Michael Waldman, director of Public Citizens Congress Watch of Washington, D.C., a consumer-advocacy organization founded by Ralph Nader.

Keating attorneys have refused to answer questions about the case.

BOND INVESTORS

Count investors as the hardest-hit individuals in the collapse, especially the 23,000 people who invested more than $230 million in American Continental's unsecured junk bonds. More than 540 of those investors are Arizona residents.

Bondholders claim they were duped into believing the now-worthless, high-risk bonds were safe investments. They are among the investors who say they were given a misleading financial picture of American Continental and are suing the company in California and Arizona.

The bondholders, as a group, have concluded that government officials were aware of American Continental's poor financial condition but failed to cease the bond sales. They want the government to compensate them for their losses as though the bonds were federally insured.

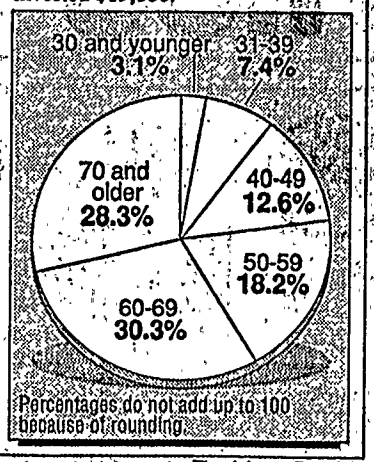
Leah Kane, an organizer of bondholders in Laguna Hills, Calif., said the stress of losing their life's savings has caused some older investors to suffer heart attacks, headaches and other illnesses.

STOCKHOLDERS

American Continental's 1,221 stockholders have seen the value of their shares fall to 5 cents from $7 in February.

AGES OF AMERICAN CONTINENTAL CORP. BONDHOLDERS

From 1,100 interviews with bondholders by investors' attorneys. On average, each bondholder invested $19,000.



The Arizona Republic

Federal Securities and Exchange Commission filings last year showed that 15 top executives, including Keating and his family members, owned 13.9 million, or 87 percent, of the Phoenix company's 15.9 million common shares outstanding. Based on those numbers, that insider group saw its stock holdings drop to $695,000 from $97.3 million.

A stockbroker, who asked not to be identified, said he recommended American Continental to clients and invested heavily himself. He said he is taking heat now.

"Everything's been construed as if we were the villains instead of the victims," he said.

He said he never would have invested had he seen a true financial picture of Lincoln and American Continental. He blames American Continental and its accountants for duping investors.

CREDITORS

More than 25,000 businesses and individuals are owed more than $2.7 billion by American Continental and 11 Lincoln subsidiaries. For now, those creditors must wait while the Bankruptcy Court oversees the companies' reorganization.

Ten of the 11 Lincoln units now under government control can cover their debts, but it'll be a long time before creditors get any money.

American Continental creditors face an even bleaker outlook, because the company has $210 million in assets against debts of $388 million.

The owner of a small pool-supply store in Phoenix who is owed $14,000 by American Continental and who didn't want his name published said he has had to cut his monthly income in half since the company's bankruptcy filing.

BOND SALESPEOPLE

Even the American Continental and Lincoln Savings and Loan employees who sold the now-worthless American Continental bonds consider themselves victims.

Many believed so much in what they were selling that they invested or persuaded family members to invest. Forty current employees of Lincoln, which is based in Irvine, Calif., and their families invested a total of $1 million in their employer's bonds that they have now lost, according to a survey by Lincoln's current management.

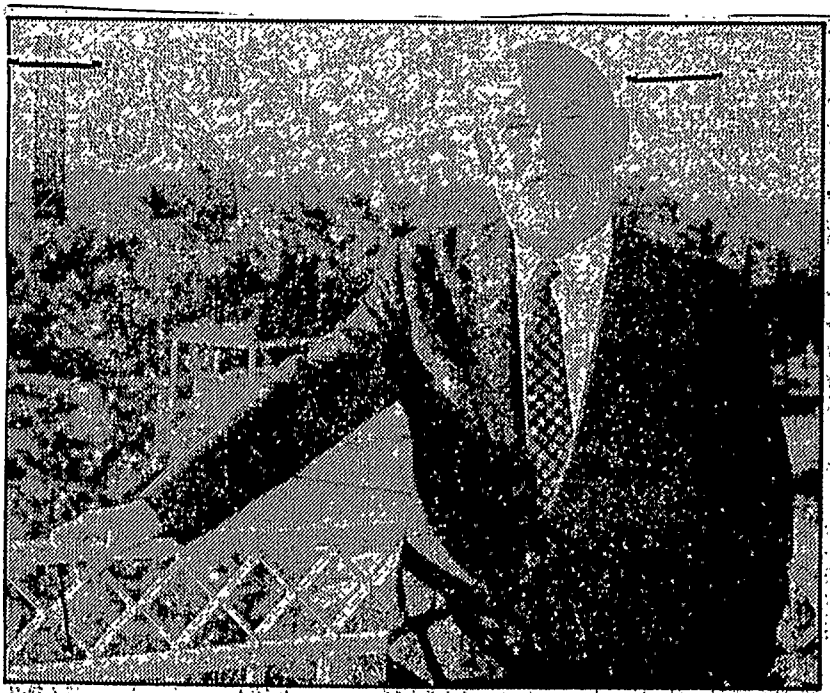
OTHER EMPLOYEES

At least 250 of about 2,500 American Continental employees were laid off this year as the firm sought to cut expenses. Many are finding that their affiliation with Keating is hampering their job search.

After the former public-relations director of American Continental wasn't receiving even initial responses from at least five potential employers, she began calling them to ask why.

"They said they weren't interested in getting involved in the controversy (surrounding Keating)," said Patricia Johnson, a 12-year veteran of the public-relations business. Her job was eliminated in April.

Employees of Lincoln Savings said



Charles Krejcsi/The Arizona Republic

Gerald Murphy heads the firm that built The Phoenician. In 1988, Charles H Keating Jr. stopped paying the builder, saying subcontractors did shoddy work.

they suffered uncertainty and worry from the federal regulators' seizure of Lincoln's operations in Arizona and California, including Lincoln's offices in both states and the Phoenician Resort in Scottsdale.

Government managers fired some employees. Others have left or want to leave because they see no future with government-run Lincoln, one employee said.

BUSINESS ASSOCIATES

In October 1988, after the Phoenician Resort opened, Keating stopped paying the builder of his lavish resort, McCarthy Western Constructors Inc.

Keating said McCarthy's subcontractors did shoddy work and overcharged him.

McCarthy sued Keating's companies for $20 million.

Keating countersued, accusing the contractor of racketeering.

Gerald Murphy, president of McCarthy, maintains the subcontractors did top-notch work. About 50 of those subcontractors still are owed money.

Although most of his customers know McCarthy is a solid company, Murphy said, the dispute with Keating has hurt business.

Murphy said his firm was rejected for two projects totaling $50 million because of project managers' concerns about problems with the Phoenician Resort.

With the federal government now in control of the Phoenician Resort, Murphy hopes to negotiate an out-of-court settlement with the government.

A Japanese company in partnership with American Continental believes the company cheated it out of more than $10 million, according to Douglas Brown, a Los Angeles attorney representing Taiyo Real Estate Co. of Kyoto.

Since 1986, American Continental "took over money and then basically didn't do anything," Brown said.

Taiyo stands to lose money it gave Keating's companies for a 60 percent interest in The Crossings, a residential and commercial project in Mesa. Taiyo filed suit against American Continental and others in early 1989 in U.S. District Court in Los Angeles. The bankruptcy action has put the lawsuit and project on hold.

ARIZONA ECONOMY

American Continental's downfall ranks among the biggest single financial disasters in Arizona's history.

The avalanche of publicity nationwide about Keating's woes has furthered the image that Phoenix is in an economic downturn, said Elliott Pollack, chairman of Pollack/Ramras Cos. of Phoenix, a real-estate development and economic consultant.

Real-estate experts say added negative publicity could scare off investors and dampen business opportunities.

Other Arizona developers have been burned in the real-estate crash that followed the frenzy of land speculation in the mid-1980s, said Philip Dion, chairman of Del Webb Corp. of Phoenix, a retirement-community developer.

"Lincoln was certainly one of the major players that pushed prices way beyond economic reality," he said.

Lincoln's assets total $2 billion to $3 billion of the $13 billion that are under federal thrift managers' control in Arizona.

"What the Lincoln thing threatens to do is to intensify the downturn in real-estate values and prolong the turnaround," said Robert Eggert, chief economist of Eggert Economic Enterprises Inc. in Sedona.

CHARITIES

Keating, through American Continental, contributed heavily to charities. From 1984 to 1986, the company gave more than $6 million to charities in the Phoenix area and worldwide, including Mother Teresa's Missionaries of Charity.

American Continental's crash has changed all that.

See KEATING, page A15

Keating leaves trail of victims

— KEATING, *from page A14*

Paul Gesicki, acting director of the St. Vincent de Paul Society in Phoenix, said American Continental has informed the society it is unable to contribute any longer.

The loss of the $100,000 the company promised for each year until 1993 "makes it more difficult to survive each month," he said.

POLITICAL SYSTEM

The influence-peddling scandal surrounding five U.S. senators who went to bat for Keating after they received hefty contributions has shaken people's faith in the integrity of the country's political system and discourages them from participating, said Waldman, of Public Citizens Congress Watch.

He said the case is a "microcosm" of the problem of politicians serving contributors at the expense of constituents.

The senators — Republican John McCain and Democrat Dennis DeConcini, both of Arizona, and Democrats Alan Cranston of California, John Glenn of Ohio and Donald Riegle of Michigan — had two unusual meetings in April 1987 to question thrift regulators who were bearing down on Keating's questionable business practices. Their campaigns or related political organizations had taken in about $1.3 million from Keating, his family or associates.

"When large contributors can win the ear and support of members of Congress, that gravely damages the system's ability to represent all citizens," Waldman said.

The relationships between Keating and the senators highlight the need for campaign-finance reform, he said.

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(Mount Clipping in Space Below)

Varied tacks of 'Keating 5'

Styles differ in reactions to political crisis

By Anne O. Hoy and Sam Stanton
Republic Washington Bureau

WASHINGTON — The approach of Sen. Dennis DeConcini, a lawyer, is judicial: Answer precisely the questions but volunteer little else.

The response of Sen. John McCain, a decorated Navy pilot, is to attack as if it were a combat exercise: With battle position under constant review, vigorously and loudly launch offensives on all fronts.

The strategies of the two Arizona senators to the Charles H Keating Jr. and Lincoln Savings and Loan Association scandal show stylistic differences between the two and their contrasting political aspirations.

But the approaches also reflect the seriousness of the scandal enveloping the senators and three other colleagues, Alan Cranston of California, Donald Riegle Jr. of Michigan and John Glenn of Ohio. The senators have come to be known as the Keating Five.

Mervin Field, a California pollster, said the Keating affair is unlike recent national scandals in that it does not just involve an impersonal federal bureaucracy and the "usual transgressions" of faceless public officials.

Villains and victims

Field said this scandal has identifiable "villains": an influence peddler (Keating) and those he tried to buy (the senators). There are real-life victims, too: U.S. taxpayers and about 23,000 mostly elderly investors whose American Continental Corp. bonds became worthless when the firm filed for Chapter 11 protection from creditors under the U.S. Bankruptcy Code.

"Once an elected official has to start explaining his acts in a defensive way, he's in trouble," Field said.

Norman Ornstein, a political analyst with the American Enterprise Institute, said all five senators are tainted. But he said it is too early to assess the long-term political damage.

Ornstein also said partisan politics could make matters worse for McCain, the only Republican in the group. He said Democrats are likely to work to counter McCain's efforts to distance himself.

"The political dynamics are such that Democrats are not going to allow this to move to the Keating Four," Ornstein said.

McCain, 52, a decorated Navy pilot who was a prisoner of war in North Vietnam, has been the only one of the five to take a high-visibility approach. Cranston, Riegle and Glenn only recently have even begun speaking publicly.

Opinion polls

McCain, in his first Senate term after two terms in the House, assembled former and current staffers in a meeting to review his efforts in Keating's behalf, and McCain said he plans to conduct public-opinion polls to assess the damage.

At the outset, he attempted to extricate himself from the affair by holding a full-blown news conference in Phoenix.

But McCain dumped this strategy within days after it became apparent that an investigation launched by the House Banking Committee would put the national spotlight on the issue and that the attention could not be contained.

McCain then embarked on an

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aggressive national-media campaign in an effort to portray himself as open and ethical. He has appeared on major news shows on every national television network.

He stresses how he told regulators during the second of two controversial April 1987 meetings that he wanted no special favors done for Keating, with whom he had been friends for about seven years.

GOP is watching

The national Republican Party, mindful that if McCain could distance himself from the affair it would become another Democratic ethics problem, has been watching the case and supports McCain's media strategy.

"Arizona is an important state for us, and so we always watch those who have served the party well," said Leslie Goodman, Republican National Committee spokeswoman. "We always watch the stars within the party."

McCain has been widely mentioned as a possible candidate on some future Republican presidential ticket.

His temper has flared during the ordeal. He has been verbally abusive and sarcastic in response to reporters' questions, except in public.

DeConcini, 51, a former prosecutor, also called together his past and current staff to comb through appointment books and telephone logs to bolster his claim that he often has gone to bat for constituents, even those who contributed generously to past campaigns.

He has been visible to his Arizona constituents, making numerous appearances each weekend, but he has avoided the national news media. He has answered precisely the questions posed about his role, but has offered to say little else.

DeConcini-recall bid

Even before the scandal, DeConcini's popularity was suffering as a result of questionable land deals and an uproar over his sponsorship of efforts to ban some assault weapons. The issue sparked a recall campaign, and it is not uncommon to see bumper stickers in Arizona that say, "Dump DeConcini."

But DeConcini, like Riegle, does not face re-election until 1994, and it is not even certain that he will opt for another race. He said last week that he broke his earlier pledge not to seek a third term because his agenda remained unfinished. But he said being "under siege" makes it difficult to fulfill that goal.

Until last week, Cranston had left his press secretary to fend off unrelenting press inquiries that peaked when a group of elderly bondholders singled out Cranston for blame for the loss of their investments. They said his role in the debacle betrayed their trust.

Cranston, along with DeConcini, has been criticized for continuing to help Keating, who heads American Continental, try to sell his thrift before the government seized it in April. The efforts were made despite earlier warnings that the Irvine, Calif.-based Lincoln was the target of a criminal probe by the Justice Department.

Field labeled the affair "excruciatingly damning" for the 75-year-old Cranston.

"It looks very, very black for him," he said.

Cranston, who has been a senator for 20 years, narrowly won re-election in 1986 but does not face re-election until 1992.

"Without Keating and the Lincoln Savings affair, it was going to be a rugged battle for Cranston because of his age and incumbency," Field said.

"Even though he has granted some interviews . . . it is the kind of thing that is going to be very hard to extricate from since he faces a series of lawsuits, and investigations in California and Washington."

Riegle, 51, powerful Senate Banking Committee chairman, has employed a hybrid strategy of saying nothing to the national media except to shift the blame to DeConcini and McCain.

Riegle, first elected to Congress in 1966, has been so tight-lipped that he left out vital details in his official response to the Senate Ethics Committee, which is looking into the senators' conduct in relation to Keating.

Despite his efforts, Riegle's more-extensive role has emerged.

E. Spencer Abraham, chairman of the Michigan Republican State Committee, said that Riegle has been "studiously low-profiled" and predicted that his lack of candor will hurt him.

But Julie Weeks, vice president of political research at Detroit-based Market Opinion Research, a national GOP polling firm, said Riegle "hasn't been dinged with it very hard."

Time is on their side

Weeks said the political impact of the affair is lessened because none of the Keating Five faces re-election in 1990.

"If anyone were up in '90, they would be sweating bullets at this stage," Weeks said.

Glenn, 68, a 15-year senator who, in 1962, was the first American astronaut to orbit the Earth, has adopted the McCain "American Hero" approach: "My honor is vital, and I would never betray the trust voters have placed in me."

Jim Ruvolo, chairman of the Ohio Democratic Party, said Glenn waited to comment until he had gathered the facts. It was not until late November that he met with Ohio reporters to explain his role.

Ruvolo said the main goal of any politician caught up in a scandal such as the Keating affair is to get the issue behind him as quickly as possible in an effort to stem media coverage.

"The thing you have to avoid at all costs is Chinese water torture: drip, drip and drip," Ruvolo said.

'THE KEATING FIVE'



Sen. Dennis DeConcini, D-Ariz. /
Next election: 1994

Conducted both April 1987 meetings with senators and regulators in his office. Asked regulators to grant "forbearance" to Lincoln. Accepted, and later returned, $48,000 in campaign money. Continued trying to help Keating until April 1989. Two campaign aides received millions in loans from Lincoln.



Sen. John McCain, R-Ariz. /
Next election: 1992

Attended both April 1987 meetings. Received $112,000 in campaign money. Onetime friend of Keating. Took trips to Bahamas with Keating. Wife and father-in-law invested in Keating shopping center in Phoenix. That $359,000 investment could be threatened by government's $1.1 billion lawsuit against Keating.



Sen. Alan Cranston, D-Calif. /
Next election: 1992

Attended first April 1987 meeting but only made brief appearance at second. Accepted $39,000 in direct contributions, plus $850,000 for affiliated voter-registration groups. Continued trying to help Keating until April.



Sen. Donald Riegle, D-Mich. /
Next election: 1994

Met with officials from Keating's American Continental Corp. in February 1987, then met with nation's top thrift regulator, Edwin Gray, to suggest meeting with other senators. Attended only second April 1987 meeting. Toured American Continental properties in Arizona. Received $66,000 but returned it. Blames DeConcini and McCain for meetings.



Sen. John Glenn, D-Ohio /
Next election: 1992

Attended both April 1987 meetings. Told regulators to charge Lincoln "or get off their backs." Accepted $34,000 in direct contributions, and $200,000 for political-action committees.

D-380 Rev 5-8-81

(Mount Clipping in Space Below)

Father and son — and FBI

Some of our readers may have been confused when Sen. Alan Cranston charged on Wednesday that FBI officials were attempting to smear his son, Kim. After all, it certainly looked as if an FBI investigation into voter registration groups, including one run by Kim Cranston, was really aimed at the senior Cranston, who had solicited $850,000 for the groups from Charles Keating, owner of the failed Lincoln Savings & Loan.

But then, this is the same California senator who contends that he helped Keating, an Arizona resident, because that big-time contributor was one of his constituents. Absentee voting hasn't gone that far, at least yet.

We can't help detecting a certain amount of posturing in Cranston's outrage. After all, even if voters don't find him credible when he defends himself, they might lend him some sympathy when it comes to the defense of someone else, especially a son.

But Kim Cranston, currently an aide to Lt. Gov. Leo McCarthy, is not exactly an innocent himself. He was enough of a political animal to organize the Center for Participation in Democracy, for which his dad solicited $400,000 from Keating in 1988. That organization now is suspected of refusing to enroll non-Democrats in its voter registration drives, thus violating the rules of its tax-exempt status. If the younger Cranston gets in trouble over this, it won't be because he was just trying to help his fellow man. It will be because he was working for the Democratic Party and, of course, dear old Dad.

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(Mount Clipping in Space Below)

FEC probing Keating political contributions

By LARRY MARGASAK
Associated Press

WASHINGTON — The Federal Election Commission said Thursday it is investigating political contributions by Charles H. Keating Jr., the principal figure in the nation's largest savings and loan failure, who arranged for $1.3 million in donations to go to the campaigns and causes of five senators.

The investigation initially is focusing on contributions by Keating, his family members and corporate associates to Sen. John McCain, R-Ariz., who requested the probe, the FEC said.

But the investigation could spread to four Democratic senators who — along with McCain — intervened with banking regulators on Keating's behalf if the FEC feels that "there are other problems or other violations under the Federal Election Campaign Act," commission spokesman Scott Moxley said.

The meetings with regulators began in 1987 when Keating's Lincoln Savings and Loan was collapsing.

The Senate ethics committee currently is conducting a fact-finding inquiry into the case, which has enormous political consequences for McCain, a rising GOP star, and for the Democrats: Majority Whip Alan Cranston of California, Banking Committee Chairman Donald W. Riegle Jr. of Michigan, Governmental Affairs Committee Chairman John Glenn of Ohio and Dennis DeConcini of Arizona. All deny wrongdoing.

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(Mount Clipping in Space Below)

Lincoln's lending unsound, its lawyers warned firm in '86

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By Jerry Kammer
The Arizona Republic

Attorneys for Lincoln Savings and Loan had serious concerns as early as 1986 about the way the thrift was lending its money and "found that it ... engaged in unsafe and unsound practices," according to a memorandum filed late Wednesday in U.S. Bankruptcy Court in Phoenix.

Loan analyses prepared by Lincoln's attorneys "document a consistent pattern of unsafe and unsound commercial lending" at the thrift, according to the memo, filed by attorneys representing federal regulators.

The memo is likely to become a key exhibit in a separate hearing that begins today in U.S. District Court in Washington, D.C. In the hearing, Lincoln's parent company, American Continental Corp., is challenging the government's seizure of the thrift.

American Continental is arguing before U.S. District Judge Stanley Sporkin that the federal takeover in April was "arbitrary, capricious and, therefore, unlawful."

Thrift regulators are expected to point to the warnings from Lincoln's New York law firm, Kaye,

— See LINCOLN, page A10

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FBI/DOJ

Lincoln lending unsound, firm was told in '86

— LINCOLN, *from page A1*

Scholer, Fierman, Hays & Handler, to support the government's contention that the thrift was being operated improperly.

The regulators' memorandum uses the law firm's analyses of Lincoln loans to support their argument to U.S. District Judge Richard Bilby that American Continental is dissipating its cash in court battles designed to protect executives of American Continental rather than its creditors.

American Continental filed April 13 for protection from creditors under Chapter 11 of the federal bankruptcy code. Regulators seized Lincoln the next day.

The federal Resolution Trust Corp., which operates Lincoln, is American Continental's principal creditor. Bankruptcy Court proceedings are intended to protect creditors.

The memo argues that American Continental's challenge of the federal takeover is "frivolous" because the company's "litigation posture is contradicted" by its attorneys.

The memo contends that documents prepared by the New York firm show "there can be no doubt" that the firm warned Lincoln's management about its loan underwriting.

Federal regulations require thrifts to conduct careful underwriting, or ensuring that a borrower is a good credit risk.

Attorneys for the Resolution Trust Corp. refused to comment Wednesday. But their memorandum said Lincoln's New York law firm doubted the safety and soundness of:

- A $30 million unsecured loan to Tucson-based R.A. Homes.
- The refinancing of about $75 million in loans to Mesa developer Conley Wolfswinkel.
- A $50 million loan made to an unidentified borrower who, according to the firm, had a "ridiculous" financial statement showing $110 in assets.

In a $1.1 billion civil racketeering suit filed in September against Keating and several associates, regulators called the R.A. Homes and Wolfswinkel loans "sham transactions" that were part of a pattern of fraud at Lincoln.

The Arizona Republic on Sept. 14 described $50 million in loans from Lincoln to R.A. Homes, whose vice president is Ron Ober, who ran the 1988 re-election campaign of Sen. Dennis DeConcini, D-Ariz.

DeConcini has come under fire for intervening with federal regulators in behalf of Lincoln in April 1987, seven weeks before R.A. Homes received the $30 million loan from Lincoln.

Another Keating taking a beating

By Chris Knap
Orange County Register

ENCINO, Calif. — When John J. Keating and his partners formed a bank here seven years ago, they picked a name that sounded honest and substantial: Lincoln.

That was before Irvine, Calif.-based Lincoln Savings and Loan Association was purchased by Phoenix entrepreneur Charles H Keating Jr. and was forced into federal receivership.

"Obviously, it's not a very good name anymore," John J. Keating said this week.

His bank is considering changing its name.

John Keating is no relation to Charles Keating, nor is Encino-based Lincoln National Bank affiliated with Lincoln Savings and Loan.

But try explaining that to consumers shopping for a bank.

See ANOTHER, page A10

Another Keating, another Lincoln

ANOTHER, *from page A1*

"People don't read," John Keating said. "They glance at the headlines, and they don't know, and they say, 'It must be the same.'

"We've had a nightmare with this damn thing."

John Keating had to run a meeting of his board of directors on the day a local newspaper carried the headline, "Keating and cronies to be investigated by the FBI."

Another time, his daughter came home from school to inform him that "so-and-so's grandfather is suing you," he said.

"I told her, 'Honey, no one is suing me,' "

The lawsuit is against Charles Keating and Lincoln Savings and Loan, filed on behalf of the more than 23,000 people who purchased now-worthless junk bonds from the failed thrift.

"For a while, I figured it's better to do nothing," John Keating said. "I thought they would close it (Lincoln Savings), and that would be that. I knew I had a big problem when I read that five (U.S.) senators were involved. Then I knew people would be making political hay out of it all next year.

"Now we are seriously considering changing the name of the bank."

John Keating believes that Lincoln National Bank lost a deal Monday because the borrowers thought the institution was bankrupt and switched to Bank of America.

"We don't know how many people are frightened off that we never do get to see," Keating said.

He said that the firm earned $4.4 million in the first nine months of the year but that its stock price has declined several points.

"I wouldn't be surprised at that," said Jerry Findley of Brea, Calif., author of *The Findley Reports*, a trade publication that rates bank stock.

Findley described Lincoln National as "an excellent institution" but said the Lincoln Savings collapse has been giving John Keating "fits."

John said he went to Detroit last week only to run into headlines about a third Keating, Detroit Newspaper Agency executive William Keating, brother of Charles and co-defendant with him in a civil suit brought by federal regulators.

"It's following me from town to town," John Keating lamented.

The Lincoln National Bank board of directors is trying to decide what the institution's new name should be.

John Keating joked that he plans to change his name, too.

He's chosen Fielding Mellish, the hapless dictator in the Woody Allen film *Bananas*.

"I'll just use something bizarre because this whole thing is bizarre," he said. "If you can't laugh at it, you can't do anything."

FD-350 (Rev. 5-8-81)

(Mount Clipping in Space Below)

Riches to ruin: The meteoric life of Charles Keating

'He took charge of everything'

The window shattered as a squarish object was hurled from the second-floor office at the posh Phoenix headquarters of Charles H. Keating Jr.'s American Continental Corp.

It was May 20, 1988. Decorum — and a computer — had just gone out the window.

A victory celebration had begun.

There was Keating, a trim, 6-foot-5 former champion swimmer, striking a *Superman* pose, unbuttoning his shirt in front of his employees to expose a T-shirt with a hand-drawn skull and crossbones over the letters "FHLBB" — Federal Home Loan Bank Board.

A secretary climbed atop a desk to photograph the revelers. Robert Kielty, an American Continental executive, joined her on the desk — close enough for Keating to lash their legs together with a roll of transparent tape.

Employees tossed beer bottles over expensive, carved wood desks and knocked over potted plants. Kielty grabbed a bottle of champagne and poured it down the front of another secretary's blouse.

"Get this champagne colder!" Keating yelled.

Some workers were amazed, watching the antics of their normally button-down boss, a public moralist who first gained national prominence as an anti-pornography crusader.

But Keating was celebrating. He

— *See* **A CLOSER LOOK**, *page A14*

As Charles H. Keating Jr.'s financial empire collapses, thousands of investors have lost their life savings, many have lost their jobs, the Arizona economy has suffered, and dozens of politicians have become entangled in "Charlie's Web." Who is Charles Keating?

Story by Carol Sowers, Andy Hall, Jerry Kammer and Lisa Morrell with research assistance from John Doherty.

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FBI/DOJ

A closer look at the faces of Keating

— A CLOSER LOOK, *from page A1*

had just won a two-year battle with federal thrift regulators who had contemplated seizing Lincoln Savings and Loan, the centerpiece of his $6 billion financial empire.

He had only won time, though.

On April 14, 1989, less than a year after the victory celebration, the regulators seized Lincoln, contending that the thrift was financially "unsafe and unsound."

Lincoln's collapse is projected to cost taxpayers up to $2.5 billion, which would make it the costliest of the nation's nearly 300 thrift failures.

As the "why" questions are being asked, at least three portraits of Keating have emerged:

- An aggressive, visionary entrepreneur and tough competitor who would have succeeded if not for incompetent and vindictive federal regulators.
- An insatiable gambler who, because of S&L deregulation, was able to play recklessly with other people's money and did so extravagantly.
- A con artist who deliberately set out to make himself wealthy by looting his savings and loan and defrauding investors.

Criminal probe under way

Rep. Jim Leach, R-Iowa, during a House Banking Committee hearing, called Keating "a financiopath of obscene proportions, the Reverend Jim Bakker of American commerce ..."

Keating has not been charged with any crimes, but federal criminal investigations are under way.

He and 10 associates, including five relatives, are named in a $1.1 billion racketeering lawsuit, the largest government bank-fraud civil suit in U.S. history.

"You know we're just ruined, our reputation, our image, our economics," a shaken Keating told *The Arizona Republic* in July in one of his last interviews with the press. "We're ruined people. We've been destroyed."

Charles Humphrey Keating Jr. was born on Dec. 4, 1923, the son of a Cincinnati dairy executive.

When Charlie was young, his father was stricken with Parkinson's disease, a degenerative disease.

Charlie watched as his mother, Adelle, turned his father in bed so the bedsores would heal.

His father's illness made Keating "appreciate life a lot more than anybody I've ever met," observed his only son, Charles Keating III.

"My dad loves to have a good time," Charles said. "He'll get totally crazy, and people will think he's being obnoxious, but he's just having fun."

There were unmistakable clues as Charles Keating Jr. grew up that he would be hard to ignore.

"I think he was always a leader, very aggressive," said Ted Thoma of Cincinnati, who has known Keating for 50 years and attended St. Xavier High School and the University of Cincinnati with Keating, where he became an All-American swimmer in 1946.

Keating organized his friends "into teams of every kind. He just took charge of everything," Thoma said.

"He was a one-man gang. We were followers."

Keating joined the Navy at 17 and learned to fly. He never saw combat but survived a crash during training near the end of World War II.

He later recounted that, as he was about to land his plane on a southern Florida runway, he was thinking about a date with a pretty young woman and forgot to lower his landing gear. He jumped out unhurt as the plane bounced down the airstrip and burst into flames.

When he returned to Cincinnati after the war, Keating persuaded University of Cincinnati officials to allow him into law school even though he had finished only six months of undergraduate work.

"I was somewhat of an athlete, and the schools were all empty, and actually I had a lot of courses in the Navy that were highly acceptable," Keating told *The Republic*. "They just let me in."

In 1949, he married athletic, outgoing Mary Elaine Fette. They had six children, five girls and a boy.

In law school, Keating met John Meuthing, and in 1953 they formed a law firm. That move propelled Keating into the orbit of financier Carl

Lindner, who hired the firm to represent his American Financial Corp., now a multibillion-dollar holding company. In 1972, Keating became an American Financial executive vice president.

One of American Financial's first big acquisitions was Provident Bank in a hostile takeover that Keating finessed by spending months going door-to-door persuading stockholders to sell their stock.

Helped brother win post

He also jumped into politics in Cincinnati, helping his younger brother, Bill, win a City Council post and then two terms in Congress from 1970 through 1974.

Keating built a reputation in Cincinnati as a wily financier who stoked a blazing hatred against pornography. At the urging of a priest during a Catholic retreat, Keating gathered friends together in 1956 and established Citizens for Decent Literature.

He broke new ground in the prosecution of pornographers, participating in raids and for the first time using expert witnesses in trials to testify about the harmful effects of pornography, which he said was "engulfing this nation in a tidal wave of filth and turning her along the path of moral corruption and decay."

In 1973, celebrating an anti-pornography ruling by the U.S. Supreme Court, Keating thundered, "The decent people of America, backed by the United States Supreme Court, are going to wage a holy, yes, a holy war, against the merchants of obscenity. From this day forward I will not rest, and no one connected with CDL (Citizens for Decent Literature) will rest, until every pornographer in America is out of business, in jail, or both."

Keating's son said his father is convinced that, in the mid-70s, the publisher of a pornographic magazine urged that one of Keating's relatives be sexually assaulted. The assault occurred, and the resulting trauma, his son said, convinced Keating that his public activism bore a private price.

Citizens for Decent Literature changed its name in 1973 to Citizens for Decency Through Law. Keating took the organization with him in 1976 when he was moved to Phoenix to revive American Financial's ailing home-building subsidiary, Continental Homes.

Keating said he looked upon Arizona as a place to build "sort of a new life."

He bought Continental Homes from American Financial in 1978 and formed American Continental Corp., which prospered under his direction.

But, an old mistake came back to haunt him. In 1979, at the end of a lengthy investigation, the U.S. Securities and Exchange Commission accused Keating and Lindner of fraudulently diverting American Financial assets through $14 million in improper loans to associates.

The two signed a consent decree in which they admitted no guilt and Lindner agreed to pay his own corporation $1.4 million. Keating would regret signing the decree. He claimed that in 1981, President Reagan offered to appoint him ambassador to the Bahamas, but that controversy about the consent decree caused the offer to be withdrawn.

Continental Homes became one of the leading home builders in the state. But Keating's heart wasn't in it.

His associates said he longed for the challenge, exhilaration and risk of the stock market, land development, junk bonds and leveraged buy-outs. The 1982 deregulation of the savings and loan industry, which allowed thrifts to leave their traditional home-mortgage market and enter into the bigger world of high-stakes finance, gave him his chance.

Lincoln purchased in 1984

Keating made his move in 1984. With $51 million raised from a junk-bond issue by Michael Milken of Drexel Burnham Lambert, he bought Irvine, Calif.-based Lincoln Savings and Loan. The next year, he sold Continental Homes so he could concentrate on Lincoln.

"What attracted me was never the money or the reputation of American Continental; it was Charles Keating the man," said Patricia Johnson, who was recruited by Keating at a party to be the firm's public-relations director.

Soon after joining the company, Johnson got a taste of the money.

She had damaged a pair of shoes while gathering information for reporters after a fire destroyed six condominiums at The Phoenician Resort in July 1988.

The next morning, Johnson recalled, Keating insisted on replacing her shoes.

"Would $5,000 be enough?" Keating asked.

She received the check after Keating explained that some employees received clothing allowances.

Visitors to the swank offices of American Continental Corp., 2735 E. Camelback Road, where banks of computers monitored financial markets worldwide, would comment about the appearance of the staff.

"The employees all had to have a certain, wholesome look," said a former employee. "The Keating look."

To reward the talent and guarantee the look, Keating on at least one occasion flew some female employees in a corporate jet to Beverly Hills, Calif., gave them $1,000 each and told them to go shopping on Rodeo Drive, said a former associate who was on such a trip.

Some male employees were rewarded with fishing trips to King Salmon, Alaska, said a former employee who displays in his office pictures of fish he said he caught there.

Keating demanded loyalty, absolute and unquestioning. Those who showed independence were often fired, usually on a Friday afternoon.

In fact, firing people became a rite of passage for promising American Continental executives.

"In order to bring someone, especially a woman, out of the minor leagues, when they have just been promoted, we let them fire somebody," American Continental executive Judy Wischer told a women's seminar last year.

Employees rewarded

Those who performed as expected were paid handsomely.

"Charlie put his people in golden handcuffs," said a former employee.

Keating paid himself an estimated $3 million a year in salary, stocks and bonuses.

Six of American Continental's top executives were Keating relatives, and a number of other relatives, including his wife, were on the payroll at various times. Charles Keating III, who at 31 earned $800,000 a year as an American Continental vice president, acknowledged that his father stitched his business and family into a single, tight fabric.

In vigorous bursts of loyalty, his family and many of his employees share his victories and loathe his enemies.

In a March memo to employees, son-in-law Robert Hubbard, an American Continental vice president, warned them to beware of reporters' "insane quest to destroy ACC or CHK" and said an "out-of-control newspaper can be cruel in its disregard of a person's rights."

— See CHARLES, page A15

Charles Keating Jr.: From riches to ruin

—CHARLES, *from page A14*

Driven, determined, dogged, Keating was contemptuous of federal regulators. He scorned them as rigid, unimaginative bureaucrats incapable of understanding his entrepreneurial vision. He thought they were out to destroy him because he refused to bow to their rules.

Keating sought help in his battles against bureaucracy by lavishing campaign contributions on local, statewide and national incumbents and hopefuls.

"He never lost a zoning case," said former Phoenix City Councilman Ed Korrick, who said he was not among the politicians who received Keating money.

The most controversial flexing of Keating's political muscle came in April 1987, when he called on five U.S. senators to complain that thrift regulators were being unfair. The senators, who Keating had given a total of $1.4 million in campaign contributions, met twice with regulators. Those meetings have since been challenged as an abuse of power, although the senators deny any improprieties.

Threatened futures

The episode has threatened the political futures of the "Keating Five" — Republican John McCain of Arizona and Democrats Dennis DeConcini of Arizona, Alan Cranston of California, John Glenn of Ohio and Donald Riegle of Michigan — and is the subject of inquiries by the Senate Ethics Committee and the FBI.

Keating sees nothing wrong with paying for politicians' influence, saying in April that, "We have the right to seek their help when we need it and demand it when justified."

Keating bluntly explained the purpose of his huge political contributions.

"One question, among the many raised in recent weeks, had to do with whether my financial support in any way influenced several political figures to take up my cause," he told reporters. "I want to say in the most forceful way I can: I certainly hope so."

But the government's racketeering suit, filed in September, contends that the money was never Keating's to give away and accuses him of looting Lincoln's federally insured deposits to fulfill his own political and social agendas.

From his huge donations to Mother Teresa, a nun who helps the destitute and dying, to the well-cut suits and $75 Hermes ties, Keating's searing desire has always been to look good.

Keating has carefully constructed an image as a doer of good deeds, philanthropist, defender of American virtue and devout Catholic.

At least twice, Keating has taken his family to the village of Medjugorje, Yugoslavia, where some Catholics claim the Virgin Mary appears to them.

And last year he flew a priest from Medjugorje to Phoenix, where more than 500 people joined Keating in reciting the rosary in the Crescent Hotel ballroom.

Friends and associates say he wants desperately to be liked. But he has ignited furious hatreds, especially among the 23,000 buyers of American Continental bonds, many of whom claim they were tricked into believing that the $230 million they collectively lost was federally insured.

"You don't go around taking people," said an angry 74-year-old man who bought $24,000 of Keating's uninsured bonds.

"There's been people shot for less."

Keating says he intends to repay the bondholders within 13 years.

Among Keating's defenders is Conley Wolfswinkel, a Mesa developer who received more than $100 million in loans from Lincoln Savings.

Wolfswinkel said he has "learned to really respect and admire" Keating and has enjoyed Keating's zest for making deals. He denounces regulators' claim in their racketeering suit that one huge Keating deal with Wolfswinkel was a "sham" sale that allowed Keating to record millions of dollars in phony profits.

Possessions sold

"I think that as the whole story unfolds and as testimony comes out on these deals, you're going to see this whole thing turn," he said.

He accused the regulators of making Keating a "scapegoat" for the thrift industry's problems.

Pressed to raise cash, Keating has sold two vacation houses on Cat Cay in the Bahamas and his boat, according to Keating's son. The private jets and helicopter are also sold, but Keating has hung onto his Paradise Valley home.

Until a takeover by federal thrift regulators in November, Keating also held onto his two hotels, the Crescent, off the Black Canyon Freeway at Dunlap Avenue, and its regal younger sister, The Phoenician Resort, embraced by Camelback Mountain. They are glittering monuments to Keating's

love of luxury and extravagance.

"Charlie only knows one class, and that's first class," said a former employee who recalled that when the hotels were under construction, Keating repeatedly and impetuously ordered costly changes.

Keating brought the same grandiose style to his savings and loan, taking risks with loans and investments that alarmed federal regulators. Ultimately, his high-flying brought him down, overwhelming Lincoln in a furious whirlwind of bad loans and failed investments.

Last July, lunching on halibut at The Phoenician's restaurant, Mary Elaine's, named after his wife, Keating said he regretted the purchase of Lincoln "daily, moment by moment."

"It's ruined my life."

CHARLES H KEATING JR.'S HISTORY

1923: Born in Cincinnati, the first of two sons of a dairy executive.

1941: Joins the Navy and is trained as a pilot.

1948: Earns law degree at University of Cincinnati.

1949: Marries Mary Elaine Fette. They raise six children.

1953: Becomes a senior partner in a law firm that represents financier Karl Lindner's American Financial Corp.

1956: Forms anti-pornography organization, Citizens for Decent Literature, which is later renamed Citizens for Decency Through Law.

1969: Campaigns for younger brother, Bill, who wins his first of two terms in the U.S. House of Representatives.

1972: Becomes executive vice president and director of American Financial.

1976: Moves to Phoenix from Cincinnati to take over Continental Homes Inc. of Arizona for its parent company, American Financial Corp. He acquires the firm and creates American Continental Corp., becoming its chairman and president.

1979: Signs a consent decree with the U.S. Securities and Exchange Commission, which had alleged that during his tenure with American Financial he helped make $14 million in improper loans to insiders of a Cincinnati bank controlled by American Financial.

1984: Buys Lincoln Savings and Loan Association of Irvine, Calif., with $51 million raised in a junk-bond issue through Drexel Burnham Lambert's Michael Milken. Lincoln immediately turns away from home-mortgage lending and uses federally insured deposits for such high-risk investments as undeveloped land and junk bonds.

1985: Sells Continental Homes. Concentrating on Lincoln Savings, Keating battles regulators who want to limit its high-risk investing.

1986: Accuses thrift regulators of harassment as they begin a lengthy examination of Lincoln's books that will lead to allegations of fraudulent land transactions and mismanagement.

April 2, 1987: At Keating's request, Senators Dennis DeConcini, D-Ariz., and John McCain, R-Ariz., join Alan Cranston, D-Calif., and John Glenn, D-Ohio, to meet in DeConcini's office with Edwin Gray, then chairman of the Federal Home Loan Bank Board, to discuss regulation of Keating's S&L.

April 9, 1987: The four senators, along with Sen. Donald Riegle, D-Mich., meet again in DeConcini's office with officials from the bank board's San Francisco office.

May 1, 1987: The San Francisco-based regulators of the bank board recommend that Lincoln, although solvent, be seized for operating in a financially unsafe and unsound manner and dissipating its assets. Two months later, M. Danny Wall succeeds Gray as bank board director.

May 20, 1988: The bank board shifts responsibility for supervision of Keating's thrift from San Francisco to headquarters in Washington. In Phoenix, Keating leads employees in raucous celebration.

December 1988: A bank board report says Lincoln does not have the capital required by regulations.

April 13, 1989: American Continental Corp. files for protection from creditors under Chapter 11 of the U.S. Bankruptcy Code.

April 14, 1989: Bank board takes over Lincoln, claiming it is operating in an unsafe and unsound fashion. Losses are estimated to have increased by $1 billion in the two years since San Francisco recommended seizure.

Sept. 15, 1989: The Resolution Trust Corp., a new agency with jurisdiction over Lincoln and other insolvent thrifts, seeks $1.1 billion from Keating, his relatives and associates in a fraud and racketeering suit alleging that Keating diverted depositors' money for his own use.

Oct. 17, 1989: Rep. Henry Gonzalez, D-Texas, chairman of the House Banking Committee, launches the first of at least six hearings investigating Lincoln's collapse. Federal Deposit Insurance Corp. Chairman L. William Seidman estimates that taxpayers will have to spend $1.5 billion to $2 billion to cover Lincoln's federally insured losses.

Nov. 16, 1989: Federal regulators and FBI agents remove Keating and his associates from management of the Crescent and Phoenician hotels in Phoenix. The takeover is made possible when Keating's Kuwaiti partners, who own a 45 percent interest in the hotels, drop their support of Keating and allow federal officials to appoint new managers. A Lincoln subsidiary holds a 55 percent interest in both hotels, but management changes required the consent of holders of 75 percent of the stock.

Nov. 17, 1989: Senate Ethics Committee hires Washington, D.C., attorney Robert S. Bennett to investigate whether the senators who met in 1987 with federal regulators were improperly influenced by Keating's contributions to their campaigns and/or related political organizations.

Nov. 21, 1989: Keating invokes his Fifth Amendment right against self-incrimination and refuses to testify before the House Banking Committee.



The Arizona Republic

Keating, who has cultivated his image as a devout Catholic, has made huge donations to Mother Teresa, a nun who helps the destitute and dying.

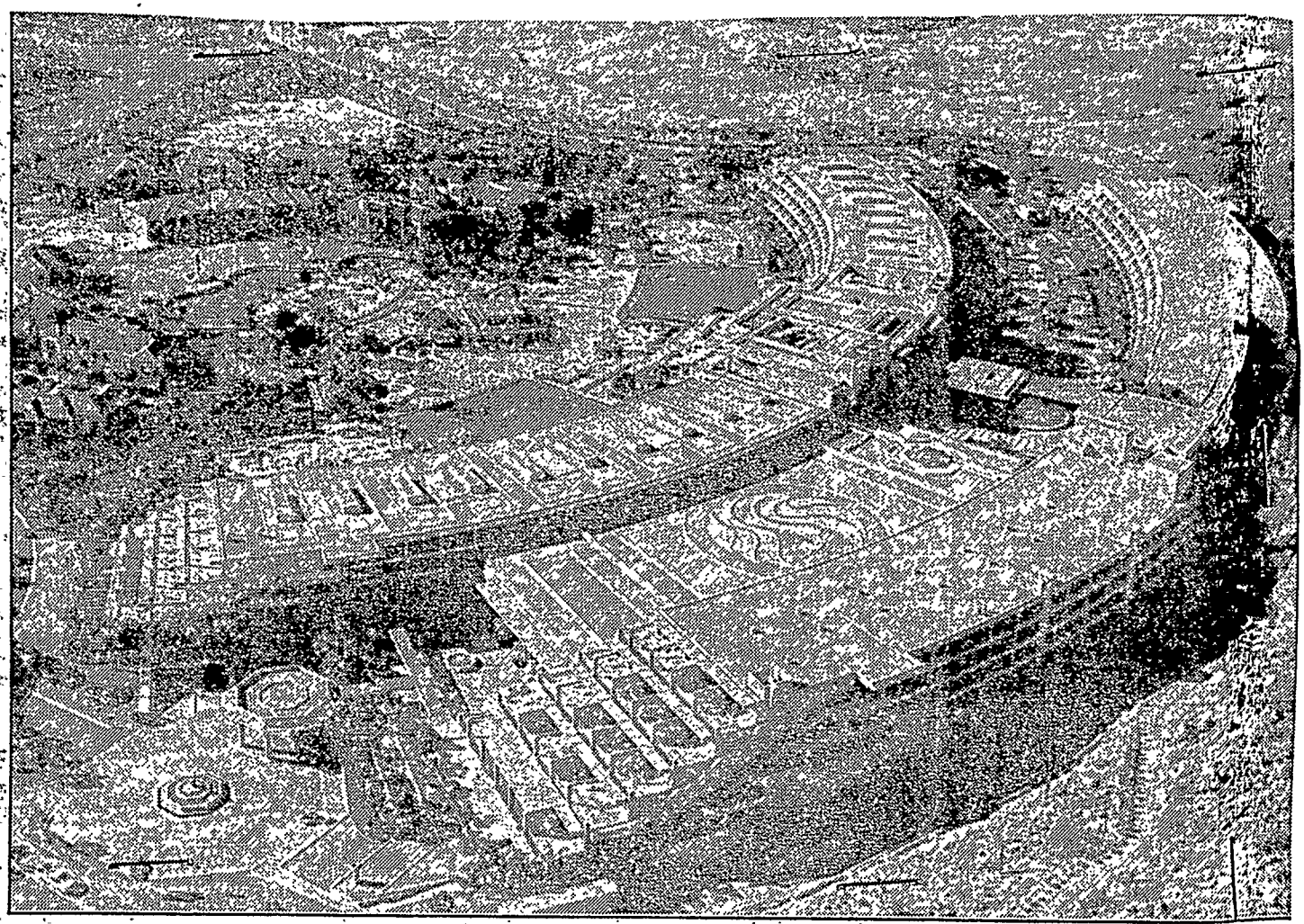


Keating held his wife, Mary Elaine, close during a news conference earlier this year. The other people are not identified. Six of American Continental's top executives were Keating relatives, and a number of other relatives, including his wife, were on the payroll at various times.



Michael Meister/The Arizona Republic

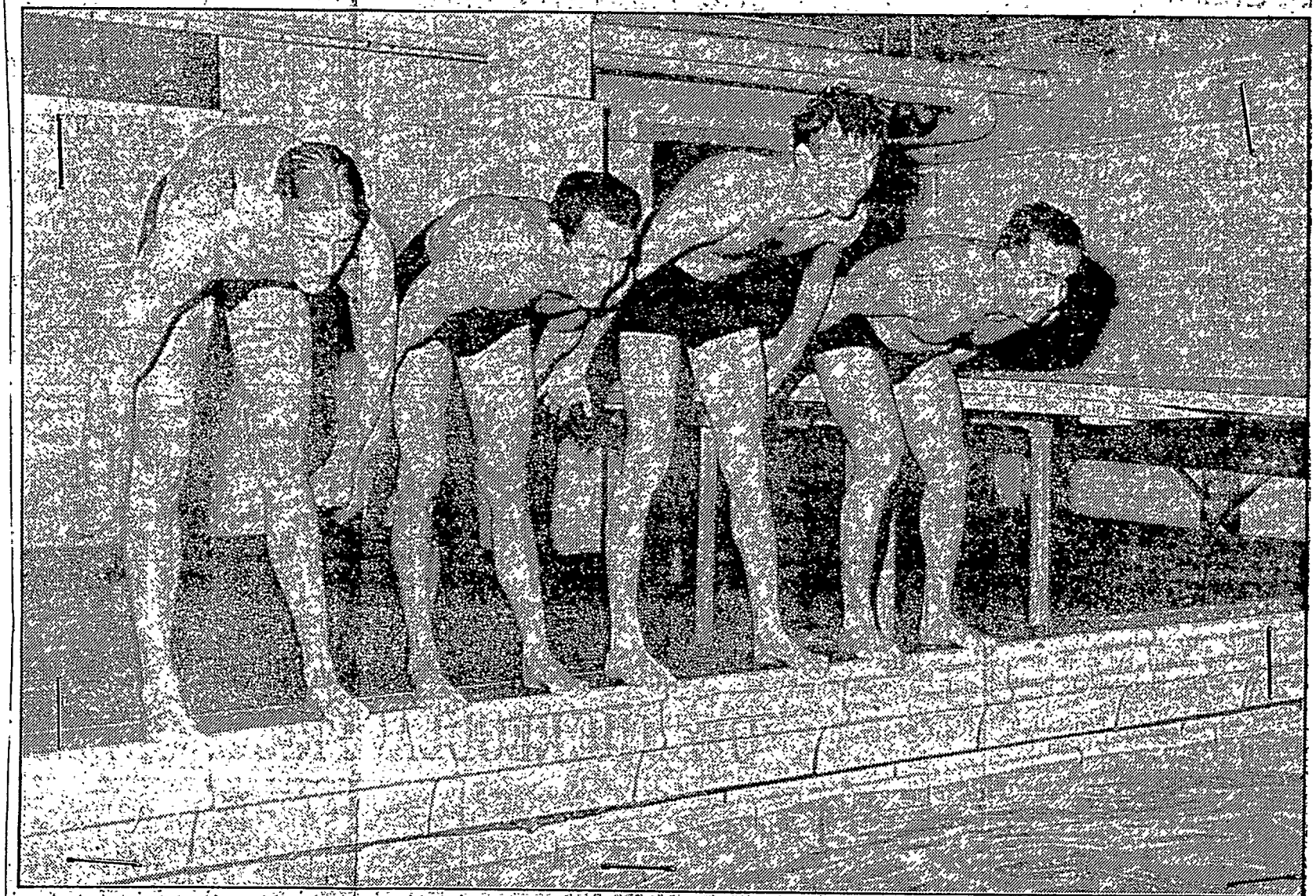
Friends and associates say Charles H. Keating Jr. wants desperately to be liked. However, the entrepreneur who formed American Continental Corp. has ignited furious hatreds.



The Phoenician Resort (pictured), embraced by Camelback Mountain, and the Crescent, off the Black Canyon Freeway at Dunlap Avenue, are glittering monuments to Keating's love of luxury and extravagance. "Charlie only knows one class, and that's first class," says a former employee.

Tom Story/The Arizona Republic

CHARLES KEATING: FROM RICHES TO RUIN



Sports Information Office/University of Cincinnati

Charles H Keating Jr. (left) was a swimmer at the University of Cincinnati. A fellow student at the school says Keating "was always a leader, very aggressive."

FD-350 (Rev. 5-8-81)

(Mount Clipping in Space Below)

Congress to blame in Lincoln disaster

The hue and cry go up: Fire Danny Wall!

After all, was it not Wall who fiddled while Lincoln Savings & Loan Association burned?

And wasn't it Wall who sat on his hands while other savings and loans lost billions of dollars?

Well, the answer to both questions is yes and no.

Yes, Wall waited until two years after his appointment as chairman of the Federal Home Loan Bank Board to close down Lincoln. But no, he wasn't just twiddling his thumbs in the meantime.

Wall was waiting for his beleaguered team of regulators to complete one untainted review of the thrift to ensure that any actions against Charlie Keating's cash cow were unimpeachable.

Those same regulators were being inundated with thrifts falling out of the skies over Dallas and Houston.

And, yes, Wall's apparent sweetheart deals with several thrift buyers are questionable at best. But no, he was following the suggestions of his own regulator, the Congress, in most of his activities.

Still, go ahead and fire Wall. There are many who believe that the havoc of the savings and loan debacle cannot heal as long as Wall sits like salt in the wound.

But the fact remains, M. Danny Wall is not the villain in this case. For that matter, one may not exist.

Keating and others like him are not so villainous as we would paint them, though their actions are reprehensible. For equally at fault were those who either ignored warnings or refused to perform basic research before placing their money in the failing thrifts' accounts.

The closest there is to a villain is Congress itself, for knuckling under and giving thrifts the right to make real estate and securities investments without arranging sufficient regulation.

Yet let us pin our sins to Danny Wall and send him through the gate to oblivion, and be done with it.

The one fact remains that no matter whether Wall or Keating, or any of the five senators who participated in the meetings on Lincoln, finally are hanged, it will be the taxpayers who foot the bill for the funeral.

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(Mount Clipping in Space Below)

DeConcini and McCain recalls studied

By Don Harris
The Arizona Republic

Political activists Ed Buck and Jon Seidl met Wednesday to consider dropping a recall effort against Sen. Dennis DeConcini and launching simultaneous drives to recall DeConcini and Sen. John McCain early next year.

DeConcini, a Democrat, and McCain, a Republican, are the targets of a U.S. Senate Ethics Committee inquiry into their involvement with troubled financier Charles H Keating Jr.

Buck, who engineered a recall drive of then-Gov. Evan Mecham, could not be reached for comment.

But Seidl, who is spearheading the drive against DeConcini, said that although no final agreement has been reached, it is likely he and Buck will join forces.

For now, Seidl said, Buck is seeking to avoid the need for recall drives by appealing to each senator to resign.

Before their meeting, Seidl said that a dual drive to recall both Arizona senators would have a better chance of success.

"Eight out of 10 people who wouldn't sign our (DeConcini) petition wanted to know why we didn't have a McCain petition," Seidl said.

"They said they would have signed both, but not just one. Almost all of them mentioned the Keating thing."

Spokesmen for both McCain and DeConcini have downplayed the significance of a joint recall effort, maintaining that the senators have done nothing wrong.

DeConcini, McCain and three other U.S. senators are

See DeConcini, page B15

DeConcini, McCain recalls studied

DeConcini, from page B1

accused of interceding with federal regulators in connection with Keating's Lincoln Savings and Loan Association, which later was taken over by the federal government. The cost to taxpayers to cover insured deposits has been estimated at more than $2 billion.

Meanwhile, Seidl said he will not call off his current DeConcini recall drive until mid-December, when it will become clear whether he has a chance to collect enough signatures.

Seidl has until Jan. 6 to obtain 291,135 valid signatures of registered voters. He estimates he has collected slightly fewer than 200,000 signatures.

Still to be decided by Buck and Seidl is what their roles would be.

Seidl said he anticipates a lower profile and dropping mention of DeConcini's sponsorship of a bill that would ban the sale of nine automatic weapons.

"People have branded me as a gun nut, and that has hurt the campaign," said Seidl, who manufactures magazines for military and police rifles.

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(Mount Clipping in Space Below)

Root causes of the Keating affair

Editor:

For months the "Keating Five" affair has been prominent in the news media across the land with appropriate amounts of disdain for Charles Keating and ridicule for the five senators. Nowhere near enough attention has been given to the root causes.

• The five merely reflect their constituency, which is infected with the twin ailments of something for nothing (a derivative of the world's fundamental evil of envy) and dollar ethics, in which the most outlandish behavior and appearance are excused by and for sufficient sums of money. No one loves a piker — hence Sen. Alan Cranston is almost immune, while Dennis DeConcini (he doesn't have any of the money!) gets it from every corner.

• Our federal government has gotten itself, via efforts of a long line of other "Fivers," into the position of being able to grant immense favors, but of having to absorb the cost of mistakes made by foolhardy, if not criminal, private citizens. How can anyone doubt that those Federal Deposit Insurance Corp. and Federal Savings and Loan Insurance Corp. guarantees would not one day require performance? The biggest is yet to come, because the entire concept of government intervention into the market economy has been as perverted as it was ill-conceived.

Since Mr. Keating did what most of us aspire to do, we are not nearly as mad at him for wrongdoing as we are envious that he made it to the federal trough in a big way while we haven't. (We will keep trying, although most of us will only succeed modestly via Social Security, if we live long enough.)

Sens. John McCain and DeConcini will be re-elected because both parties will call a truce on this issue to assure Arizona's seniority (the ability to extract benefits from other states and grant favors within ours) in the U.S. Senate is not lost, and because the memory of the electorate is reliably blank by the time elections roll around.

I take no comfort in any of this, but only hope that the nation's citizenry will soon realize the root causes and get fed up enough to vote for people who run on platforms to do less for (not more to) their constituency.

R.D. PRICE
Phoenix

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INDEX
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FBI/DOJ

Keating draws ABC, CBS news shows to Phoenix

Tired of seeing Arizona pilloried in the national media for its bizarre politics and sagging economy?

Brace yourself.

Last week, ABC's Sam Donaldson was in town preparing for a *Primetime Live* segment about Arizona's own Charlie Keating. And this week, a crew from CBS' *60 Minutes* is due in to research a similar project.

Conveniently, the *60 Minutes* crew will stay at the Phoenician Resort, which the federal government seized from Keating last month.

One person who *won't* be appearing on camera is Bruce Babbitt. The former governor blasted Keating in October and criticized Sens. Dennis DeConcini and John McCain for interceding with federal regulators in Keating's behalf after receiving humongous contributions.

"I'm not eager to be a part of a crusade against the Arizona community," Babbitt said last week when asked why he turned down a *60 Minutes* interview.

"Before this is all over, there's going to be a pile of mud over this state that I don't want to be a part of throwing."

Is GOP infighting over?

State Senate President Bob Usdane says the obstructionist "Rule of Nine" is dead, and Gov. Rose Mofford says she believes him. Now we can expect the GOP caucus to work together, right?

Wrong.

In fact, the divisiveness of the Senate Republican caucus appears to be spreading like cancer to the House. A band of right-wingers from both chambers has contracted with conservative consultant Bob Robb for a statewide poll.

"The purpose of the poll is to get a sense of how people feel about taxes and whether they want them raised," said Rep. Karen Mills, R-Glendale.

Mills and Rep. Jim Skelly, R-Scottsdale, last week sent a memo soliciting funds for the January survey to 19 of their House and Senate colleagues.

It's ironic that this group of fiscal conservatives needs to spend $4,250 to determine whether people want their taxes raised. The key, of course, is whether respondents simply will be asked about taxes or whether they'll be asked which services should be cut to erase an expected $400 million state budget deficit.

Others contend the poll will further splinter the GOP. They worry that it is designed more to provide anti-taxers with ammunition than to generate new info about voter priorities.

Pro-choicers surface

Pro-choice Republicans used to be pretty hard to find in Arizona.

Oh, sure, they were always around. But they kept a pretty low profile until the Supreme Court ruled this summer that states could begin restricting abortion rights.

Times are changing.

Remember Mary Crisp, the former GOP national committeewoman from Arizona who resigned in 1980 when the party refused to endorse the Equal Rights Amendment? She has recruited Phoenix activist Janie Sperry to organize Arizona Republicans for Choice, part of a national movement dedicated to changing the party's anti-abortion stance and electing pro-choice Republicans.

Sperry says she already has collected the names of about 4,000 likely members and is forwarding them to the group's Washington, D.C., headquarters.

Look for a battle royal.

A Bill Davis nightmare

The Arizona Senate may have washed its hands of the fly-by-night Bill Davis, but Sen. Leo Corbet hasn't.

Corbet, a north Phoenix Republican, is scheduled to go to court Jan. 8 to contest a ruling requiring him to pay about $400,000 in lease costs associated with a now-defunct Mexican restaurant in Glendale that Corbet sold to Davis in 1985.

You remember Davis: The preacher-turned-politician who was accused in 1986 of bilking an elderly couple out of their life savings. Davis was rebuked by the Senate Ethics Committee and lost his seat in the 1986 GOP primary.

Davis, under investigation by the Alabama Security Commission over an unrelated fraud allegation, has disappeared. That's why the property owners are suing Corbet, who guaranteed the lease.

Corbet contends Davis agreed never to hold him responsible for the lease and related bills.

"Billy's already cost me $85,000 to $90,000," said Corbet, who is selling real estate in Bullhead City to make ends meet.

"I wish I'd never met the guy."

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(Mount Clipping in Space Below)

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(Mount Clipping in Space Below)

Financial victims of Keating empire

Creditors are left waiting in wings

By Lisa Morrell
The Arizona Republic

David York isn't interested in the national scandal surrounding the fallen empire of Arizona businessman Charles H. Keating Jr. and his Lincoln Savings and Loan.

All York wants is the $130,000 he claims he is owed for making the trellises and handrails for Keating's $260 million Phoenician Resort. The money could mean the difference between survival and extinction for York Metal Fabricators, his 25-year-old family business in Oklahoma City.

"We're struggling," York said. "I'm surprised we've hung on this long."

York said that once again, there will be no Christmas bonuses for his two dozen employees this year.

As a creditor, York became a victim when Lincoln's parent company, American Continental Corp., and 11 Lincoln subsidiaries filed for protection from creditors under Chapter 11 of the U.S. Bankruptcy Code on April 13. That was one day before federal thrift regulators seized Lincoln and its $5 billion in assets.

York and other creditors now have to wait for the Bankruptcy Court to resolve the matter.

He and thousands of others have been victimized by the thrift's failure because of the loss of investments, jobs, equity or just professional reputation.

Citizens' confidence in government and certain elected officials has been shaken.

Arizona's economy has been hurt by the repercussions of American Continental's failure.

Every U.S. taxpayer is victimized, because it ultimately will cost each one about $20 to cover Lincoln's federally insured losses.

Some victims may recover some of their losses through lawsuits, but nearly every one of them will lose financially or psychologically.

TAXPAYERS

The nation's 100 million taxpayers make up the largest group of victims in the fall of Keating's empire.

Lincoln's loss, estimated at $2 billion, is potentially the largest single

— See **CREDITORS**, *page A14*

American Continental Corp.'s failure will touch the life of virtually every person in the United States. Most are affected slightly. Thousands of victims, though, are suffering from the loss of their savings, their jobs or reputation. These are some of their stories, by Lisa Morrell of *The Arizona Republic*.

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FBI — PHOENIX

FBI/DOJ

Creditors reeling in the rubble of American Continental

— CREDITORS, *from page A1*

bailout in the nationwide S&L debacle.

The bailout is expected to cost $160 billion, more than the $140.6 billion spent by the United States to fight the Vietnam War.

"The S&L bailout, which was in many ways the biggest consumer rip-off in American history, was made necessary because of the activities of alleged swindlers like Mr. Keating," said Michael Waldman, director of Public Citizens Congress Watch of Washington, D.C., a consumer-advocacy organization founded by Ralph Nader.

Keating attorneys have refused to answer questions about the case.

BOND INVESTORS

Count investors as the hardest-hit individuals in the collapse, especially the 23,000 people who invested more than $230 million in American Continental's unsecured junk bonds. More than 540 of those investors are Arizona residents.

Bondholders claim they were duped into believing the now-worthless, high-risk bonds were safe investments. They are among the investors who say they were given a misleading financial picture of American Continental and are suing the company in California and Arizona.

The bondholders, as a group, have concluded that government officials were aware of American Continental's poor financial condition but failed to cease the bond sales. They want the government to compensate them for their losses as though the bonds were federally insured.

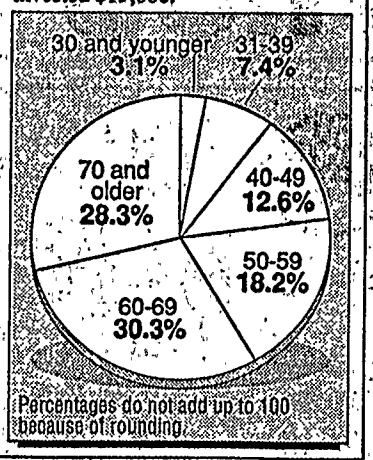
Leah Kane, an organizer of bondholders in Laguna Hills, Calif., said the stress of losing their life's savings has caused some older investors to suffer heart attacks, headaches and other illnesses.

STOCKHOLDERS

American Continental's 1,221 stockholders have seen the value of their shares fall to 5 cents from $7 in February.

AGES OF AMERICAN CONTINENTAL CORP. BONDHOLDERS

From 1,100 interviews with bondholders by investors' attorneys. On average, each bondholder invested $19,000.



The Arizona Republic

Federal Securities and Exchange Commission filings last year showed that 15 top executives, including Keating and his family members, owned 13.9 million, or 87 percent, of the Phoenix company's 15.9 million common shares outstanding. Based on those numbers, that insider group saw its stock holdings drop to $695,000 from $97.3 million.

A stockbroker, who asked not to be identified, said he recommended American Continental to clients and invested heavily himself. He said he is taking heat now.

"Everything's been construed as if we were the villains instead of the victims," he said.

He said he never would have invested had he seen a true financial picture of Lincoln and American Continental. He blames American Continental and its accountants for duping investors.

CREDITORS

More than 25,000 businesses and individuals are owed more than $2.7 billion by American Continental and 11 Lincoln subsidiaries. For now, those creditors must wait while the Bankruptcy Court oversees the companies' reorganization.

Ten of the 11 Lincoln units now under government control can cover their debts, but it'll be a long time before creditors get any money.

American Continental creditors face an even bleaker outlook, because the company has $210 million in assets against debts of $388 million.

The owner of a small pool-supply store in Phoenix who is owed $14,000 by American Continental and who didn't want his name published said he has had to cut his monthly income in half since the company's bankruptcy filing.

BOND SALESPEOPLE

Even the American Continental and Lincoln Savings and Loan employees who sold the now-worthless American Continental bonds consider themselves victims.

Many believed so much in what they were selling that they invested or persuaded family members to invest. Forty current employees of Lincoln, which is based in Irvine, Calif., and their families invested a total of $1 million in their employer's bonds that they have now lost, according to a survey by Lincoln's current management.

OTHER EMPLOYEES

At least 250 of about 2,500 American Continental employees were laid off this year as the firm sought to cut expenses. Many are finding that their affiliation with Keating is hampering their job search.

After the former public-relations director of American Continental wasn't receiving even initial responses from at least five potential employers, she began calling them to ask why.

"They said they weren't interested in getting involved in the controversy (surrounding Keating)," said Patricia Johnson, a 12-year veteran of the public-relations business. Her job was eliminated in April.

Employees of Lincoln Savings said



Charles Krejcsi/The Arizona Republic

Gerald Murphy heads the firm that built The Phoenician. In 1988, Charles H Keating Jr. stopped paying the builder, saying subcontractors did shoddy work.

they suffered uncertainty and worry from the federal regulators' seizure of Lincoln's operations in Arizona and California, including Lincoln's offices in both states and the Phoenician Resort in Scottsdale.

Government managers fired some employees. Others have left or want to leave because they see no future with government-run Lincoln, one employee said.

BUSINESS ASSOCIATES

In October 1988, after the Phoenician Resort opened, Keating stopped paying the builder of his lavish resort, McCarthy Western Constructors Inc.

Keating said McCarthy's subcontractors did shoddy work and overcharged him.

McCarthy sued Keating's companies for $20 million.

Keating countersued, accusing the contractor of racketeering.

Gerald Murphy, president of McCarthy, maintains the subcontractors did top-notch work. About 50 of those subcontractors still are owed money.

Although most of his customers know McCarthy is a solid company, Murphy said, the dispute with Keating has hurt business.

Murphy said his firm was rejected for two projects totaling $50 million because of project managers' concerns about problems with the Phoenician Resort.

With the federal government now in control of the Phoenician Resort, Murphy hopes to negotiate an out-of-court settlement with the government.

A Japanese company in partnership with American Continental believes the company cheated it out of more than $10 million, according to Douglas Brown, a Los Angeles attorney representing Taiyo Real Estate Co. of Kyoto.

Since 1986, American Continental "took over money and then basically didn't do anything," Brown said.

Taiyo stands to lose money it gave Keating's companies for a 60 percent interest in The Crossings, a residential and commercial project in Mesa. Taiyo filed suit against American Continental and others in early 1989 in U.S. District Court in Los Angeles. The bankruptcy action has put the lawsuit and project on hold.

ARIZONA ECONOMY

American Continental's downfall ranks among the biggest single financial disasters in Arizona's history.

The avalanche of publicity nationwide about Keating's woes has furthered the image that Phoenix is in an economic downturn, said Elliott Pollack, chairman of Pollack/Ramras Cos. of Phoenix, a real-estate development and economic consultant.

Real-estate experts say added negative publicity could scare off investors and dampen business opportunities.

Other Arizona developers have been burned in the real-estate crash that followed the frenzy of land speculation in the mid-1980s, said Philip Dion, chairman of Del Webb Corp. of Phoenix, a retirement-community developer.

"Lincoln was certainly one of the major players that pushed prices way beyond economic reality," he said.

Lincoln's assets total $2 billion to $3 billion of the $13 billion that are under federal thrift managers' control in Arizona.

"What the Lincoln thing threatens to do is to intensify the downturn in real-estate values and prolong the turnaround," said Robert Eggert, chief economist of Eggert Economic Enterprises Inc. in Sedona.

CHARITIES

Keating, through American Continental, contributed heavily to charities. From 1984 to 1986, the company gave more than $6 million to charities in the Phoenix area and worldwide, including Mother Teresa's Missionaries of Charity.

American Continental's crash has changed all that.

— See KEATING, page A15

Keating leaves trail of victims

— KEATING, *from page A14*

Paul Gesicki, acting director of the St. Vincent de Paul Society in Phoenix, said American Continental has informed the society it is unable to contribute any longer.

The loss of the $100,000 the company promised for each year until 1993 "makes it more difficult to survive each month," he said.

POLITICAL SYSTEM

The influence-peddling scandal surrounding five U.S. senators who went to bat for Keating after they received hefty contributions has shaken people's faith in the integrity of the country's political system and discourages them from participating, said Waldman, of Public Citizens Congress Watch.

He said the case is a "microcosm" of the problem of politicians serving contributors at the expense of constituents.

The senators — Republican John McCain and Democrat Dennis DeConcini, both of Arizona, and Democrats Alan Cranston of California, John Glenn of Ohio and Donald Riegle of Michigan — had two unusual meetings in April 1987 to question thrift regulators who were bearing down on Keating's questionable business practices. Their campaigns or related political organizations had taken in about $1.3 million from Keating, his family or associates.

"When large contributors can win the ear and support of members of Congress, that gravely damages the system's ability to represent all citizens," Waldman said.

The relationships between Keating and the senators highlight the need for campaign-finance reform, he said.

FD-350 (Rev. 5-8-81)

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One Keating may be dropped from suit

BY BERNIE SHELLUM
Free Press Business Writer

William Keating is negotiating to have himself dropped from the federal government's lawsuit against his brother, Charles Keating Jr., and 34 others in exchange for his cooperation in investigations of Lincoln Savings & Loan Association, a source close to thrift regulators said Monday.

The source, who spoke on condition that he not be identified, cautioned that the deal is tentative and may not be wrapped up for two weeks.



William Keating

William Keating, chief executive officer of the Detroit Newspaper Agency, which runs the business affairs of the Free Press and Detroit News, did not return phone calls Monday.

The source said the government hopes to make a deal because it has little chance of winning a damage award against William Keating in its $1.1 billion civil suit, filed in federal court in Phoenix on Sept. 15.

The source said William Keating was a director of American Continental Corp., Lincoln's owner, for only five months and attended only two board meetings before resigning in August 1986.

The lawsuit, in which the government accuses William Keating of gross negligence and two other counts, says he served as an ACC director for 13 months, from Feb. 27, 1986, to March 25, 1987.

Keating was named chairman of the DNA, which runs the Detroit newspapers' joint operations, in April 1986.

In pressing the lawsuit, the Resolution Trust Corp., the federal agency that regulates the savings and loan industry, has argued that ACC's directors should be treated as if they also were directors of Lincoln.

With losses estimated as high as $2.5 billion, Lincoln ranks as the nation's biggest thrift failure and is now at the heart of a political controversy because of the intervention with regulators of five U.S. senators — including Michigan's Donald Riegle — who received hefty campaign contributions from Charles Keating and other ACC executives.

Chester Kamin, William Keating's attorney, told the Free Press two weeks ago that he would try to have his client dropped from the suit because of his short term as a director, but has yet to file a motion.

The exact terms of the deal Kamin is negotiating could not be determined Monday, and Kamin could not be reached for comment.

Charles Keating and other members of his family are defendants in several lawsuits, and the FBI, the Securities and Exchange Commission, and the U.S. Attorney in Los Angeles are investigating Lincoln.

In the Phoenix suit, the Resolution Thrift Corp. argues that Charles Keating masterminded a series of deals that enabled him and other ACC executives to loot the thrift of hundreds of millions of dollars before regulators seized it April 14.

If William Keating left ACC's board in August 1986, it means he will likely avoid legal entanglement in one of the alleged schemes — a $20 million loan in December 1986 by two Lincoln subsidiaries to owners of the Hotel Pontchartrain, which

(Indicate page, name of newspaper, city and state.)

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included Charles Keating and other ACC executives. Regulators denounce it as a clear-cut violation of conflict of interest.

But other dealings that are the focus of lawsuits or criminal investigations did take place during William Keating's tenure as an ACC director, including:

- Enactment by ACC of a "tax plan" on March 14, 1986, in which the government contends Charles Keating and his associates illegally forced Lincoln to pay $94.8 million to ACC as taxes due to the federal government. They are accused of diverting much of the money to themselves.
- At least $250 million in high-risk ACC bond sales through Lincoln's branch offices in southern California. William Keating's name appears as an ACC director on an April 17, 1986, prospectus that states the terms of the bonds. When Charles Keating placed ACC in Chapter 11 bankruptcy on April 13, the bonds lost their value, and holders are now suing on grounds of fraud.
- According to official reports by regulators, Lincoln also made dozens of loans from March-July 1986, without any financial analysis or credit reports on the borrowers, and in some case loaned money without appraisals or even completed loan applications.

During a four-year period that included William Keating's tenure as an ACC director, Charles Keating and other members of his family took $34 million out of the company in salaries and stock sales, according to regulators.

William Keating is not cited as a recipient of any money other than his pay as a director. In 1986, federal regulators found that William Keating was paid $10,000 in directors fees from ACC.

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(Indicate page, name of newspaper, city and state.)
Detroit Free Press
Detroit, Mi.
Date: 12/16/89
Edition: Editorials

Title: Sen. Donald Riegle

Character:
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One-sided reporting

I am appalled at the one-sided reporting of Free Press writer David Everett in his coverage of Sen. Donald Riegle's relationship with Lincoln Savings and Loan ("Riegle compares efforts for thrift, Detroit JOA; conduct defended in letter to the Free Press," Dec. 8). Contrary to the facts, Everett has made up his mind that Riegle is guilty of some wrongdoing and has decided to convict Riegle through his news stories.

In the Dec. 8 article about a letter that Riegle wrote the Free Press, Everett points out that Knight-Ridder did not contribute to Riegle's campaign and that the head of Lincoln did. What is not mentioned is that Riegle went out of his way to help a company that did not contribute to his campaign.

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FD-350 (Rev. 5-[illegible] 1)

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Keating 'knew of no wrongdoing,' his lawyer says

By Gregory Gordon
News Washington Bureau

WASHINGTON — Detroit Newspaper Agency head William Keating has informed government lawyers that he knew of no wrongdoing while briefly serving as a director of the parent company of Lincoln Savings and Loan and did not attend a board meeting after May 1986, according to sources familiar with the matter.

William Keating's Chicago lawyer, Chester Kamin, has indicated that his client "doesn't know much of anything" about Lincoln, a source said.

At the insistence of lawyers for the Resolution Trust Corp., Keating pledged to cooperate in federal investigations focusing on his brother Charles as one condition of his being relieved of legal responsibility for Lincoln's collapse, sources said. Charles Keating controlled Lincoln and its parent company, the American Continental Corp.

Minimizing the significance of the cooperation clause, one source said that if William Keating knew "a lot that was damaging," the government would be reluctant to drop him from legal action.

THE NEWS reported Monday that government lawyers, pursuing a $1.1-billion damage suit against the Keatings and 18 others stemming from Lincoln's failure, are preparing to seek dismissal of the three counts against William Keating. The thrift's failure could cost taxpayers more than $2 billion.

Keating's lawyer has persuaded them that Keating served more briefly on the board of American Continental Corp. than the one-year term indicated by public records and attended only two, inconsequential directors' meetings, sources said.

WILLIAM KEATING has agreed to be interviewed by investigators if they are not satisfied with his lawyer's representations about his scant knowledge of the affair, the sources said. They said there are no significant disagreements over the deal recently worked out between William Keating and the government, but that it may take longer than originally thought for lawyers to set it to writing.

The sources said that, according to Kamin, William Keating contends he was unaware that his brother and other American Continental executives allegedly were requiring Lincoln to begin paying $94 million to the parent firm to cover future taxes — money that never was passed on to the Internal Revenue Service. He also has professed no knowledge of other alleged irregularities, such as American Continental's floating of $230 million in unsecured junk bonds that victimized numerous elderly people or the award by Lincoln of large loans without proper underwriting documents, the sources said.

(Indicate page, name of newspaper, city and state.)

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William Keating: Attended two board meetings.

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THE DETROIT FREE PRESS
DETROIT, MICHIGAN

Date: 12/13/89
Edition:

Pg. 6(A)

Title:
CHARLES KEATING

Character: 58C-PX-41605*
or
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Senators made appeal for sale of troubled thrift

WASHINGTON — Two senators made last-minute appeals to top banking regulators urging a sale — rather than government seizure — of Lincoln Savings & Loan last spring after being lobbied on behalf of the owner and a potential buyer, according to interviews and documents.

Before the April 14 seizure, Sens. Dennis DeConcini, D-Ariz., and Alan Cranston, D-Calif., asked the nation's chief thrift regulator to approve any legal and proper sale of Lincoln — owned by a major campaign contributor, Charles Keating Jr. Aides to the senators said the intervention resulted from their desire to save taxpayers money and to preserve jobs at Keating's companies.

FROM OUR READERS

Sen. Riegle needs a quick course in ethics

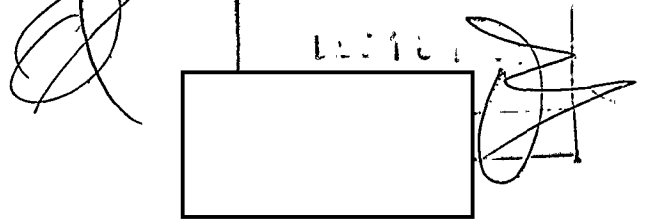
U. S. Sen. Donald Riegle's Dec. 8 reply to Free Press Editor Joe Stroud's Dec. 3 column was an insult to my intelligence ("Constituent service and public interest are the same in S&L and JOA cases").

The distinction made in your editor's note, that Knight-Ridder Inc. had not made monetary contributions to the congressional delegation's campaign funds, as had American Continental Corp., is paramount. If Riegle cannot understand the significance of this, he needs a high school course in ethics.

Secondly, though I am not in favor of the JOA, I can still buy the New York Times, Christian Science Monitor or Toronto Globe and Mail without it costing more than a nominal sum. The Lincoln Savings and Loan fiasco, on the other hand, is going to cost the taxpayers billions of dollars. There is no choice in the matter. Such disregard of the public is an example of deceit or extreme incompetence. In either instance, Riegle should be ousted.

Kalvin Garrity
Wyandotte

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(Indicate page, name of newspaper, city and state.)
Detroit Free Press
Detroit, Mi.
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Title: Influence, Money and Politics

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Indexing:

Influence, Money and Politics

The savings and loan scandal brings to the fore the whole question of money and political influence. Sen. Donald Riegle wrote a lengthy letter to the Detroit Free Press last week contending that his intervention with regulators on behalf of a California thrift was no different than writing a letter to the attorney general urging approval of the Joint Operating Agreement (JOA).

In fact, there was a big difference — $76,100 to be exact.

That's the amount of money that executives connected to the California S&L contributed to Sen. Riegle's 1986 re-election campaign. The Free Press says it offered nothing to Sen. Riegle in return for his services except the hope that some jobs might be preserved in his district if the JOA were approved.

It remains to be seen whether the contributions to Sen. Riegle from the thrift executives were in any way improper. There is nothing necessarily wrong or illegal about a senator or representative intervening with bureaucrats to make sure a constituent is receiving fair play. It's not right, however, for wealthy constituents to be able to buy favors that lesser constituents couldn't expect to receive. Sen. Riegle later returned the contributions, saying he wanted to avoid even the appearance of impropriety.

Sen. Riegle has never been shy about fund-raising. A September 1988 article in The News depicted how the senator received more than $17,000 in campaign funds from individuals connected to an Arkansas chicken-raising concern after he voted in favor of a measure exempting it from paying certain deferred taxes. In late 1986, this newspaper criticized a letter Sen. Riegle had sent to potential contributors, asking them to attend a $1,000-a-head fund-raising event and reminding them that he was about to take a seat on the important Senate Finance Committee.

Many critics believe that this sort of thing makes an argument for tightening campaign finance laws or even public financing of elections. As far as we are concerned, however, the best disinfectant remains sunlight — laws that require timely disclosure of campaign contributions.

When government is pumping out huge amounts of money and regulations, special interests will always find a way to jump to the head of the queue. The campaign finance laws already have been tightened considerably, and the main effect has been to make it tougher for political challengers to raise funds. Public financing would simply drive the competition for campaign funds under the table.

When Arizona financier Charles Keating was asked whether the $1.4 million in campaign funds that he raised for five U.S. senators, including Sen. Riegle, was intended to buy influence, he responded: "I certainly hope so." The donations are now the focus of numerous investigations to see if any laws were broken. It should generally be left to voters to decide whether they like their senator's or congressman's fund-raising habits, however. An informed voter is honesty's best friend.

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Riegle compares efforts for thrift, Detroit JOA

Conduct defended in letter to Free Press

BY DAVID EVERETT
Free Press Washington Staff

WASHINGTON — Michigan Sen. Donald Riegle, fighting back on questions about his conduct in the Lincoln Savings & Loan Association controversy, is comparing his actions in the Lincoln case to his support for a joint operating agreement between the Detroit Free Press and Detroit News.

In an eight-page letter to the Free Press, Riegle suggests that his and other Michigan congressmen's intervention on behalf of the JOA and Knight-Ridder Inc., the Free Press' owner, was stronger than his intervention in the Lincoln case.

Riegle was one of five senators who met with federal regulators in 1987 to discuss Lincoln's complaints that it was being harassed by regulators.

The Senate Ethics Committee is reviewing the senators' conduct. All five accepted large political contributions from officials associated with Lincoln or controversial Arizona developer Charles Keating Jr., who controlled the Irvine, Calif., thrift.

In his letter, Riegle compares his

See RIEGLE, Page 19A



"A transcript from the meeting ... shows my conduct to have been absolutely proper."

DONALD RIEGLE

Text of the letter, Page 15A.

(Indicate page, name of newspaper, city and state.)
Detroit Free Press
Detroit, Michigan
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FBI DOJ

meeting in Phoenix with Keating to one in Miami with then-Knight-Ridder Chairman Alvah Chapman Jr.

"He asked me to intervene on behalf of his company," said Riegle, referring to Chapman.

Riegle said that while he met with federal regulators to discuss Lincoln, he never suggested any course of action. And neither he nor his staff wrote any letters or made any calls to regulators regarding Lincoln, he said.

"By contrast, in the case of Knight-Ridder, I joined other members of Congress in making direct efforts to impact the administrative process in the JOA proceeding," Riegle wrote.

Those efforts, he said, included a Jan. 28, 1988, letter from 16 Michigan congressmen to then-Attorney General Edwin Meese III, who was considering the Free Press' proposed JOA with the News.

Meese said Thursday he never knew about the letter. "At no time was I influenced or contacted by anyone, inasmuch as great precautions were made to keep me from being contacted by anyone from the outside."

Meese approved the JOA in 1988 but it didn't begin until Nov. 27 because of a long court challenge. Under joint operations, the newspapers have combined their business operations but news and editorial functions remain separate and independent.

Riegle said his actions in neither case were improper.

Differences in the cases

According to other Michigan Congress members, the Lincoln and JOA cases have some major differences:

The government has filed a $1.1-billion fraud and racketeering suit against Keating, several relatives and other people in the Lincoln collapse. Keating also faces criminal investigations.

No suits have been filed against Knight-Ridder or the Free Press alledging fraud in the JOA matter.

In addition, a computer search of campaign contributions for Riegle in 1987-88 showed no contributions from officials of the Free Press, the News, Knight-Ridder, News owner Gannett Co. Inc., or the Detroit Newspaper Agency, which operates the newspapers combined functions under the JOA.

Riegle said that while he met with federal regulators to discuss Lincoln, he never suggested any course of action.

William Keating, Charles' brother, is chairman of the DNA. He is a defendant in the government suit in the Lincoln matter because he was a director of American Continental, its parent company, for about a year. The suit charges him with negligence.

William Keating has refused to discuss the suit, but his lawyers are trying to get him removed from it.

William Schultz, a Washington lawyer who represented the JOA opponents, had this reaction to Riegle's letter: "Oh, my God! Very clever."

Schultz said that while he disagreed with the lobbying by Riegle and the others on behalf of the JOA, he did not see any direct comparisons to the Lincoln matter.

In addition, a private meeting "sounds much more underhanded" than a public letter, as in the JOA case, Schultz said. But he added that Riegle's allegation on the JOA "serves you guys right."

The major difference, he said, was the lack of contributions from Knight-Ridder to Riegle, compared to the $78,250 Keating and his associates gave for the senator's successful 1988 re-election campaign.

The Federal Election Commission said Thursday it is investigating the Keating political contributions to Sen. John McCain, R-Ariz., one of the five senators in the Lincoln case. Officials said the review could extend to the other senators.

Most members of Michigan's congressional delegation would not comment directly on Riegle's letter.

'Asking too much'

However, Rep. William Ford, a Democrat who has opposed the JOA, said he did not sign the delegation letter to Meese because he thought Meese had acted unethically when he worked for President Ronald Reagan and because he thought the letter was an improper intervention.

"I thought it was asking us for too much," Ford said of Knight-Ridder's request for the letter.

Chapman, now chairman of Knight-Ridder's executive committee, confirmed in a statement Thursday that he met with Riegle in Miami in January 1988 and that Riegle and 15 other members of the Michigan delegation signed the letter to Meese.

"The letter was on the record and was one of several hundred other such letters sent by both public officials and private citizens in Michigan," Chapman said. "My colleagues ... and I were grateful to Sen. Riegle for his public and wholly legitimate efforts on our behalf."

The letter to the Free Press is part of what appears to be a new, aggressive tactic by Riegle to defend his conduct in the Lincoln controversy.

During the last two months, Riegle has avoided extensive media interviews on Lincoln, saying the Ethics Committee was the proper forum for the matter.

In recent days, however, Riegle has granted more interviews and is now on a three-day trip to Michigan in which he is meeting with television reporters, newspaper editorial boards and others to discuss Lincoln and other matters.

Riegle has returned $78,250 in contributions from Keating and his associates. Top federal regulators have said in sworn testimony that they were not influenced by Riegle and the other senators, but the Ethics Committee is considering whether to open a formal investigation of their conduct.

Mid-level regulators and some members of Congress are worried that the intervention by the senators delayed a federal takeover of Lincoln and thus increased the taxpayers' cost of the collapse to the current estimate of more than $2.3 billion.

Riegle said the situations of the Miami-based Knight-Ridder and the Phoenix-based American Continental were similar.

Both are out-of-state firms with Michigan outlets and Michigan jobs, he said, referring to the Free Press and to the Hotel Pontchartrain in downtown Detroit once controlled by American Continental.

Thursday night, during a taping of an interview at WXYZ-TV (Channel 7), Riegle noted that the Free Press had praised the company's plan, since abandoned, to expand the hotel and referred to the "good reputation" of Crescent Hotel Group, the Keating-controlled partnership that owned it.

"Obviously," Riegle said, "he (Keating) passed the judgment of your newspaper. His brother has come into town to run the JOA."

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(Indicate page, name of newspaper, city and state.)

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Detroit, Mi.

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Indexing:

Ethics inquiry may not be politically fatal for Riegle

By Gregory Gordon
Detroit News Washington Bureau

WASHINGTON — For the first time in his 22-year congressional career, Sen. Donald Riegle, D-Mich., faces a formal ethics investigation by his peers — a development that's sure to distract him in coming months.

The Senate ethics committee played Scrooge to Riegle and four other senators Friday, announcing it voted to start a "preliminary inquiry" into their ties to Charles H. Keating Jr., who ran California-based Lincoln Savings and Loan until it collapsed last spring.

Robert Kurz, a guest scholar at the Brookings Institution, said the investigation "certainly becomes a preoccupation and a distraction" for the senators. But "it need not be fatal" politically, he said.

Indeed, no Senate ethics investigation in history has led to expulsion — although Sen. Harrison Williams, D-N.J., quit in 1982 as the Senate moved toward expulsion after his Abscam bribery scandal conviction.

ON THREE other occasions in this century ethics inquiries led to public reprimands or censure. They were matters involvings Sens. Herman Talmadge, D-Ga., in 1980; Thomas Dodd, D-Conn., in 1967; and Joe McCarthy, R-Wis., in 1954. In each case, the reprimand resolution denounced conduct that brought the Senate "dishonor" and "disrepute."

In Riegle's case, the panel's vote to proceed with an inquiry already under way means the third-term Democrat failed to brush aside allegations surrounding his efforts to aid Lincoln after his 1988 reelection campaign got $78,250 in contributions from Keating and associates. Riegle sent the panel a six-page letter in his defense last October.

The other four senators — Alan Cranston, D-Calif., Dennis DeConcini, D-Ariz., John Glenn, D-Ohio, and John McCain, R-Ariz. — attended two meetings with federal regulators on Lincoln's behalf in April 1987 after receiving hefty campaign contributions from Keating's forces.

"The fact that the ethics committee found sufficient evidence to move forward is certainly an indication of the serious nature of these allegations," Kurz said. "It's premature to judge the outcome, but it means that you begin the new year with a cloud over part of the Senate."

DAVID KRAWITZ, Riegle's administrative assistant, shrugged off concerns about his boss' ability to do his job and chair the Senate Banking Committee while huddling with his lawyer about the inquiry.

"He's a tough guy," Krawitz said. "Ever since this whole story has broken, I've seen him work as hard as ever. We've been actually accomplishing a lot legislatively and we have high hopes to accomplish a great deal in the new year."

Fred Wertheimer, president of the citizen's lobby Common Cause that requested the investigation, said his group feels the committee has "taken the correct and appropriate steps so far."

Riegle and his colleagues, dubbed the "Keating Five," also face a preliminary FBI investigation and could be called to testify at further hearings on the estimated $2-billion Lincoln collapse before the House Banking Committee.

Congressional sources say staffers on the House panel are divided on whether to urge Chairman Henry Gonzalez, D-Texas, to delve further into the senators' politically embarrassing role.

Senior Democrats in the House and the Senate reportedly have tried to dissuade Gonzalez from pursuing the senators further because the political revelations could damage the party's chances of retaining Senate control in upcoming elections.

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Ethics committee steps up probe of Riegle, 4 others

BY DAVID WILLMAN
Free Press Washington Staff

WASHINGTON — The Senate Ethics Committee, after a 10-week review, announced Friday that it will begin a more formal investigation of Michigan Democrat Donald Riegle and four of his colleagues and their involvement with former savings-and-loan owner Charles Keating Jr.

The committee said it was advancing its initial review to a preliminary inquiry based on advice from its special outside counsel.

"Fairness to all requires a thorough and complete review of all relevant facts and circumstances," the committee said in a written statement.

The decision essentially obligates the panel members to make a formal judgment on their colleagues. The informal review could have been dropped without any official conclusions.

The other senators are Alan Cranston, D-Calif.; Dennis DeConcini, D-Ariz.; John Glenn, D-Ohio, and John McCain, R-Ariz. The five obtained $1.4 million in political contributions from Keating and his associates and interceded with federal savings and loan regulators on Keating's behalf.

All five senators said through spokesmen that they welcomed the

See RIEGLE, Page 9A

investigation and expect to be exonerated.

Riegle's administrative assistant David Krawitz, said the senator would not comment further.

Riegle has said he did nothing more for Keating, whose company owned the Hotel Pontchartrain in Detroit, than he would have for any other constituent. He has returned $78,250 in Keating contributions.

After the Ethics Committee launched its first review, Riegle hired Washington lawyer Thomas Green to handle his defense.

The committee also announced it would move to a preliminary inquiry of Sen. Alfonse D'Amato, R-N.Y. A former opponent has accused D'Amato of improperly seeking favors for campaign contributors from the Department of Housing and Urban Development.

According to a Senate source, the committee authorized the savings and loan inquiry after its two most senior members, Sen. Howell Heflin, D-Ala., and Sen. Warren Rudman, R-N.H., received a recommendation from the special counsel, Washington lawyer Robert Bennett.

The new stage of the Keating investigation allows Bennett to subpoena evidence and witnesses, said the source, who spoke on condition of anonymity. But a Riegle spokesman said the senator already has given Bennett documents.

The Ethics Committee's statement emphasized that no wrongdoing has been established, and said the committee has taken no position on "the merits of the allegations or the weight of the evidence."

The federal government has filed a $1.1 billion civil racketeering lawsuit against Keating, former owner of the Irvine, Calif., Lincoln Savings and Loan Association, accusing him of looting the thrift's taxpayer-insured deposits. Keating faces myriad other federal and state investigations.

The suit also names Charles Keating's brother, William Keating, chairman of the Detroit Newspaper Agency, who was a director of his brother's holding company for about a year. William Keating, who is charged with negligence, reportedly is trying to negotiate to be dropped from the suit in exchange for cooperating with the government.

The Justice Department's public-integrity section also is investigating the five senators' dealings with Charles Keating.

The senators met twice with regulators in 1987 to relay Keating's complaints he was being harassed. Riegle attended only the second meeting, at which regulators disclosed they planned to seek criminal investigations of Keating.

Riegle, Glenn and McCain have said that they then ceased dealing with Keating. DeConcini and Cranston continued raising money from Keating and kept contacting regulators on his behalf through April.

Under Ethics Committee procedures, the committee first determines whether there is reason to believe Senate rules have been violated. If that is established, the committee then tries to find out whether there is substantial evidence of violations, a higher standard of proof.

If the committee agrees that substantial evidence exists, a final investigation begins. If rules violations are found, punishment can range from reprimand to expulsion from office.

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DETROIT, MICHIGAN

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Pg. 1(A)

Title: CHARLES KEATING

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Indexing:

If Helmsley received 4 years in prison, what does Keating deserve for S&L failure?

"We don't pay taxes. Only the little people pay taxes." — Elizabeth Baum, housekeeper, quoting her employer Leona Helmsley during Helmsley's trial for tax evasion.

It's not nice to gloat. But sometimes it can't be helped. A case in point: Leona Helmsley.

The self-styled queen, who preened about her position and power in hundreds of ads for her husband's hotels ("The only Palace where the queen stands guard"), was sentenced last week to four years in prison, a $7.1 million fine, 750 hours of community service in a home for drug-addicted children, almost $2 million in back federal and state taxes, three years probation and court costs.

JOAN BECK



She had it coming. As U.S. District Judge John M. Walker Jr. put it, her "conduct was a product of naked greed." She believed she was "above the law and displayed no remorse or contrition."

Helmsley was convicted in August on 33 felony counts, including evading $1.2 million in federal income taxes by fraudulently billing $3.1 million in personal and home expenses to the $5 billion hotel and real estate empire she and her husband control.

It wasn't because the hotel queen was pinched for money. Forbes magazine says her husband Harry is still worth $1.7 billion, although his empire is slipping because of his mental problems and his wife's interference and mismanagement.

Even Leona's own lawyer, Gerald Feffer, called her a "tough bitch" in court. He hoped to defuse some of the testimony to follow about her outrageous cruelty to employees, her explosive tantrums, her insistent demands for cutbacks on purchases and her petty refusals to pay suppliers and tradespeople for enormous amounts of goods and services.

But, as Feffer told the jury, being a "tough bitch" isn't against the law. Neither is ugly intimidation of employees and servants or pushing a husband into disgraced senility or spending money outrageously or mismanaging a huge business enterprise.

The best defense he could come up with for her was that her employees juggled the books just so they could stay away from her because dealing with her was so unpleasant. The feeble argument didn't work.

Leona went through the Palace Hotel, where she kept her office, and other Helmsley properties like Alice in Wonderland's Red Queen, ordering heads to roll for no reason, making outrageous demands and spewing vindictiveness and anger. Although she usually acted kissy-kissy cutesy with her husband in public, she did call him "you old moron jerk" in front of others and told him to butt out of her dealings. Increasingly, he did.

"I am Leona Helmsley and I can do whatever I want to," she said again and again.

And she did — whether it was taking the once well-regarded Harry Helmsley away from his devoted wife of 33 years or buying $2 million baubles or chewing out a delivery man over a $5.95 charge or putting a $12.95 girdle from Bloomingdale's and a $58 leg waxing on a hotel business account.

She lied about her age, which is now 69. And she forced her advertising agency to make her photograph well,

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which account executives did with technological advances in retouching.

Before the sentencing, Feffer told the judge that Leona has been "ridiculed, abused and humiliated in an unprecedented way having nothing to do with her wrongdoing." The crowd taunted her as she and her ailing husband left the courthouse.

The punishment she has been taking will certainly continue. The Harvard Lampoon Parody of Forbes' annual issue on the richest people in America, for example, has a fold-out picture of Leona in a jail-stripe bikini stretched out smilingly on a fur rug in a prison cell with the caption, "Leona Helmsely welcomes you to the only palace in the world where the queen is under guard."

But it's hard to keep a gloat going for long. As Feffer told the court, being a "tough bitch" is not a crime. Neither is meanness or marrying up or what a psychologist has called "malignant narcissism." What is a crime is cheating taxpayers.

If Leona gets four years in prison and a $7.1 million fine for bilking the federal government out of $1.2 million, what's fair play for Charles Keating? The financial games he played with Lincoln Savings and Loan Association may cost taxpayers about $2.5 billion. Other mismanaged and manipulated S&Ls must be bailed out with at least $50 billion — probably much more — in taxpayers' dollars.

Keating has taken the precaution of enlisting the help of five prominent senators (with $1.3 million in campaign funds, for example) who have run interference with him in regulatory circles. The little people who do pay taxes almost certainly are never going to get their $2.5 billion — or their $50 billion — back and probably won't even have any good Keating jokes to show for it, let alone a chance to gloat.

Chicago Tribune

FD-350 (Rev. 5-8-81)

(Mount Clipping in Space Below)

(Indicate page, name of newspaper, city and state.)
Detroit News
Detroit, Mi.
Date: 12/31/89
Edition: 2B

Title: S & L Lawsuit

Character: 58C-PX-41605
or
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Indexing:

Dropped from S & L lawsuit, DNA's Keating remains silent

By Michael Clements
Detroit News Washington Bureau

WASHINGTON — Although Detroit Newspaper Agency head William J. Keating has been dropped from a $1.1-billion lawsuit against his brother, he still declines to answer questions about the case.

Chicago lawyer Chester Kamin said he advised Keating not to discuss the federal case while it remains in the courts. Keating, the president and chief executive officer of the Detroit Newspaper Agency, did not return a call to his office.

Resolution Trust Corp., the federal agency responsible for handling savings and loan bailouts, filed a notice Friday in Phoenix to dismiss Keating as a defendant in a lawsuit against his brother, Charles, and other officers and directors of American Continental Corp.

The corporation is the parent company of Lincoln Savings and Loan Association of Irvine, Calif., whose failure may cost taxpayers as much as $2 billion.

Kamin said Keating was dropped from the lawsuit because he did not have a substantive role in the operation of the corporation. "Bill knows very little about this," the attorney said.

William Keating, who served on the board of his brother's corporation for five months in 1986, was named in three counts involving the failure to fulfill the directors' duties. He was not charged with fraud and racketeering.

Asked if the charges were dropped in exchange for Keating's cooperation in the case against his brother, Kamin said, "I can't comment on that. I can only say I would be very surprised if anyone in the government would support that statement."

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FD-350 (Rev. 5-8-81)

(Mount Clipping in Space Below)

Cartoonists pen Riegle to the wall

By Deb Price
Detroit News Washington Bureau

WASHINGTON — Editorial cartoonists are drawing national attention to Sen. Donald Riegle's effort on behalf of a tottering savings and loan run by a prominent campaign contributor.

While many of the Senate's 100 members are relatively anonymous beyond their own states, the Michigan Democrat's face and name have been introduced to newspaper readers around the nation in a context of ridicule.

"With every new account of $500 or more, you get this U.S. senator doll to have in your pocket," said an S&L teller drawn by Bruce Beattie of the Daytona Beach News-Journal in Florida.

"The trick for the cartoon," Beattie explained, "was to do a cartoon that highlighted not just one or two of the senators — John Glenn or Alan Cranston — but the five of them all together to highlight their involvement as a group."

Similarly, Jim Borgman of the Cincinnati Enquirer chose to focus on all five rather than just his home state Democrat. "It would almost be incorrect to single Glenn out at the expense of the others," he said. "I think they are of a group now in the story and in people's minds."

In addition to Riegle, Glenn and Cranston of California, the group includes Dennis DeConcini and John McCain, both of Arizona.

ASKED IF recent cartoons he's seen are fair, Riegle responded: "Cartoons are only a caricature — not a complete picture."

Actually, the satirical drawings may not cause lasting political damage, one scholar said.

"For relatively ordinary mortals like U.S. senators to be suddenly cartooned strangely is not interpreted in our celebrity culture as the mark of Cain but rather as the mark of prominence," said Stephen Hess, author of *The Ungentlemanly Art,* a history of American political cartooning.

"In some ways, it is a barometer of 'I have arrived.' "

If so, they've surely arrived in a pointedly humorous way.

Borgman, satirizing a contention the senators merely were helping a constituent when they met with federal regulators over a troubled S&L, drew an average voter having no luck getting their attention.

"A meeting of powerful senators is convened to protect the interests of Joe Blow, who has not contributed to their re-election campaigns," he wrote under a cartoon showing the senators' empty seats. Joe Blow waits alone in a cobwebbed room right out of the home of jilted Miss Havisham in Charles Dickens' *Great Expectations.*

"I have to think that if someone walked in off the street, they're not going to get that kind of attention from five powerful senators," the Cincinnati artist said.

These cartoons and others rebuke the senators for meeting with regulators about the Lincoln Savings and Loan of Irvine, Calif., after its president and his associates gave them a total of $1.3 million in political contributions. All five senators have denied wrongdoing, arguing they merely were pursuing banker Charles Keating's claims that he was being harassed by the regulators.

MANY OF the cartoons focusing on the five senators were published as the House Banking Committee held hearings on the scandal. Committee Chairman Henry Gonzales, D-Texas, has said he may hold more hearings when Congress returns in January, which could make the senators editorial page targets again.

Such lampooning has had a political impact in the past.

New York City's "Boss" William Tweed, who went to jail after stealing public funds in 1873, had proclaimed: "Stop them damn pictures. I don't care so much what the papers write about me. My constituents can't read. But, damn it, they can see pictures."

The appearance of impropriety is an old standby for cartoonists. And it is that appearance — which is being pursued by a Senate ethics panel — that has made the five senators a natural target, several cartoonists and analysts said.

"It's just a nice subject for cartoons, like fires on the 6 o'clock news," remarked Martin Linsky, an instructor at Harvard's School of

But seasoned politicians are apt to be flattered by artistic lampoons.

"I've had people call the first time they were in an editorial cartoon and say they felt they were now a legitimate public figure," said Bill Schorr of the Kansas City Star. Other cartoonists cite similar calls.

RIEGLE AIDE David Krawitz said the senator has been in many cartoons during his career, a few of which the staffer has hanging in his Washington office. The senator's staff has not been collecting cartoons about Lincoln S&L, Krawitz said.

Several cartoons play off of the failed thrift's name. Mike Ramirez of Copley News Service showed the senators standing shame-faced before a teary "Honest Abe" Lincoln.

Paul Conrad of the Los Angeles Times pointed a gun at an unsuspecting Lincoln, alluding to the assassination at Ford's Theater. "Who shot Lincoln S&L?" his cartoon asked. Multiple-choice answers featured the five senators' names.

Schorr of Kansas City portrayed Keating as sounding and looking like Lincoln. With top hat and whiskers, he stood behind a lectern and declared, "You can buy some of the Senate all of the time ... and all of the Senate some of the time."

In another Schorr cartoon, big-time contributor Keating was dressed as Santa with the senators in a bag over his shoulder. "The gift that keeps on giving," Keating said.

(Indicate page, name of newspaper, city and state.)
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Detroit, Mi.
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4 pictures

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JIM BORGMAN/Cincinnati Inquirer

A cobwebbed citizen and five empty chairs make one cartoonist's point.

> "Cartoons are only a caricature — not a complete picture."
>
> **U.S. Sen. Don Riegle**

Cartoonist Steve Benson of the rizona Republic dressed Keating as robber and sketched him escaping er a bridge made of the five sena- rs. "Just helping a friend," the ıption said.

BUT DO political cartoons do ıything more than elicit a laugh or wince? Does it matter if someone who had never before heard of Donald Riegle sees him in a cartoon?

"The only way a cartoon is really effective in forming an impression of a politician is if the cartoon is one of the few places where the people get exposure to the politician," said Richard West, who edited a now-defunct journal on cartooning.

"If this story stays in the press a long time, it could have long-lasting problems for Riegle. If it is the issue of the month and dies out quickly, the image in which he is portrayed in political cartoons, I think, will have a negligible effect on his future."

Hess agreed. "Don Riegle would have to stay in the news a lot longer than he's likely to do for his participation in the affair for it to stick to him like a mud ball."

Yet cartoons could prove annoying in a national campaign.

"It is possible that these cartoons could be one of the few bits of exposure the public has to these senators who are outside their states," West said.

"The people of Michigan have a lot of ways to judge their senator. ... (Elsewhere) this may be the first time they've even heard of the guy. And if the cartoon is particularly memorable, it could form their long-lasting perception of him. ... This could be the only real perception that a lot of folks have of his service in the Senate."

But Riegle isn't worried. Asked if he thinks cartoons could hurt him, he replied: "People make their judgments based on facts, not cartoons."



RAMIREZ/Copley News Service

One syndicated cartoonist depicted a tear rolling down Lincoln's face as he faced the five senators under investigation in the savings and loan scandal.

FD-350 (Rev. 5-8-81)

(Mount Clipping in Space Below)

(Indicate page, name of newspaper, city and state.)
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Detroit, Mi.
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Submitting Office: Detroit

Indexing:

Keating dismissed from S&L lawsuit

BY WILLIAM F. RAWSON
Associated Press

PHOENIX — Federal attorneys on Friday dismissed William Keating as a defendant in a $1.1-billion lawsuit stemming from the failure of a savings and loan owned by his brother Charles Keating's American Continental Corp.

William Keating was one of several family members and American Continental executives named in a suit filed in September by the Resolution Trust Corp., the federal agency responsible for cleaning up the thrift industry.

William Keating is president and chief executive officer of the Detroit Newspaper Agency, which prints and sells the Free Press and Detroit News, and chairman of the board of the Associated Press.

Keating, reached in Cincinnati Friday night, said he had expected to be dropped from the suit, but refused to provide any details.

"Well, that's right. I'm really not going to comment on it or discuss it with you at all.

"I was dismissed from the lawsuit and that's all I have to say about it. . . . I really don't have any intention of discussing this with you or anyone with the Free Press," Keating said.

The suit, filed in U.S. District Court in Phoenix, accused Charles Keating, several family members and other senior company officers of devising a scheme to loot Lincoln Savings and Loan Association of Irvine, Calif.

The thrift was seized by federal regulators April 14, one day after American Continental filed for reorganization under Chapter 11 of federal bankruptcy laws.

William Keating was not accused of fraud and racketeering but was named in three of 15 counts and was accused of negligence and breach of fiduciary duty. He had served for five months in 1986 on the American Continental board of directors, according to Chester Kamin, his Chicago lawyer.

A source close to thrift regulators had said earlier that Keating was negotiating to have himself dropped from the suit. The source said the government hoped to gain Keating's cooperation in the prosecution.

Attorneys for the Resolution Trust Corp. filed a notice in federal court on Friday that Keating had been dismissed, without prejudice, as a defendant in the case.

Kamin said that because the dismissal is "without prejudice," it was possible, though unlikely, that Keating could be reinstated as a defendant in the case.

Neither Michael Manning, a Phoenix lawyer who has represented the Resolution Trust Corp. in the case, nor P. John Owen, a Kansas City lawyer who signed the notice of dismissal on behalf of the Resolution Trust Corp., could be reached for comment.

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FD-350 (Rev. 5-8-81)

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Keating coverage questioned in Ohio



Charles Keating

A former aide to Charles Keating told the Free Press that Keating attempted to discover the contents of the Enquirer story in advance. After Keating consented to an interview with the editor of the Enquirer — but not the reporter whose byline appeared on the piece — a profile ran without any reference to the party.

George Blake, editor of the Enquirer, acknowledged that he removed the party passage from a Dec. 19, 1988, article by reporter Mark Braykovich. But he said his decision was not made at Charles Keating's request, or because Keating's brother William is the Enquirer's chairman.

William Keating, a former publisher of the Enquirer, left that post in May 1986 to become chief executive officer of the Detroit Newspaper Agency, which runs the business affairs of the Free Press and Detroit News under the joint operating agreement.

John Zanotti, the Enquirer's current publisher, said William Keating's remaining title of chairman at the paper is honorary and that he has no operational role.

At the time the Enquirer published its story, shorn of references to the party, Charles Keating was still selling junk bonds issued by American Continental to Ohioans through Lincoln.

At least 80 Ohioans, mostly from the Cincinnati area, bought American Continental Corp. bonds and securities, the Akron Beacon Journal reported last week. Some

See KEATING, Page 2C

KEATING, from page 1C

of the investors say the Keating name played a role in their decisions. Larry Friedman, 73, of Cincinnati, said he was familiar with Keating's anti-pornography reputation when he invested $12,500. "We thought they were reputable people," Friedman told the Akron paper.

In Cincinnati, some brokers who touted Keating's bonds are going out of business and TV stations there have been running daily accounts of retirees who have lost their life's savings in the wreckage of Lincoln Savings.

Meanwhile, the Enquirer's handling of Lincoln and Keating stories has been a subject of internal debate and questions from outsiders.

Regarding the Braykovich profile of Keating that ran last year, George Blake, editor of the Enquirer, said he called Charles Keating — whom he'd met once at an Associated Press meeting in Phoenix — and asked for an interview after Braykovich's interview request was spurned.

"I just called Charlie and said, 'We're doing a story and would like your input on a number of areas and here are the questions,'" Blake said. "I read him the questions, and he gave me his answers."

The story that ran — without reference to the party — described Lincoln's removal from the jurisdiction of the San Francisco regulators as "a settlement" in which Keating "appears to have emerged with a victory."

(Indicate page, name of newspaper, city and state.)
THE DETROIT FREE PRESS
DETROIT, MICHIGAN

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Pg. 1(C)

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Patricia Johnson, once Charles Keating's spokeswoman in Phoenix, said in a recent interview that her ex-boss had exhorted her to find out what Braykovich's story might say. She said she was instructed by Keating to call an aide to Enquirer publisher Zanotti for help "in trying to find out what Mark was trying to put together."

Johnson said the aide had been personal friends of the Keatings since the brothers' days in Cincinnati and that Charles Keating was eager to soften the blow of any upcoming Enquirer story.

But Blake said he cut out the party details because he doubted — and still doubts — the accuracy of the account.

"The story is being embellished more and more as I hear it," Blake said. "We've also got some people denying that certain things happened. I didn't have any trust in the credibility of the whole story as we were getting it. So, I pulled it out."

More recently, Blake has addressed questions about the Enquirer's coverage of William Keating as one of 37 defendants in a federal lawsuit against Charles Keating, his family members and companies.

William Keating is negotiating to have himself dropped from the suit in exchange for his cooperating with investigations of Lincoln, according to regulatory sources. In the lawsuit, William Keating is charged with gross negligence and breach of fiduciary duty during a period in 1986 when he was a director of American Continental.

On Dec. 17, Blake wrote a column about the Enquirer's coverage of Charles and William Keating. Both of the Enquirer's references to William Keating as a defendant in the federal lawsuit were brief mentions on inside pages of the paper. "I make no excuses for our play of the story. To me, Bill Keating is a man of unflinching honesty. I would be astonished to find that he had done anything even approaching the lawsuit's charges," Blake wrote.

Questions about Keating-related coverage at the Enquirer are similar in some respects to questions raised in Detroit, where William Keating heads the DNA. At the Free Press, some staffers met with executive editor Heath Meriwether recently to air questions about the paper's coverage of the Keatings, and Meriwether wrote a column on the topic.

William Keating has thus far refused comment on all questions concerning his brother and the companies his brother controls.

FROM OUR READERS

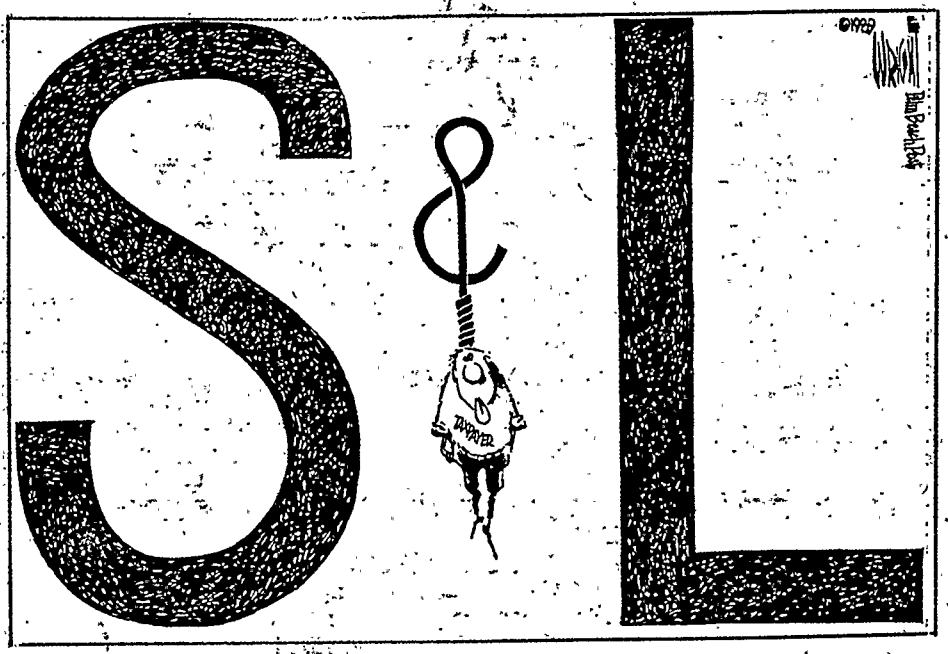
We question judgment of S&L senators

How stupid, naive and gullible does Sen. Don Riegle, D-Mich., think the electorate is? In his Dec. 8 response to the Free Press, he compares apples and oranges to justify his participation in the now infamous meeting with the regulators of savings and loans ("Constituent service and public interest are the same in S&L and JOA cases"). This unheard of, unprecedented appearance by five U.S. senators (the "Keating Five"), all recipients of large campaign contributions from Charles Keating, speaks for itself.

Sens. John Glenn, D-Ohio, and John McCain, R-Ariz., wrap themselves in the flag. Sens. Alan Cranston, D-Calif., Dennis DeConcini, D-Ariz., and Riegle say that we impugn their honesty and their motives. We don't question their patriotism or their honesty. We question intelligence, judgment and their priorities.

When personal and private interests have priority over the public welfare, their motives are obvious.

D.J. Bennett
Tecumseh



Why did they give so much?

A million dollars a day is a conservative estimate of the amount extracted from the stock and bond holders of Lincoln Savings & Loan by Charles Keating and his cohorts, from the time that our several senators decided that no action need be taken. This probably does not seem like much to the senators, but to many of us this amount seems appreciable.

The involved senators, after the usual investigations, will, of course, be vindicated and/or exonerated, and the matter will be eventually forgotten. There remains one question to which a direct answer is needed: Sen. Riegle, why did Charles Keating favor you to the extent of more than $78,000?

Donald Bunker
Flint

Give government back to people

Recently, the media have had a number of news stories and editorials regarding the multibillion-dollar savings and loans scandal, which may cost the people more than $200 billion. In addition, there has been the HUD scandal and many others (Watergate, Abscam, Koreagate, etc.). Most of these have been caused by greedy, selfish interest groups and corrupt government officials who have sold out our democracy.

If we hope to prevent our government from becoming both morally and financially bankrupt, we must take back government from the rich and greedy and restore it to all the people. To accomplish this, we must fully implement the First Amendment, which gives the people the right to petition the government. At present, only the selfish, vested interest groups can effectively petition the government because of their obscene amounts of money and their shrewd lobbyists.

We, the people, are entitled to the right to petition the government effectively through a national voter referendum. This would enable the people to initiate and vote on legislation and constitutional amendments, similar to the referendum process in Michigan and 22 other states. Without a national voter referendum to right what's wrong with our government, our country may be headed for an economic catastrophe that could lead to a revolution.

James F. O'Neil
National Chairman
We the People
Livonia

Paper cut account of party while junk bonds were sold

BY BERNIE SHELLUM
Free Press Business Writer

As Lincoln Savings & Loan Association unraveled into the nation's worst thrift debacle, owner Charles Keating carried on a nonstop battle against federal thrift regulators but won few clear-cut victories.

May 20, 1988, was an exception. That day, M. Danny Wall, the top regulator, had transferred oversight of Keating's Lincoln Savings unit to Washington, D.C., from San Francisco, where federal regulators were denouncing Keating's business practices and urging a criminal investigation.

Wall's decision touched off what the Arizona Republic recently described as a champagne-splashed, window-smashing celebration at the Phoenix headquarters of Keating's American Continental Corp., Lincoln's parent.

Keating himself struck a Superman pose and pulled open his shirt, exposing a skull and crossbones over the letters FHLBB (for Federal Home Loan Bank Board), signaling his mastery of the vanquished regulators, according to the Republic's account.

The revelry flew in the face of Keating's long-honed reputation as a straitlaced moralist who crusaded against pornography in Cincinnati and led Phoenix crowds in saying the rosary.

Since the Republic published details of the party on Dec. 3, the Free Press has learned that a Cincinnati Enquirer reporter wrote a similar story a year earlier, while American Continental Corp. was still peddling securities that have become virtually worthless since its bankruptcy filing last April. But the party story never ran in Keating's hometown paper, whose ex-publisher and still chairman is William Keating, Charles' younger brother.

Cincinnati, where Charles Keating launched his financial career, was a fertile area in recent years for sales of American Continental Corp. bonds and securities.

FD-350 (Rev. 5-8-81)

(Mount Clipping in Space Below)

U.S. seeks to rid firm of Keating

American Continental sinking fast, suit says

By Lisa Morrell and Jerry Kammer
The Arizona Republic

Federal officials called Friday for the ouster of Charles H Keating Jr. and his management team from American Continental Corp., claiming they are destroying the company financially, according to a motion filed in U.S. District Court in Phoenix.

In a motion filed late Friday, the Resolution Trust Corp. says Keating's management team should be replaced as soon as possible by a court-appointed trustee.

The federal agency claims in its filing that Keating's managers are spending all of American Continental's money to "vindicate and protect their personal interest" in myriad lawsuits and investigations connected to Keating's business dealings.

Keating, American Continental's chairman, reacted

— See U.S., page A8

Charles H Keating Jr. / He, his associates and their families have contributed a total of $1.3 million to the senators who now are being investigated.

'Keating 5' will face formal ethics inquiry

By Ed Foster
The Arizona Republic

The U.S. Senate Ethics Committee announced Friday that it will convene a formal inquiry into the actions of Arizona Sens. John McCain and Dennis DeConcini and three other senators, who are accused of improperly intervening with federal thrift regulators in behalf of Charles H Keating Jr.

In what it termed a procedural matter, the committee will launch a "preliminary inquiry" into whether the senators' misused their offices to help a campaign contributor.

Critics have charged that the intervention delayed the government takeover of the Phoenix financier's Lincoln Savings and Loan, driving up the cost of the insolvent thrift's bailout.

The panel also announced an inquiry of Sen. Alfonse D'Amato, R-N.Y., who has been accused by

— See ETHICS, page A8

(Indicate page, name of newspaper, city and state.)

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FBI/DOJ

U.S. seeks control of Keating firm

U.S., *from page A1*

angrily to the filing late Friday, calling it "a transparent and desperate attempt to sidetrack" three civil suits he has filed against the government and its thrift-regulating agencies.

"They're just plain scared of the litigation," said Keating, breaking several months of silence with the press.

"They're scared. They're frightened. They're scared of the truth. They're afraid of us in the courtroom."

The government is asking District Judge Richard Bilby for a hearing as soon as possible to protect investors and creditors from having their money squandered on attorneys' fees. American Continental is being protected from creditors by U.S. Bankruptcy Court while undergoing reorganization.

"If the bleeding is to stop, and the patient is to survive, immediate action is required," the Resolution Trust Corp. said.

Marc Kalish, an attorney representing the agency, said he hopes Bilby will hold a hearing by mid-January on whether to appoint a trustee to manage the Phoenix corporation.

Keating expressed confidence that he will be vindicated in court as a result of the suits he has filed. He said the suits have taken review of American Continental's operations out of the hands of federal thrift regulators, whom he has accused of bias and vindictiveness.

"The person who has found the facts against us up until now has been the trier and the judge," he said, referring to regulators who seized the pillar of his empire, $5 billion Lincoln Savings and Loan, on April 14, a day after American Continental filed its Chapter 11 bankruptcy petition.

"For the first time ever we are finally getting to the position where we have a completely unbiased and fair tribunal," Keating said.

Keating said that in order to preserve the corporation's assets, he intends to take a $1-a-year salary beginning Jan. 1. He was earning about $3 million a year in salaries and bonuses until the bankruptcy filing, when his salary was reduced to $400,000 a year.

Keating said he wanted to take the nominal salary "in order to provide an example and to do what is the best thing in the interests of the company."

He said the company has asked a Chicago consulting firm to search for a general manager to oversee American Continental's operations.

Before the government seized Lincoln, the company and its subsidiaries had about 2,500 employees and $6 billion in assets.

Currently it has about 75 employees and $87.4 million in assets, all of it real estate. Lincoln Savings had accounted for most of the corporation's assets.

Donald Gaffney, an attorney representing the Unsecured Creditors Committee, a group of American Continental creditors, said he does not think the federal agency's allegations provide grounds for the appointment of a trustee. The request for a trustee is the agency's attempt to cripple its opponent in litigation, American Continental, Gaffney said.

But Kalish, representing the agency, said the action is necessary, in part, because the committee "hasn't done anything" to protect the creditors.

The government's motion claims that American Continental has made no progress toward reorganizing its finances since June, when Keating presented an initial plan to pay back creditors over 14 years.

Instead, Keating's management is pursuing "expensive litigation of questionable" benefit to the company's creditors and investors. The company is spending more than $1 million a month on attorneys' fees in the cases.

The Resolution Trust Corp. has filed a $1.1 billion civil racketeering lawsuit accusing Keating and company insiders of siphoning Lincoln's money for personal gain.

The company is in danger of running out of cash by April, according to the Resolution Trust Corp. Ronald Warnicke, the court-appointed examiner in the American Continental bankruptcy case, has said the corporation could run out of cash by the end of January.

In addition to the racketeering suit, there are at least five investors' lawsuits against American Continental's executives and its attorneys and accountants; a congressional investigation; state and federal grand-jury investigations; and probes by the Securities and Exchange Commission, the U.S. Justice Department and the Federal Election Commission.

Ethics panel plans formal probe of 5 senators

— ETHICS, *from page A1*

a political opponent of improperly helping contributors get federal housing money.

The committee said the preliminary probes do not mean that the panel has taken positions on the allegations.

"The decision to proceed by preliminary inquiry in each of these matters is being undertaken for procedural reasons only," a statement said.

"The committee wishes to stress that it has taken no position as to the merits of the allegations or the weight of the evidence."

A preliminary inquiry is the first of three steps the committee can take. The two others, in ascending importance, are an "initial review" and a full-scale investigation.

In addition to McCain and DeConcini, the other members of the so-called Keating Five are Sens. Alan Cranston, D-Calif.; John Glenn, D-Ohio; and Donald Riegle, D-Mich.

The senators have denied any impropriety, saying they simply got involved for a constituent.

DeConcini said Friday that the committee was required to formalize its probe.

"They must do what they are doing now whenever somebody requests an investigation," he said.

"Common Cause requested an investigation of all five senators."

Common Cause is a government-watchdog group.

No one answered the phone at the Ethics Committee's offices Friday, but the panel's statement said it voted to conduct preliminary inquiries upon the recommendations of special outside counsel.

DeConcini added that he looks forward to the investigation.

"I welcome a thorough evaluation of the facts," DeConcini said. "I feel we will be exonerated."

McCain and Cranston were unavailable for comment Friday. Their spokesmen said the lawmakers expect to be exonerated. Riegle's press aide did not return calls, and the senatorial offices of Glenn and D'Amato were closed for the holidays.

In November, the Ethics Committee hired Washington attorney Robert Bennett to look into a complaint by Common Cause that the five senators misused their offices in Keating's behalf. The senators have received a total of $1.3 million in contributions from Keating, his associates and their families.

The committee said in its statement Friday, "Fairness to all concerned requires a thorough and complete review of all relevant facts and circumstances.

"Therefore, the committee, upon the recommendations of special outside counsel, has voted to conduct preliminary inquiries regarding these matters."

At issue is the senators' involvement in two meetings that were held in DeConcini's office in April 1987.

The first, on April 2, involved all of the senators, except Riegle, and Federal Home Loan Bank Board Chairman Edwin Gray. The second took place a week later with all five senators and San Francisco regulators who were probing Lincoln's operations. The thrift is based in Irvine, Calif.

The unusual sessions were held after Keating complained to the senators that his thrift was the victim of a "vendetta" by the bank board.

Gray has testified before the House Banking Committee that the first meeting included an effort by DeConcini to cut a deal for Lincoln in which the thrift would change its way of doing business if the bank board would scrap a rule limiting the high-risk investments in which Lincoln specialized.

DeConcini has denied that offer took place, and the other senators have said they do not remember such a deal being suggested.

Lincoln was seized by the federal government in April. The cost of bailing out the insolvent thrift is expected to be as much as $2 billion.

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(Mount Clipping in Space Below)

Appraising the auditors

Analysts may be held accountable for thrift failures

Charles Schumer / The congressman says there is "an inherent conflict of interest" in the accounting and appraisal professions.

William Black / "The worst thrifts spent fantastic sums on (appraisers and accountants) and used them as a screen to hide the thrift's misconduct."

By Jerry Kammer and Andy Hall
The Arizona Republic

Developer Charles H Keating Jr. and an entourage flew from Phoenix to New York City last year and demanded that auditors allow American Continental Corp. to show a $56 million profit for a series of investments.

But Arthur Young & Co.'s lead auditor, Janice Vincent, said "no" and insisted Keating's company had earned no profit.

"Lady, you've just lost a job," Keating said acidly.

Within a few weeks, American Continental moved its multimillion-dollar account to another auditing firm, Touche Ross & Co., which offered a preliminary opinion that the investment profits were legitimate.

The federal Securities and Exchange Commission disagreed.

Six months later, American Continental sought bankruptcy protection, and one of its subsidiaries, Lincoln Savings and Loan, was seized by federal regulators, who alleged that the thrift was financially "unsafe and unsound."

Accountants and real-estate appraisers, who legally are obligated to objectively estimate land values, were key figures in the rise of Keating's $6 billion worldwide empire.

But it has become clear that accountants and appraisers failed to protect investors and taxpayers from enormous losses in the collapse of the nation's thrift industry,

— See AUDITORS, page A16

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Auditors may be held accountable for thrifts

— AUDITORS, *from page A1*

including Lincoln Savings.

Suspicions are growing that these professional watchdogs behaved more like lap dogs.

Rep. Jim Leach, R-Iowa, a member of the House Banking Committee, which is probing Lincoln's collapse, called it "a scandal for the accounting profession."

Similarly, William Black, chief counsel for the Federal Home Loan Bank in San Francisco, told the Banking Committee that some appraisers have helped thrifts artificially inflate land values, dooming their loans to failure.

James Feder, an American Continental attorney, denies that the company's auditors and appraisers were improperly pressured to provide favorable analyses.

He said the dispute with Arthur Young in New York was a personality issue.

6 of 11 audits improper

"This was a very heavily lawyered, accounted, professional company," Feder said.

The General Accounting Office, the investigative arm of Congress, this year reported that in six of 11 failed thrifts it studied, accountants "did not properly audit and/or report the savings and loans' financial or internal-control problems in accordance with professional standards."

Taxpayers are beginning to pick up the tab, estimated at $2 billion just for Lincoln, the costliest of the nation's 300 S&L failures. Investors are faced with the loss of $230 million they entrusted to American Continental's junk bonds.

"If you eliminated appraiser abuse, you would probably reduce the losses suffered by the federal government by a minimum of 25 percent," said Peter Barash, a House Banking Committee staff director.

The government may try to force negligent accountants and appraisers to help repay the losses of the failed thrifts that employed them. Criminal investigations are under way.

Reform movements also are under way in the accounting and appraisal professions.

Among the problems reformers must address are:

- Potential conflicts of interest — Accountants and appraisers are required to provide objective analyses, although they are hired by a particular company or S&L. The pressure to write a favorable report, to ensure future business, can be enormous.
- Fraud — More than a dozen accountants are being accused in government lawsuits of fraud stemming from the failure of thrifts, including Lincoln.

Crime allegations

A former Tustin, Calif., auditor has been a fugitive since 1986, when the government accused him of negligence, conflict of interest and malpractice in the $65 million collapse of Ramona Savings & Loan Association.

In Texas, three appraisers have been indicted in connection with alleged fraud at Dallas-based Empire Savings and Loan, which was seized in 1984 by federal regulators. One has been convicted, and two are awaiting retrial.

- Questionable qualifications — There are no education or licensing requirements for appraisers in Arizona and 34 other states, although there are voluntary industry professional standards. As a result of the S&L crisis, however, Congress has ordered that states establish licensing or certification for appraisers who will work on "federally related transactions," beginning in mid-1991.
- Lax self-policing — Accountants and appraisers have come under attack for failing to discipline unscrupulous members of their ranks.

In 1987, the latest year for which figures are available, the American Institute of Certified Public Accountants revoked the membership of 16 of its 280,000 members for violation of accounting rules.

The government is considering adding three "Big Eight" accounting firms as defendants in a $1.1 billion civil racketeering and fraud suit that accuses Keating and company insiders of siphoning Lincoln's deposits for personal gain. The accounting firms, all of which previously worked for Keating, are Arthur Young, now called Ernst and Young; Arthur Andersen, and Touche Ross.

'Conflict of interest'

"I have always wondered how the accounting profession and the appraisal profession work, because obviously, the people who you're giving the stamp of approval to are paying you," Rep. Charles Schumer, D-N.Y., a member of the Banking Committee, told Ernst and Young executives at a hearing in November.

"And there is an inherent conflict of interest in that."

Despite Arthur Young's "last stand" with Keating over the $56 million in "profits," the accounting firm has not been spared from harsh reviews for the two years it worked for Keating. Schumer told the executives that he was "amazed" at what happened while they worked for Keating from 1986 to 1988.

"And if you couldn't catch some of these things, then something is rotten in Denmark, then something has to be changed in the auditing profession," Schumer said.

In testimony to the House Banking Committee in October, Black said, "Lincoln is proof positive that any thrift in America could obtain a clean audit opinion despite being grossly insolvent."

He added that Arthur Young did work for two failed thrifts in Texas.

The firm's Dallas office, Black said, offered the "K mart blue-light spe-

cial" to savings and loans that shopped for compliant auditors. The failures of two thrifts the firm audited there, Vernon and Western Federal, are expected to cost the federal insurance fund about $1 billion each.

Land sales critiqued

Fifteen sales of land by a Lincoln subsidiary, all of which were reviewed and approved by Arthur Young, were the subject of a blistering report released in August by federal thrift regulators.

The report, prepared for the government by the Kenneth Leventhal accounting firm, called the sales phony and the accounting incompetent.

"Seldom in our experience as accountants have we encountered a more egregious example of the misapplication of generally accepted accounting principles," it said.

Feder, the American Continental attorney, condemned the Leventhal report as inaccurate and seriously flawed because no interviews were conducted with companies involved in the transactions.

Much of the federal probe of Arthur Young centers on Jack D. Atchison, who headed the Phoenix audit team that checked Keating's books for 1986 and 1987, a period when Lincoln was making many of the transactions regulators now allege to have been fraudulent.

In early 1988, shortly after signing American Continental's annual report for 1987, Atchison resigned his $225,000-a-year position to go to work for Keating, earning $954,000 in salary and bonuses.

In early 1987, Atchison played a key role in persuading five U.S. senators to intervene in Keating's behalf with federal thrift regulators. Reflecting Keating's criticisms, Atchison wrote a now-controversial report saying that the regulators had taken "unusually antagonistic positions" against Lincoln and that their examination of the Irvine, Calif., thrift could be expected to conclude with an "unduly harsh" report.

Intervention justification

Atchison has refused to comment on his actions.

The senators repeatedly have pointed to that "opinion of a Big Eight accounting firm" as their justification for intervening.

Although several members of the House Banking Committee speculate that Atchison's employment with American Continental may have been a form of payment for improper accounting, that theory is rejected by Ernst and Young executives.

"We have no reason to believe that Mr. Atchison committed any impropriety" during his affiliation with the firm, said William Gladstone, co-chief executive at Ernst and Young, adding that a number of other employees assisted Atchison in reviewing Lincoln's books.

Gladstone said his firm "applied its best, independent professional judgment" to its Lincoln audits. Ernst and Young accountant Nancy Matusiak told the House committee that the Kenneth Leventhal report made "sweeping generalizations" and "some serious mistakes."

Atchison was not alone in leaving his accounting job to work for Phoenix-based American Continental. Keating's son, Charles H. Keating III, an American Continental executive vice president, estimated that the company has hired more than 50 certified public accountants from independent firms that had examined its books. One of them was Andrew Liggett, the company's chief financial officer, who came to American Continental from Arthur Andersen and is a defendant in the racketeering suit.

Appraiser felt pressured

Real-estate appraisers apparently were subjected to pressure to give American Continental the numbers it wanted.

Two real-estate industry executives who are close to former Lincoln appraiser Timothy Morrison say he resigned in June 1988 because he believed Lincoln officials were trying to push unrealistically high appraisals for vacant land at Estrella, a 20,000-acre master-planned community southwest of Phoenix.

Morrison's job was to review the work of appraisers hired by Lincoln from various firms in the Phoenix area and Tucson.

"Tim told me that the straw that broke the camel's back was Estrella," one of the executives recalled. "He said, 'I'm not signing off on those appraisals.' "

Morrison declined to discuss his resignation, citing a confidentiality agreement with American Continental. He now is an appraiser with the Burke Hansen appraisal firm of Phoenix.

An appraisal is an estimate of the value of a property. It helps a banker know how much to lend to the buyer. The idea is that if a loan goes bad, the bank, or savings and loan, will be able to recover its money by selling the land.

One method used by appraisers is to study sales of comparable properties, or "comps." Regulators suspect that Lincoln created its own comps at inflated values with the help of compliant appraisers.

'Subjective elements'

The younger Keating, who directed land sales for the real-estate subsidiary of Lincoln Savings and Loan, denied that efforts were made to inflate land valuations at Estrella.

But he acknowledged that company officials disagreed with Morrison over appraisals.

He branded Morrison a "malcontent."

Keating said he frequently consulted with appraisers hired by Lincoln to evaluate land at Estrella.

"There are so many subjective elements to a piece of property that they have to work hand in hand with the developer to understand what those elements are," he said.

One important piece of information relating to Estrella was a study that projected rapid growth for the area, he said.

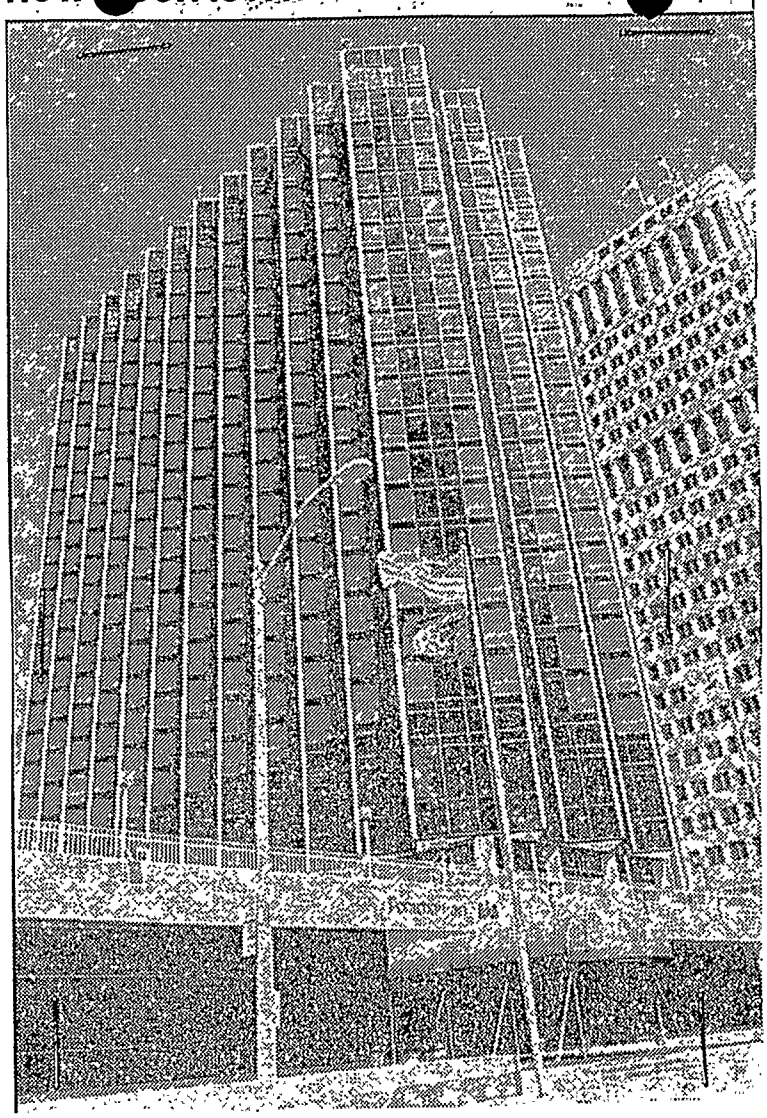
The study was done by Mountain West, a Phoenix-based real-estate consulting firm that also provided appraisals on some Estrella parcels.

The younger Keating said he doesn't think much of appraisers.

"I never knew one appraiser who made any money in the business," he said.

"If they're the experts, they should be the guys making all the money."

HOW [redacted]UCH IS A HOTEL WORTH?



A partnership composed of many American Continental Corp. insiders purchased the Hotel Pontchartrain in downtown Detroit in March 1985. Since then, however, business has sputtered at the hotel. Losses, which could total $10 million, will have to be covered by taxpayers. That is because the partnership borrowed money from Lincoln Savings and Loan and the San Jacinto Savings Association, a subsidiary of Southmark Corp., a Texas-based real estate and finance company.

Federal regulations required the buyers to obtain appraisals to ensure that the hotel merited the loans of the thrifts' federally insured deposits.

Appraisals are estimations of value that serve as guideposts for potential borrowers and lenders on a property. Depending on projections of the profitability of a property, appraisals can fluctuate widely within short periods of time, as illustrated by this series of appraisals on the hotel:

March 1985: The Hotel Pontchartrain is valued at $37.2 million in an appraisal commissioned by an American Continental subsidiary and conducted by Michigan-based Dean Appraisal Co.

December 1985: The hotel is valued at $44.4 million in an appraisal commissioned by the San Jacinto Savings Association and conducted by Dean Appraisal Co.

March 1987: The hotel is valued at $46 million in an appraisal commissioned by Detroit and conducted by Hospitality Valuation Services Inc., based in Mineola, N.Y.

September 1988: The hotel is valued at $26.4 million in an appraisal commissioned by the San Jacinto Savings Association and conducted again by Hospitality Valuation Services.

January: The hotel is valued at $53 million in an appraisal commissioned by Lincoln Savings and conducted by Pannell Kerr Forster.

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(Mount Clipping in Space Below)

Valley tour lets McCain speak out

By CONNIE STEELE
Daily News-Sun staff

SUN CITY — U.S. Sen. John McCain, R-Ariz., is facing an ethics probe and the political fight of his life.

Questions about his past friendship with Charles H. Keating Jr., and whether Keating's campaign contributions prompted McCain to intercede on his behalf with federal thrift regulators have marred the senator's previously spotless career.

Saturday in a marathon tour of the Valley, McCain made five speeches and talked to members of the media.

"I'm pleased when I can get on TV and go direct to the people," he said, citing numerous appearances on network programs such as Night Line and Meet the Press.

Saturday night he spoke to about 160 members of the Republican Forum West, political issues group, at the Crestview Vacation Headquarters in Sun City West.

"Because I have so many constituents in this area, I thought it would be good to visit here," he said before the dinner meeting.

He had been invited to be the group's guest speaker last summer, but only recently accepted the invitation.

Among fellow Republicans, McCain's association with Keating was not brought up publicly except to tell the group, "One needs friends when one is beleaguered. I am deeply grateful for your friendship and support. We will emerge not only unscathed but better equipped for the job."

However, State Rep. Robert Williams, R-Sun City West, said privately, "It's very easy to get caught up in a spider's web with an unscrupulous man who you think is scrupulous.

"People are forgiving of a good person and I think he's a good person," Williams said of McCain.

"He tried to help a constituent and got burned. He's going to work his way out of it."

Another member of the group, Robert Holdway of Sun City West, said, "He faces a difficult task, but it's one he can overcome. If a senator is to respond to his constituency and conduct an investigation to see if his claims are valid, he shouldn't be pillaried."

McCain's aide, Wes Gullett, said the evening was an opportunity to discuss issues that wouldn't be discussed otherwise.

"The only thing the press is picking up on is the Keating thing and there's a lot more going on."

Catastrophic health insurance, economic recovery of Arizona and environmental issues were among those McCain touched on during a visit to the Daily News-Sun.

But despite making himself available to talk about any subject of interest, McCain made it clear he was in the area to tackle head on any questions voters might have regarding his relationship with Keating.

At issue is whether campaign contributions and gifts of personal travel prompted McCain to intercede with federal regulators on behalf of Keating and the failure of Lincoln Savings & Loan, a subsidiary of Phoenix-based American Continental Corp., of which Keating is chairman.

At the first of the two meet-

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Daily News-Sun photo by Connie Steele

WITH THE VOTERS — Sen. John McCain, R-Ariz., visited with voters Saturday as he talked with members of the Republican Forum West, at a dinner meeting in Sun City West.

ings, April 2, 1987, at Keating's request, McCain joined Sens. Dennis DeConcini, D-Ariz., Alan Cranston, D-Calif., and John Glenn, D-Ohio, to meet with Edwin Gray, then chairman of the Federal Home Loan Bank Board, to discuss regulation of Keating's savings and loan.

On April 9 the same four senators and Donald Riegle, D-Mich., met again in DeConcini's office with officials from the bank board's San Francisco office.

McCain contends that he did nothing for Keating that he wouldn't do for any constituent.

"The obligation of any elected official when a constituent comes to him and says he's not being treated fairly is to get the facts," said McCain Saturday. "I have done this hundred of times in seven years as an elected official."

Determining the facts of Keating's claim of unfair treatment by federal thrift regulators was the sole purpose of the meeting, McCain said.

In addition to Keating being a constituent with a problem, McCain said he attended the meetings because Keating had provided "supporting materials" from Arthur Young & Co., a national independent accounting firm, and a letter from Alan Greenspan, now chairman of the Federal Reserve Board, endorsing Lincoln Savings' investment policies and its management.

See Senator, A4

Senator spends time in Valley

—From A1

Even so, "I explicitly told Mr. Gray that I was there only for the purpose of hearing the reasons for the Bank Board's actions, and that I did not want to do anything, or ask anything, which might be construed as improper," McCain said in a response to the Senate Ethics Committee dated Nov. 21 of this year.

The response was developed in answer to allegations of the citizen advocacy group, Common Cause, which earlier had filed a letter with the Senate Select Committee on Ethics.

His response contains a chronological review of events and conversations leading up to the 1987 meetings among the five senators, Keating and Gray, the meeting's outcome and his subsequent actions.

Also outlined is how McCain failed to immediately reimburse Keating or American Continental for personal travel to his friend's home in the Bahamas. Included are copies of canceled checks that later reimbursed American Continental Corp. for the transportation.

A 1989 check for $3,754 paid American Continental for four flights during the years 1984, 1985 and 1986 on Keating's corporate aircraft.

"Along with my wife, Cindy, and our daughter Meghan, I vacationed with the Keatings there in 1984, 1985 and 1986. On each of these three family vacations, Mr. Keating made available American Continental Corp. aircraft for at least some portion of the air travel ... .

"I believed I had paid for this travel in a timely fashion," McCain said in his response.

Saturday, McCain called the payment oversight "a serious error; one I cannot excuse."

Air transportation provided to McCain was suggested in the Common Cause letter to the Senate Ethics Committee as one of the ways in which attendance of McCain and the other senators at the two meetings with bank board officials had been "purchased" — allegations McCain denies.

McCain also contends that once he became aware of the serious legal and financial problems facing Keating, he did not again attempt any contact with thrift regulators.

Saturday, he explained the media spotlight by calling it a "sexy" issue that contains all of the elements to draw interest.

"It's five senators; it's Charlie Keating; it's savings and loans."

McCain said he is fighting back the only way he knows how, by taking his case to the people.

"I can't sit tight," he said. "It's been very traumatic for me," he said. "My strategy has been to make myself as available as I can. The other four senators haven't been as visible."

FD-350 (Rev. 5-8-81)

(Mount Clipping in Space Below)

Ed Buck may join DeConcini recall bid

McCain included on activist's list

By Don Harris and Jerry Kammer
The Arizona Republic

The man who led a drive to recall then-Gov. Evan Mecham may join forces with the leader of a petition drive to recall Sen. Dennis DeConcini.

Former anti-Mecham activist Ed Buck and Jon Seidl of Phoenix, who manufactures magazines for automatic weapons and is a critic of the Arizona Democrat's efforts to limit such sales, have discussed a possible alliance and said Tuesday that they will meet today in hopes of reaching an agreement.

"There is a definite possibility of that," Seidl said. "But until our next meeting tomorrow, I can't say anything other than that.

"Nothing is finalized, nothing is locked in, nothing is committed."

Buck said he hopes to work with Seidl to target not only DeConcini but Sen John McCain, R-Ariz., for their efforts to intercede with federal regulators in behalf of Charles H Keating Jr., whose Lincoln Savings and Loan later collapsed.

"What were good men going into office are now cheap politicians, bought politicians," said Buck, a Republican. "It's a wonderful defense for senators to say, 'I was only serving a constituent.' My response is: 'But at the expense of all the rest of your constituents.'"

Buck's drive to recall Mecham collected nearly 40 percent more signatures than needed and was praised by election officials for its organization and accuracy. No election was held, however, because Mecham was impeached and ousted by the Legislature.

McCain spokesman Scott Celley said he gives "very little, if any, significance" to the proposed joint recall effort. Celley said any effort to recall McCain would fail for lack of public support.

Bob Maynes, a DeConcini spokesman, said he has no idea what Seidl is up to, and would not speculate on the significance of Buck possibly joining the recall.

Seidl, who had promised a status report on the number of signatures gathered by early November, repeatedly has delayed making any announcements.

"It's hush-hush right now," Seidl said. "You'll hear big things after the weekend. There will be a major shake-up in the organization and in the recall."

He declined to elaborate, except to say that DeConcini will not be happy with the development.

Seidl has until Jan. 6 to collect valid signatures of 291,135 registered voters.

About a month ago, Seidl said he was calling off the drive in Tucson, DeConcini's home base, because even Republicans were fearful of reprisals.

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(Mount Clipping in Space Below)

Keating lawyers dispute seizure

Claim that S&L's deals were sound

By Anne Q. Hoy and Sam Stanton
Republic Washington Bureau

WASHINGTON — Charles H Keating Jr.'s lawyers attempted Friday to pick apart the government's claim that it seized Lincoln Savings and Loan to stop the thrift from misusing federally insured deposits.

Keating's lawyers suggested in a hearing in federal District Court that even the testimony of the government's key witness showed that Keating's thrift, based in Irvine, Calif., sought sound business deals with legitimate business people.

Phoenix businessman Phillip Gordon also testified that adverse publicity generated by the government's efforts against Keating caused some of his partners to bow out of deals and refuse to pay debts owed to Lincoln.

And Keating lawyer John Lundin seized on the statement to portray the government as zealously trying to run Keating out of business.

"This is the first time that American Continental has had a chance to put its story forth in a fair hearing," Lundin told reporters later. "Gordon made most of our points."

Phoenix-based American Continental Corp. is Lincoln's parent company.

Lawyers of the Office of Thrift Supervision had called Gordon as a key witness to show that officials of

— See LAWYERS, page A17

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FBI/DOJ

Lawyers call deals by thrift sound

—LAWYERS, *from page A1*

Lincoln and its parent improperly recorded a 1988 land swap as a sale and falsely reported a $4.4 million profit.

But Gordon's testimony didn't support the government's case entirely. He painted American Continental as a shrewd business that carefully studied proposals from land speculators such as himself.

Gordon was the key partner in a 1988 deal to sell American Continental a 35-acre parcel of raw land in Peoria and, one day later, buy a 445-acre parcel in Hidden Valley, southwest of Phoenix. Hidden Valley is part of American Continental's Estrella project.

James Murphy, chief lawyer for the Office of Thrift Supervision, cast the deal as a swap rather than a sale and said federal rules prohibit thrifts from claiming profits on land swaps. He said American Continental improperly crafted the deal as a sale in a scheme to pass on cash to troubled American Continental.

After the hearing, Murphy dismissed suggestions that he was angry about Gordon's testimony.

He said the government "didn't think of any of these witnesses as government witnesses."

Instead, he said, Gordon testified exactly the way he wanted him to, showing that "these are high-risk, direct investments" financed with federally insured deposits.

But during the hearing, Lundin countered that the deal was a legitimate sale. He said American Continental rejected several attempts by Gordon to orchestrate a land swap, a move that would have saved Gordon from paying federal income taxes.

The testimony came on the second day of a hearing in a suit filed in U.S. District Court in Washington by Keating contesting the government's seizure of Lincoln in April.

The hearings are focusing on four transactions that the government claims show that Lincoln was mismanaged and had to be seized.

District Judge Stanley Sporkin said the hearing will resume Jan. 2. At that time, the government plans to call Keating and key American Continental officials, Murphy said.

Gordon is part of a group of land speculators, politicians and investors who have been drawn into numerous government probes of Keating and his multibillion-dollar empire.

Although it did not come up at the hearing, Gordon is the brother-in-law of Ron Ober, vice president of Tucson-based R.A. Homes, which had

COLORADO: Thrifts' junk bond activities examined, **A18**

received more than $50 million in loans from Lincoln. Ober, who has been interviewed about the loans by the FBI, also was a campaign aide to Sen. Dennis DeConcini, D-Ariz.

In a $1.1 billion civil racketeering suit filed in September against American Continental executives, federal regulators cite a sale by Amcor Investments, an American Continental subsidiary, to Gordon and a separate sale to R.A. Homes among a series of "sham transactions" that allowed Lincoln to record phony profits.

DeConcini and Sen. John McCain, R-Ariz., are among five senators facing Senate ethics and FBI probes about their ties with Keating, a hefty political contributor. The senators interceded with federal thrift regulators to get them off Keating's back.

The role of the senators was never raised during the hearing.

Instead, Sporkin decided to focus on the four transactions to determine whether the government acted properly in taking the thrift.

Gordon, the sole general partner of Sun Olive Ltd. Partnership, testified that he was eager to sell the 35-acre Peoria property and, after a half-dozen failed attempts in 1987 to cut a deal with Keating, had finally found one that Keating would agree to.

On Jan. 28, 1988, a Lincoln subsidiary bought Gordon's 35-acre parcel for $4.2 million. A day later, Lincoln sold the 445 acres in Hidden Valley to Gordon for $6 million.

Gordon had formed Hidden Valley Properties Limited Partnership to funnel the deal, and the partnership paid $1.5 million down and used a $4.5 million loan from Lincoln to buy the 445 acres, records say. The $1.5 million down payment came from the proceeds of the Peoria land sale to Lincoln the day before.

Gordon said the Hidden Valley partnership had $100 in cash assets one day, and just seven days later, the transaction allowed their assets to balloon to $1.5 million.

He said the partnership lost about $500,000 when it decided to make no further payments on the $4.5 million loan. He said he abandoned the deal because adverse publicity about Keating's woes led him to believe Lincoln and American Continental would not carry through with plans to develop the Hidden Valley area.

TRANSACTION MOVES

Jan. 28, 1988: Sun Olive Ltd. Partnership, whose general partner is Phillip Gordon, sells land in Peoria to Amcor Investments, a subsidiary of Lincoln Savings. Sale price is $4.2 million. Amcor Investments makes cash down payment of $1.9 million.

Jan. 29, 1988: Amcor Investments sells a 445-acre parcel to Hidden Valley Properties Limited Partnership, whose general partner is Gordon. The land is in the Hidden Valley area of the Estrella development southwest of Phoenix. Sale price is $6 million. Gordon makes a $1.5 million down payment. Lincoln records a profit of $4.4 million on Amcor sale to Hidden Valley Properties Limited Partnership.

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FD-350 (Rev. 5-8-81)

(Mount Clipping in Space Below)

Keating lawyers dispute seizure

Claim that S&L's deals were sound

By Anne Q. Hoy and Sam Stanton
Republic Washington Bureau

WASHINGTON — Charles H Keating Jr.'s lawyers attempted Friday to pick apart the government's claim that it seized Lincoln Savings and Loan to stop the thrift from misusing federally insured deposits.

Keating's lawyers suggested in a hearing in federal District Court that even the testimony of the government's key witness showed that Keating's thrift, based in Irvine, Calif., sought sound business deals with legitimate business people.

Phoenix businessman Phillip Gordon also testified that adverse publicity generated by the government's efforts against Keating caused some of his partners to bow out of deals and refuse to pay debts owed to Lincoln.

And Keating lawyer John Lundin seized on the statement to portray the government as zealously trying to run Keating out of business.

"This is the first time that American Continental has had a chance to put its story forth in a fair hearing," Lundin told reporters later. "Gordon made most of our points."

Phoenix-based American Continental Corp. is Lincoln's parent company.

Lawyers of the Office of Thrift Supervision had called Gordon as a key witness to show that officials of

— See LAWYERS, page A17

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Lawyers call deals by thrift sound

—LAWYERS, *from page A1*

Lincoln and its parent improperly recorded a 1988 land swap as a sale and falsely reported a $4.4 million profit.

But Gordon's testimony didn't support the government's case entirely. He painted American Continental as a shrewd business that carefully studied proposals from land speculators such as himself.

Gordon was the key partner in a 1988 deal to sell American Continental a 35-acre parcel of raw land in Peoria and, one day later, buy a 445-acre parcel in Hidden Valley, southwest of Phoenix. Hidden Valley is part of American Continental's Estrella project.

James Murphy, chief lawyer for the Office of Thrift Supervision, cast the deal as a swap rather than a sale and said federal rules prohibit thrifts from claiming profits on land swaps. He said American Continental improperly crafted the deal as a sale in a scheme to pass on cash to troubled American Continental.

After the hearing, Murphy dismissed suggestions that he was angry about Gordon's testimony.

He said the government "didn't think of any of these witnesses as government witnesses."

Instead, he said, Gordon testified exactly the way he wanted him to, showing that "these are high-risk, direct investments" financed with federally insured deposits.

But during the hearing, Lundin countered that the deal was a legitimate sale. He said American Continental rejected several attempts by Gordon to orchestrate a land swap, a move that would have saved Gordon from paying federal income taxes.

The testimony came on the second day of a hearing in a suit filed in U.S. District Court in Washington by Keating contesting the government's seizure of Lincoln in April.

The hearings are focusing on four transactions that the government claims show that Lincoln was mismanaged and had to be seized.

District Judge Stanley Sporkin said the hearing will resume Jan. 2. At that time, the government plans to call Keating and key American Continental officials, Murphy said.

Gordon is part of a group of land speculators, politicians and investors who have been drawn into numerous government probes of Keating and his multibillion-dollar empire.

Although it did not come up at the hearing, Gordon is the brother-in-law of Ron Ober, vice president of Tucson-based R.A. Homes, which had

COLORADO: Thrifts' junk bond activities examined, **A18**

received more than $50 million in loans from Lincoln. Ober, who has been interviewed about the loans by the FBI, also was a campaign aide to Sen. Dennis DeConcini, D-Ariz.

In a $1.1 billion civil racketeering suit filed in September against American Continental executives, federal regulators cite a sale by Amcor Investments, an American Continental subsidiary, to Gordon and a separate sale to R.A. Homes among a series of "sham transactions" that allowed Lincoln to record phony profits.

DeConcini and Sen. John McCain, R-Ariz., are among five senators facing Senate ethics and FBI probes about their ties with Keating, a hefty political contributor. The senators interceded with federal thrift regulators to get them off Keating's back.

The role of the senators was never raised during the hearing.

Instead, Sporkin decided to focus on the four transactions to determine whether the government acted properly in taking the thrift.

Gordon, the sole general partner of Sun Olive Ltd. Partnership, testified that he was eager to sell the 35-acre Peoria property and, after a half-dozen failed attempts in 1987 to cut a deal with Keating, had finally found one that Keating would agree to.

On Jan. 28, 1988, a Lincoln subsidiary bought Gordon's 35-acre parcel for $4.2 million. A day later, Lincoln sold the 445 acres in Hidden Valley to Gordon for $6 million.

Gordon had formed Hidden Valley Properties Limited Partnership to funnel the deal, and the partnership paid $1.5 million down and used a $4.5 million loan from Lincoln to buy the 445 acres, records say. The $1.5 million down payment came from the proceeds of the Peoria land sale to Lincoln the day before.

Gordon said the Hidden Valley partnership had $100 in cash assets one day, and just seven days later, the transaction allowed their assets to balloon to $1.5 million.

He said the partnership lost about $500,000 when it decided to make no further payments on the $4.5 million loan. He said he abandoned the deal because adverse publicity about Keating's woes led him to believe Lincoln and American Continental would not carry through with plans to develop the Hidden Valley area.

TRANSACTION MOVES

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Records link Keating to BF Goodrich bid

AKRON, Ohio (AP) -- Phoenix financier Charles Keating Jr. teamed with corporate raider Sir James Goldsmith last year in an attempt to take over BF Goodrich, according to federal records.

Bank examiner records show that a subsidiary of a California savings and loan controlled by Keating bought shares of the Akron-based company and transferred them to an investment partnership Goldsmith controlled, according to a story Saturday in the Akron Beacon Journal.

The documents prepared by regulators say the Goldsmith partnership "was formed primarily as a vehicle to perform a hostile takeover of BF Goodrich."

The documents are records of federal examinations of Keating's Lincoln Savings and Loan Association of Irvine, Calif. Lincoln was closed by federal regulators last April, one day after its holding company, American Continental Corp. of Phoenix, filed for bankruptcy protection.

Regulators estimate that guaranteeing the federally insured deposits they claim the S&L lost through risky investments, real estate and tax transactions could cost taxpayers more than $2 billion.

Goldsmith never said he was trying to take over Goodrich, but speculation that he was attempting to do so coincided with a rise in Goodrich stock last year. Goodrich issued a statement in April 1988 saying Goldsmith had told Goodrich Chairman John D. Ong that there was no truth to reports he intended to acquire a major stake in the company.

Keating's activities are being investigated by the House Banking Committee and he is

58C-PX-41605 Sub E 91
INDEXED
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FBI — PHOENIX

FBI/DOJ

the subject of a federal grand jury investigation in Los Angeles. The U.S. Department of Justice is also investigating whether Keating, formerly of Cincinnati, broke any laws by generating $1.4 million in campaign contributions to U.S. Sens. John Glenn, D-Ohio; Dennis DeConcini, D-Ariz.; Donald Riegle, D-Mich.; Alan Cranston, D-Calif.; and Sen. John McCain, R-Ariz.

Goldsmith in 1986 attempted a hostile takeover of Goodyear, also based in Akron. The buyout filed, but Goldsmith sold his shares in the company for a profit of about $94 million.

His arrangement with the Keating-controlled subsidiary, AMCOR Investments, allowed Goldsmith to mask part of his interest in Goodrich, the documents the newspaper obtained under the Freedom of Information Act showed.

In return for transferring the stock to the partnership, AMCOR Investments was given an "equity interest" in Goldsmith's partnership, according to the documents.

They indicate the equity in the partnership was exchanged for 468,395 shares of Goodrich stock with a book value of $51.86 a share, a total of nearly $24.3 million. The records, dated July 11, 1988, say the Goodrich shares "have reportedly been sold" to fund another Goldsmith transaction.

Keating lawyer James Ham, in a telephone interview Saturday from Los Angeles, called the examination reports quoted by the newspaper misleading.

"If it's in the examination report, there is a likely chance the documents are misleading ... They've demostrated a misunderstanding of a number of facts," Ham said.

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(Mount Clipping in Space Below)

The Keating Five

Senators Who Helped Lincoln S&L Now Face Threat to Their Careers

Coming Ethics Panel Probe Holds the Greatest Danger For Cranston, DeConcini

Grist for Comedians' Routines

By JILL ABRAMSON and PAUL DUKE JR.
Staff Reporters of THE WALL STREET JOURNAL

WASHINGTON—When a frantic Sen. Donald Riegle burst into Sen. John McCain's mailroom one day last month, astonished McCain aides realized just how much the courteous and clubby world of the Senate has been upended by the Charles Keating scandal.

Both senators have been swept into membership in the "Keating Five," the men accused of selling their influence with the Federal Home Loan Bank Board to Mr. Keating, the now-notorious chairman of failed Lincoln Savings & Loan Association. Sen. McCain has accused Sen. Riegle of trying to shift some of the unwelcome attention away from himself and onto Sen. McCain.

With the Ethics Committee set to probe both senators, the last thing Sen. Riegle wanted was to tip his defense strategy. So when he learned that a congressional page had mistakenly delivered his own handwritten draft of a letter for the Ethics Committee to, of all people, Sen. McCain, he raced to the senator's mailroom, demanding that McCain aides help him find the paper. Sen. Riegle "was unbelievably rattled," says one of the aides.

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Threat to Careers

To different degrees, the scandal has threatened the political future of each of the Keating Five senators—Riegle, McCain, Dennis DeConcini, Alan Cranston and John Glenn. Having met with thrift-institution regulators in 1987 on behalf of Mr. Keating's highflying Lincoln Savings, which wanted relief from a restriction on its investments, they face investigations of whether their actions were linked to some $1.3 million in political contributions he sent their way.

The five have been elevated now to that agonizing level of political notoriety suffered earlier this year by former House Speaker Jim Wright and former Pentagon nominee John Tower. They find themselves denounced in editorials, spoofed in "Saturday Night Live" skits and mocked in Jay Leno monologues (his "scenic" checks from Lincoln Savings, the comedian says, show five senators waving from a yacht off Bimini).

Possible Censure

It is unprecedented for five sitting senators—among them the second-ranking Democrat, two military heroes and the chairman of the influential banking committee—to be under investigation. Next year, the Senate probably will have to pass judgment on them, in a process that may wrench the upper chamber much the way the House was torn by the Wright case. They could be censured by their colleagues and face action by law-enforcement authorities, for what former Home Loan Bank Board Chairman Edwin Gray has called "a clear subversion of the regulatory process."

The senators deny wrongdoing and say their actions on behalf of Mr. Keating were part of normal constituent service. All say they either didn't ask for the investment curb to be dropped or don't recall the matter coming up. But even if they convince investigators, the five still face judgment by the taxpayers who must foot the bill for the Lincoln Savings debacle, a bill estimated at $2 billion.

There are important distinctions among the Keating Five, in the degrees of their involvement with Mr. Keating, in the actions they took and in the ways they are seeking to limit the damage. These differences ultimately will determine which will survive the Keating mess.

At this point, Sens. Cranston and DeConcini are the most bloodied. They continued to intercede for Mr. Keating and accept his money even after being pointedly warned that regulators were asking for a criminal investigation. Sen. Cranston and his voter-registration organizations got the most money from Mr. Keating, while Mr. Gray suggests that Sen. DeConcini took the lead in trying to influence regulators.

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Sens. Glenn and McCain appear the least at risk. Both say they had reservations about meeting with thrift regulators. But these former military heroes may have suffered the most personally. Sen. McCain ruefully observes that during five years he spent as a prisoner of war in North Vietnam, "even the Vietnamese didn't question my integrity."

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MCCAIN/GLENN: DIMMED ICONS

"My reputation hangs on this in the seventh decade of my life," says an emotional Mr. Glenn, pounding the steering wheel of a rented sedan as he drives through the Ohio Appalachian foothills where he spent his boyhood. "From the standpoint of my honor and integrity this is absolutely the worst thing I've ever been through."

His strategy—to defend his honor, say

Please Turn to Page A6, Column 1

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The Keating Five: Senators Who Aided Lincoln S&L With Regulators Now Face Threats to Their Careers

Continued From First Page

he did nothing wrong and maintain high visibility—appears to be working.

At a speech in Cumberland, Ohio, Mr. Glenn's old Mercury 7 magic still charms them. He is mobbed by children who want to shake the hand of an astronaut. One woman waiting to get his autograph, Annette Hayes of Cleveland, says, "John Glenn can do no wrong in the eyes of a lot of people in Ohio." Still, the Keating affair is an unpleasant undercurrent, mentioned even at this friendly gathering.

Recent polls show Mr. Glenn's favorable ratings holding steady in Ohio. But even in his hometown of New Concord, some worry that their favorite son may have gone a bit astray. "Despite his explanations, I'm disappointed in John Glenn," says Herbert Thomson, an economics professor just retired from Muskingum College, the senator's old school.

The stress shows on Annie Glenn's face as she is asked to compare the ordeal with waiting for her husband to come home from his space voyage. "One was his life at risk. In this you're talking about a fine reputation at risk," says Mrs. Glenn, who freqently acts as her husband's co-pilot in their twin-engine plane. "They're different, but this is horrible."

Sen. Glenn received $234,000 in Keating-related contributions during the 1980s, including $200,000 to a political-action committee he controlled. But Mr.Glenn says that he met with regulators only after Mr. Keating provideddocumentation for his case from financial experts, and that he had nothing further to do with him after being told regulators were making a criminal referral. "What is so aggravating is I go to one meeting to ask about an audit and the public perception is I was responsible in some way for the whole S&L crisis," Mr. Glenn exclaims.



John Glenn

Also potentially damaging is the involvement of some former aides. Three onetime Glenn associates, including the manager of his 1984 presidential campaign, became lobbyists on the Keating payroll. Two helped arrange the PAC donation.

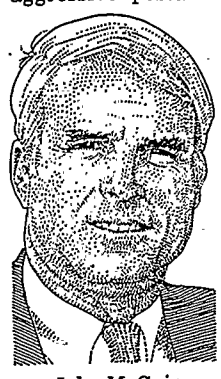
War Stories

Senator McCain, like Messrs. Glenn and Keating, is a former fighter-plane pilot. He was intrigued by Mr. Keating's war stories when they met at a Navy League dinner in Phoenix in 1981. They became friends.

For three years, the McCains vacationed at the Keatings' resort home on Cat Cay in the Bahamas. The senator only belatedly reimbursed Mr. Keating $13,000 for most of the nine trips he or his family took on the Lincoln Savings jet.

Sen. McCain received $112,000 in Keating contributions for the 1986 campaign. He also has been criticized for a $359,000 investment his wife and his father-and-law made in a Keating shopping mall in Arizona.

The media-savvy Arizona Republican has taken the most aggressive posture from the start of the scandal, accepting virtually all interview requests and even releasing details from his 1981 prenuptial agreement with his second wife. Trying to capitalize on his candor, his office gives journalists videotapes of his appearances and lists of interviews he's done on the Keating matter. "I couldn't live unless I did everything I could to clear my name," Mr. McCain says.



John McCain

Mr. McCain is also hitching himself to Mr. Glenn, who has both a hero image and a lesser involvement with Mr. Keating. When the producers of "This Week With David Brinkley" wanted to interview all five senators two weeks ago, Mr. McCain's staff made it known he preferred to appear alone or with just Mr. Glenn. He says colleagues have told him that in the Keating affair, "the two pieces that don't fit are me and Glenn."

There is bad blood between him and Sen. Riegle, going back to before the mailroom incident. Mr. Riegle, trying to minimize his own role, once said Sen. McCain had invited him to the meeting with thrift regulators; Sen. McCain hotly denied it and suggested to reporters that the Michigan Democrat might be "trying to throw you off his scent."

Meanwhile, Sen. McCain has pointed the finger at others. Sen. DeConcini was furious when Mr. McCain last May solicited former Bank Board Chairman Gray's recollections of the meetings with the senators. Mr. Gray exonerated Mr. McCain but excoriated Mr. DeConcini. Mr. McCain later apologized to his Arizona colleague. He denies trying to shift the blame. "I've been careful not to speak about his involvement," he says.

Regardless, "Dennis thinks McCain is trying to take himself off the hook while indicating that Deconcini deserves the blame," says Charles Pine, a former Arizona Democratic boss, who has discussed the incident with the senior senator. In addition, DeConcini staffers believe a memo damaging to their boss was leaked to the press by a McCain aide, who denies it.

Despite Sen. McCain's efforts, the percentage of Arizonans who hold a negative view of him has grown by 10 points since the story broke. In bedrock Republican country, at a meeting of the Mesa Rotary Club, Mr. McCain visibly winces as an octogenarian member tells the senator he still believes in him. "The fact that my supporters even feel they need to say these things is evidence of how serious the situation is," he observes.

Mr. McCain is generally expected to survive and win re-election in 1992. But the senator, who was seriously considered as a running mate for George Bush in 1988, is no longer regarded as a rising national star in the GOP. "He can forget Iowa," snaps one Republican consultant.

DECONCINI: THE RINGLEADER?

The Keating scandal caught Sen. DeConcini flat-footed. Instead of heading home to assess the damage, as his junior colleague did as soon as Congress recessed in November, he entertained a delegation of Soviet legislators. While he tended to Washington chores, his wife stood in for him at some events in Arizona. At a Phoenix soiree a month ago honoring a Democratic official, Susan DeConcini lambasted the press for its coverage of her husband. "There was an embarrassed silence in the room," one Democrat says.

The senator has taken a terrible pounding in the Arizona Republic, which has run political commentary with headlines such as "Stifle it, Dennis, nobody's listening to your whining." It's perhaps no wonder the newspaper's poll shows his approval rating falling below 40%, less than a year after he was re-elected with 57% of the vote.



Dennis DeConcini

Mr. DeConcini's biggest problem is that he has been fingered by former Bank Board chief Gray as the ringleader of the Keating Five. Mr. Gray says the Arizona Democrat actually negotiated on behalf of Mr. Keating, offering an improper quid pro quo under which Lincoln Savings would make more conventional homeloans if regulators would drop an investment restriction that bothered Mr. Keating.

Earlier this year, Mr. DeConcini was still calling federal and California thrift regulators on behalf of Mr. Keating, who hoped to sell Lincoln. And Mr. Keating was toastmaster at the grand finale of the Arizona Democrat's 1988 campaign—a rally at a $300 million luxury resort, the Phoenician, that Mr. Keating built as a monument to himself.

Mr. DeConcini denies taking the lead trying to help Mr. Keating, and he and the other senators dispute Mr. Gray's account of the meeting, saying they don't remember any deal being proffered. "I didn't put the meetings together," Sen. DeConcini says. "I told Keating, 'I'm not your guy.' "

Yet it was only recently, as the scandal deepened, that Mr. DeConcini distanced himself from Mr. Keating. In September, he returned the $48,000 Mr. Keating had raised for his 1988 campaign.

Some of the senator's supporters attribute his bumbling in part to the absence of his closest political adviser, Ron Ober, who has been sidelined by stories about big loans his company received from Lincoln. Some $30 million of these loans was unsecured, even though Mr. Ober's company had huge liabilities. Mr. Ober didn't return calls seeking comment. Mr. DeConcini says he wasn't aware of Mr. Ober's dealings with Mr. Keating.

The scandal has clearly taken a toll on Mr. DeConcini, say supporters who met with him at state Democratic headquarters a month ago. "Dennis is hurt. He feels he's been unduly persecuted," says Mr. Pine, the former state party leader. Mr. DeConcini, a wealthy former prosecutor, seems weary and defensive. "I find myself under a cloud, under suspicion," he complains. "That smacks at my integrity."

The one glimmer of hope for Mr. DeConcini is that he doesn't have to run again until 1994. Despite his recent fence-mending at home, "the consensus is that if he were up for re-election in 1990, he'd be in desperate trouble," says Robert Neuman, an Arizona Democrat and public-relations executive.

CRANSTON: BADLY WOUNDED

Alan Cranston evidently didn't grasp the magnitude of his troubles until last month, when three elderly California women who said they had lost their life savings by investing in uninsured bonds sold at Lincoln came to Washington to testify. Connie Wicksman of West Hills, a 78-year-old immigrant, said she was "ashamed to say I had faith in" the California senator. As she uttered those words, Mr. Cranston's chances for re-election in 1992 all but disappeared.

"You can just see the Republican ads they are going to make out of this," says a former state Democratic official.



Alan Cranston

Of the Keating Five, Mr. Cranston has the most serious liabilities. He took the most money from Mr. Keating: $850,000 for his voter-registration operations and $35,000 in direct campaign contributions. Like Mr. DeConcini, he continued to work on behalf of Mr. Keating, and take money from him, for some time after the 1987 meetings with federal thrift regulators.

The Federal Bureau of Investigation is reported to have widened its inquiry to examine whether employees of the voter groups violated their tax-exempt status by trying to enroll more Democrats than Republicans. A Cranston spokesman denied this suggestion and says the senator hasn't been contacted by the FBI. The broader investigation suggests that Mr. Cranston is in potentially deeper trouble than the rest of the five.

His biggest political problem is that about 130,000 Lincoln depositors live in California. And, in what most political observers view as a fatal mistake, Mr. Cranston avoided talking to the news media during the firestorm of publicity following the depositors' testimony. "His initial reaction was it would all blow over," says Anthony Podesta, a Democratic consultant and one of several party insiders who have urged Sen. Cranston to tackle the problem head-on.

Now Mr. Cranston is back in California trying to launch a counteroffensive. But the Keating case dogs him everywhere. "They will destroy Keating," he fumed to tablemates at a recent luncheon at the San Diego City Club, apparently referring both to the media and to various investigations.

Mr. Cranston insists he will seek re-election in 1992 at age 78. But leading Democrats, including California Rep. Nancy Pelosi, are pressing him to reconsider. Some predict he will be forced to step down before then. The Los Angeles Times said last Friday that 41% of California Democrats polled think Mr. Cranston should resign now.

Even if he stays, he may be hobbled in his post as majority whip, the second-highest Democratic post in the Senate. "It's like the cowboy who falls off the runaway horse, but his foot gets caught in the stirrup," says one senator who worries about Mr. Cranston's effectiveness. "You can't stop the horse; you can only hope it will slow down by itself."

RIEGLE: 'EAU DE COVER-UP'

Donald Riegle's actions and statements in the past month have made his own candor—or lack of it—almost as much of an issue for him as the Lincoln affair itself. "It's been an almost Nixonian performance," marvels William Ballenger, who publishes a newsletter, Inside Michigan Politics.

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MCCAIN/GLENN: DIMMED ICONS

"My reputation hangs on this in the seventh decade of my life," says an emotional Mr. Glenn, pounding the steering wheel of a rented sedan as he drives through the Ohio Appalachian foothills where he spent his boyhood. "From the standpoint of my honor and integrity this is absolutely the worst thing I've ever been through."

His strategy—to defend his honor, say

Please Turn to Page A6, Column 1

58C-PX-41605 B-93

FBI — PHOENIX

FBI/DOJ

The Keating Five: Senators Who Aided Lincoln S&L With Regulators Now Face Threats to Their Careers

Continued From First Page

he did nothing wrong and maintain high visibility—appears to be working.

At a speech in Cumberland, Ohio, Mr. Glenn's old Mercury 7 magic still charms them. He is mobbed by children who want to shake the hand of an astronaut. One woman waiting to get his autograph, Annette Hayes of Cleveland, says, "John Glenn can do no wrong in the eyes of a lot of people in Ohio." Still, the Keating affair is an unpleasant undercurrent, mentioned even at this friendly gathering.

Recent polls show Mr. Glenn's favorable ratings holding steady in Ohio. But even in his hometown of New Concord, some worry that their favorite son may have gone a bit astray. "Despite his explanations, I'm disappointed in John Glenn," says Herbert Thomson, an economics professor just retired from Muskingum College, the senator's old school.

The stress shows on Annie Glenn's face as she is asked to compare the ordeal with waiting for her husband to come home from his space voyage. "One was his life at risk. In this you're talking about a fine reputation at risk," says Mrs. Glenn, who freqently acts as her husband's co-pilot in their twin engine plane. "They're different, but this is horrible."

Sen. Glenn received $234,000 in Keating-related contributions during the 1980s, including $200,000 to a political-action committee he controlled. But Mr.Glenn says that he met with regulators only after Mr. Keating provideddocumentation for his case from financial experts, and that he had nothing further to do with him after being told regulators were making a criminal referral. "What is so aggravating is I go to one meeting to ask about an audit and the public perception is I was responsible in some way for the whole S&L crisis," Mr. Glenn exclaims.



John Glenn

Also potentially damaging is the involvement of some former aides. Three onetime Glenn associates, including the manager of his 1984 presidential campaign, became lobbyists on the Keating payroll. Two helped arrange the PAC donation.

War Stories

Senator McCain, like Messrs. Glenn and Keating, is a former fighter-plane pilot. He was intrigued by Mr. Keating's war stories when they met at a Navy League dinner in Phoenix in 1981. They became friends.

For three years, the McCains vacationed at the Keatings' resort home on Cat Cay in the Bahamas. The senator only belatedly reimbursed Mr. Keating $13,000 for most of the nine trips he or his family took on the Lincoln Savings jet.

Sen. McCain received $112,000 in Keating contributions for the 1986 campaign. He also has been criticized for a $359,000 investment his wife and his father-and-law made in a Keating shopping mall in Arizona.

The media-savvy Arizona Republican has taken the most aggressive posture from the start of the scandal, accepting virtually all interview requests and even releasing details from his 1981 prenuptial agreement with his second wife. Trying to capitalize on his candor, his office gives journalists videotapes of his appearances and lists of interviews he's done on the Keating matter. "I couldn't live unless I did everything I could to clear my name," Mr. McCain says.



John McCain

Mr. McCain is also hitching himself to Mr. Glenn, who has both a hero image and a lesser involvement with Mr. Keating. When the producers of "This Week With David Brinkley" wanted to interview all five senators two weeks ago, Mr. McCain's staff made it known he preferred to appear alone or with just Mr. Glenn. He says colleagues have told him that in the Keating affair, "the two pieces that don't fit are me and Glenn."

There is bad blood between him and Sen. Riegle, going back to before the mailroom incident. Mr. Riegle, trying to minimize his own role, once said Sen. McCain had invited him to the meeting with thrift regulators; Sen. McCain hotly denied it and suggested to reporters that the Michigan Democrat might be "trying to throw you off his scent."

Meanwhile, Sen. McCain has pointed the finger at others. Sen. DeConcini was furious when Mr. McCain last May solicited former Bank Board Chairman Gray's recollections of the meetings with the senators. Mr. Gray exonerated Mr. McCain but excoriated Mr. DeConcini. Mr. McCain later apologized to his Arizona colleague. He denies trying to shift the blame. "I've been careful not to speak about his involvement," he says.

Regardless, "Dennis thinks McCain is trying to take himself off the hook while indicating that Deconcini deserves the blame," says Charles Pine, a former Arizona Democratic boss, who has discussed the incident with the senior senator. In addition, DeConcini staffers believe a memo damaging to their boss was leaked to the press by a McCain aide, who denies it.

Despite Sen. McCain's efforts, the percentage of Arizonans who hold a negative view of him has grown by 10 points since the story broke. In bedrock Republican country, at a meeting of the Mesa Rotary Club, Mr. McCain visibly winces as an octogenarian member tells the senator he still believes in him. "The fact that my supporters even feel they need to say these things is evidence of how serious the situation is," he observes.

Mr. McCain is generally expected to survive and win re-election in 1992. But the senator, who was seriously considered as a running mate for George Bush in 1988, is no longer regarded as a rising national star in the GOP. "He can forget Iowa," snaps one Republican consultant.

DECONCINI: THE RINGLEADER?

The Keating scandal caught Sen. DeConcini flat-footed. Instead of heading home to assess the damage, as his junior colleague did as soon as Congress recessed in November, he entertained a delegation of Soviet legislators. While he tended to Washington chores, his wife stood in for him at some events in Arizona. At a Phoenix soiree a month ago honoring a Democratic official, Susan DeConcini lambasted the press for its coverage of her husband. "There was an embarrassed silence in the room," one Democrat says.

The senator has taken a terrible pounding in the Arizona Republic, which has run political commentary with headlines such as "Stifle it, Dennis, nobody's listening to your whining." It's perhaps no wonder the newspaper's poll shows his approval rating falling below 40%, less than a year after he was re-elected with 57% of the vote.



Dennis DeConcini

Mr. DeConcini's biggest problem is that he has been fingered by former Bank Board chief Gray as the ringleader of the Keating Five. Mr. Gray says the Arizona Democrat actually negotiated on behalf of Mr. Keating, offering an improper quid pro quo under which Lincoln Savings would make more conventional homeloans if regulators would drop an investment restriction that bothered Mr. Keating.

Earlier this year, Mr. DeConcini was still calling federal and California thrift regulators on behalf of Mr. Keating, who hoped to sell Lincoln. And Mr. Keating was toastmaster at the grand finale of the Arizona Democrat's 1988 campaign—a rally at a $300 million luxury resort, the Phoenician, that Mr. Keating built as a monument to himself.

Mr. DeConcini denies taking the lead trying to help Mr. Keating, and he and the other senators dispute Mr. Gray's account of the meeting, saying they don't remember any deal being proffered. "I didn't put the meetings together," Sen. DeConcini says. "I told Keating, 'I'm not your guy.' "

Yet it was only recently, as the scandal deepened, that Mr. DeConcini distanced himself from Mr. Keating. In September, he returned the $48,000 Mr. Keating had raised for his 1988 campaign.

Some of the senator's supporters attribute his bumbling in part to the absence of his closest political adviser, Ron Ober, who has been sidelined by stories about big loans his company received from Lincoln. Some $30 million of these loans was unsecured, even though Mr. Ober's company had huge liabilities. Mr. Ober didn't return calls seeking comment. Mr. DeConcini says he wasn't aware of Mr. Ober's dealings with Mr. Keating.

The scandal has clearly taken a toll on Mr. DeConcini, say supporters who met with him at state Democratic headquarters a month ago. "Dennis is hurt. He feels he's been unduly persecuted," says Mr. Pine, the former state party leader. Mr. DeConcini, a wealthy former prosecutor, seems weary and defensive. "I find myself under a cloud, under suspicion," he complains. "That smacks at my integrity."

The one glimmer of hope for Mr. DeConcini is that he doesn't have to run again until 1994. Despite his recent fence-mending at home, "the consensus is that if he were up for re-election in 1990, he'd be in desperate trouble," says Robert Neuman, an Arizona Democrat and public-relations executive.

CRANSTON: BADLY WOUNDED

Alan Cranston evidently didn't grasp the magnitude of his troubles until last month, when three elderly California women who said they had lost their life savings by investing in uninsured bonds sold at Lincoln came to Washington to testify. Connie Wicksman of West Hills, a 78-year-old immigrant, said she was "ashamed to say I had faith in" the California senator. As she uttered those words, Mr. Cranston's chances for re-election in 1992 all but disappeared.

"You can just see the Republican ads they are going to make out of this," says a former state Democratic official.



Alan Cranston

Of the Keating Five, Mr. Cranston has the most serious liabilities. He took the most money from Mr. Keating: $850,000 for his voter-registration operations and $35,000 in direct campaign contributions. Like Mr. DeConcini, he continued to work on behalf of Mr. Keating, and take money from him, for some time after the 1987 meetings with federal thrift regulators.

The Federal Bureau of Investigation is reported to have widened its inquiry to examine whether employees of the voter groups violated their tax-exempt status by trying to enroll more Democrats than Republicans. A Cranston spokesman denied this suggestion and says the senator hasn't been contacted by the FBI. The broader investigation suggests that Mr. Cranston is in potentially deeper trouble than the rest of the five.

His biggest political problem is that about 130,000 Lincoln depositors live in California. And, in what most political observers view as a fatal mistake, Mr. Cranston avoided talking to the news media during the firestorm of publicity following the depositors' testimony. "His initial reaction was it would all blow over," says Anthony Podesta, a Democratic consultant and one of several party insiders who have urged Sen. Cranston to tackle the problem head-on.

Now Mr. Cranston is back in California trying to launch a counteroffensive. But the Keating case dogs him everywhere. "They will destroy Keating," he fumed to tablemates at a recent luncheon at the San Diego City Club, apparently referring both to the media and to various investigations.

Mr. Cranston insists he will seek re-election in 1992 at age 78. But leading Democrats, including California Rep. Nancy Pelosi, are pressing him to reconsider. Some predict he will be forced to step down before then. The Los Angeles Times said last Friday that 41% of California Democrats polled think Mr. Cranston should resign now.

Even if he stays, he may be hobbled in his post as majority whip, the second-highest Democratic post in the Senate. "It's like the cowboy who falls off the runaway horse, but his foot gets caught in the stirrup," says one senator who worries about Mr. Cranston's effectiveness. "You can't stop the horse; you can only hope it will slow down by itself."

RIEGLE: 'EAU DE COVER-UP'

Donald Riegle's actions and statements in the past month have made his own candor—or lack of it—almost as much of an issue for him as the Lincoln affair itself. "It's been an almost Nixonian performance," marvels William Ballenger, who publishes a newsletter, Inside Michigan Politics.

FD-350 (Rev. 5-8-81)

(Mount Clipping in Space Below)

DeConcini will tell Keating tale on TV

By Keven Willey
The Arizona Republic

Sen. Dennis DeConcini plans to buy major blocks of television time beginning next month to combat what he sees as "public misperceptions" about his role in meetings with federal regulators regarding Charles H Keating Jr. and Lincoln Savings and Loan Association.

Mike Crusa, DeConcini's state director, confirmed Tuesday that the Arizona senator plans to purchase the air time, probably in five-minute segments, to get his side of the story "directly to the folks."

Crusa declined to say how much money will be spent on the spots, saying those decisions had not been made yet.

DeConcini is the first of the so-called Keating Five to take such action.

He and four other senators have been faulted for meeting privately in 1987 with federal regulators in Keating's behalf after getting more than $1.2 million in campaign funds from Keating and his associates.

Other senators attending the meetings were Republican John McCain of Arizona and Democrats John Glenn of Ohio, Donald Riegle of Michigan and Alan Cranston of California.

In the meetings, the senators complained to the regulators about the length of time spent on an examination of Lincoln Savings, which was owned by Keating's American Continental Corp. They complained that the examination bordered on harassment and urged the regulators to charge Lincoln with an offense or close their books.

Lincoln was seized in April by federal regulators, who now say that protecting the failing institution's depositors will cost taxpayers more than $1.5 billion.

Crusa said that the decision to buy television time was based on the results of a series of focus groups his office conducted in Maricopa County earlier this month. He said he is surprised and disappointed at what he calls the "depth of misunderstanding" of the public.

Crusa said many people are unaware that the senator returned money contributed by Keating and his associates.



Dennis DeConcini / His state director says people are unaware that the senator returned money contributed by Charles H Keating.

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5 senators are facing ethics probe

Links to Keating will be reviewed

By Sean Griffin
The Phoenix Gazette

WASHINGTON — The Senate ethics committee has authorized a formal investigation to determine whether five senators linked to Charles H Keating Jr. violated Senate ethics rules.

The committee's special counsel has been granted authority to subpoena witnesses and documents related to Keating's involvement with Sens. John McCain, R-Ariz., and Democrats Dennis DeConcini of Arizona, Alan Cranston of California, John Glenn of Ohio and Don Riegle of Michigan.

In a release issued today, committee chairman Howell Heflin, D-Ala. and ranking minority member Warren Rudman, R-N.H., emphasized that the committee's decision to proceed to what is known as a preliminary inquiry "is being undertaken for procedural reasons only."

The release stated that the committee "has taken no position as to the merits of the allegations or the weights of the evidence" compiled to date.

There are three formal stages and one informal stage in an ethics committee investigation. In the informal stage, the committee often selects a special counsel — in this case Washington attorney Robert Bennett — to help decide whether to proceed to the first formal stage, the preliminary inquiry.

Today's announcement ends the informal stage of the ethics committee

See ■ Senators, A-6

■ Senators

From A-1

probe and provides its counsel with some powerful investigatory tools to see whether the facts merit moving on to an initial review, the second formal stage.

The final stage is a committee investigation and can include courtroom-type presentations to the committee, typically behind closed doors.

"The bottom line is there is no increase in the level of suspicion implied by this step," said Paul Jacobson, a spokesman for Rudman. "It simply gives him the authority to go in and look around."

To date, the committee has solicited statements from each of the senators, asking them about the contributions they received from the American Continental Corp. executive and his associates, their attendance at two meetings with regulators overseeing Lincoln Savings and Loan Association, an American Continental subsidiary, and subsequent contact they had with regulators on behalf of Keating, American Continental or Lincoln.

All the senators have denied wrongdoing.

Scott Celley, a spokesman for McCain, said the preliminary inquiry phase, which under committee rules generally lasts no more than 60 days, was good news for McCain "because we are confident the committee will find that he did nothing wrong and did not abuse his office in any way."

DeConcini issued a brief statement, saying, "I welcome a thorough evaluation of the facts, and I feel confident that I will be exonerated."

Murray Flander, press secretary to Cranston, told The Associated Press the transition to a formal probe "will obviate any charges of whitewash afterward."

Glenn and Riegle could not be reached for comment.

The five senators received a total of $1.4 million from Keating and his associates and met with regulators in April 1987 after Keating complained of being harassed by thrift examiners.

58C-PX-41605-B 95

FBI/DOJ

FD-350 (Rev. 5-8-81)

(Mount Clipping in Space Below)

U.S. seeks to rid firm of Keating

American Continental sinking fast, suit says

By Lisa Morrell
and Jerry Kammer
The Arizona Republic

Federal officials called Friday for the ouster of Charles H Keating Jr. and his management team from American Continental Corp., claiming they are destroying the company financially, according to a motion filed in U.S. District Court in Phoenix.

In a motion filed late Friday, the Resolution Trust Corp. says Keating's management team should be replaced as soon as possible by a court-appointed trustee.

The federal agency claims in its filing that Keating's managers are spending all of American Continental's money to "vindicate and protect their personal interest" in myriad lawsuits and investigations connected to Keating's business dealings.

Keating, American Continental's chairman, reacted

— See U.S., page A8

Charles H Keating Jr. / He, his associates and their families have contributed a total of $1.3 million to the senators who now are being investigated.

'Keating 5' will face formal ethics inquiry

By Ed Foster
The Arizona Republic

The U.S. Senate Ethics Committee announced Friday that it will convene a formal inquiry into the actions of Arizona Sens. John McCain and Dennis DeConcini and three other senators, who are accused of improperly intervening with federal thrift regulators in behalf of Charles H Keating Jr.

In what it termed a procedural matter, the committee will launch a "preliminary inquiry" into whether the senators' misused their offices to help a campaign contributor.

Critics have charged that the intervention delayed the government takeover of the Phoenix financier's Lincoln Savings and Loan, driving up the cost of the insolvent thrift's bailout.

The panel also announced an inquiry of Sen. Alfonse D'Amato, R-N.Y., who has been accused by

— See ETHICS, page A8

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FBI - PHOENIX

FBI/DOJ

U.S. seeks control of Keating firm

—U.S., from page A1

angrily to the filing late Friday, calling it "a transparent and desperate attempt to sidetrack" three civil suits he has filed against the government and its thrift-regulating agencies.

"They're just plain scared of the litigation," said Keating, breaking several months of silence with the press.

"They're scared. They're frightened. They're scared of the truth. They're afraid of us in the courtroom."

The government is asking District Judge Richard Bilby for a hearing as soon as possible to protect investors and creditors from having their money squandered on attorneys' fees. American Continental is being protected from creditors by U.S. Bankruptcy Court while undergoing reorganization.

"If the bleeding is to stop, and the patient is to survive, immediate action is required," the Resolution Trust Corp. said.

Marc Kalish, an attorney representing the agency, said he hopes Bilby will hold a hearing by mid-January on whether to appoint a trustee to manage the Phoenix corporation.

Keating expressed confidence that he will be vindicated in court as a result of the suits he has filed. He said the suits have taken review of American Continental's operations out of the hands of federal thrift regulators, whom he has accused of bias and vindictiveness.

"The person who has found the facts against us up until now has been the trier and the judge," he said, referring to regulators who seized the pillar of his empire, $5 billion Lincoln Savings and Loan, on April 14, a day after American Continental filed its Chapter 11 bankruptcy petition.

"For the first time ever we are finally getting to the position where we have a completely unbiased and fair tribunal," Keating said.

Keating said that in order to preserve the corporation's assets, he intends to take a $1-a-year salary beginning Jan. 1. He was earning about $3 million a year in salaries and bonuses until the bankruptcy filing, when his salary was reduced to $400,000 a year.

Keating said he wanted to take the nominal salary "in order to provide an example and to do what is the best thing in the interests of the company."

He said the company has asked a Chicago consulting firm to search for a general manager to oversee American Continental's operations.

Before the government seized Lincoln, the company and its subsidiaries had about 2,500 employees and $6 billion in assets.

Currently it has about 75 employees and $87.4 million in assets, all of it real estate. Lincoln Savings had accounted for most of the corporation's assets.

Donald Gaffney, an attorney representing the Unsecured Creditors Committee, a group of American Continental creditors, said he does not think the federal agency's allegations provide grounds for the appointment of a trustee. The request for a trustee is the agency's attempt to cripple its opponent in litigation, American Continental, Gaffney said.

But Kalish, representing the agency, said the action is necessary, in part, because the committee "hasn't done anything" to protect the creditors.

The government's motion claims that American Continental has made no progress toward reorganizing its finances since June, when Keating presented an initial plan to pay back creditors over 14 years.

Instead, Keating's management is pursuing "expensive litigation of questionable" benefit to the company's creditors and investors. The company is spending more than $1 million a month on attorneys' fees in the cases.

The Resolution Trust Corp. has filed a $1.1 billion civil racketeering lawsuit accusing Keating and company insiders of siphoning Lincoln's money for personal gain.

The company is in danger of running out of cash by April, according to the Resolution Trust Corp. Ronald Warnicke, the court-appointed examiner in the American Continental bankruptcy case, has said the corporation could run out of cash by the end of January.

In addition to the racketeering suit, there are at least five investors' lawsuits against American Continental's executives and its attorneys and accountants; a congressional investigation; state and federal grand-jury investigations; and probes by the Securities and Exchange Commission, the U.S. Justice Department and the Federal Election Commission.

Ethics panel plans formal probe of 5 senators

— ETHICS, *from page A1*

a political opponent of improperly helping contributors get federal housing money.

The committee said the preliminary probes do not mean that the panel has taken positions on the allegations.

"The decision to proceed by preliminary inquiry in each of these matters is being undertaken for procedural reasons only," a statement said.

"The committee wishes to stress that it has taken no position as to the merits of the allegations or the weight of the evidence."

A preliminary inquiry is the first of three steps the committee can take. The two others, in ascending importance, are an "initial review" and a full-scale investigation.

In addition to McCain and DeConcini, the other members of the so-called Keating Five are Sens. Alan Cranston, D-Calif.; John Glenn, D-Ohio; and Donald Riegle, D-Mich.

The senators have denied any impropriety, saying they simply got involved for a constituent.

DeConcini said Friday that the committee was required to formalize its probe.

"They must do what they are doing now whenever somebody requests an investigation," he said.

"Common Cause requested an investigation of all five senators."

Common Cause is a government-watchdog group.

No one answered the phone at the Ethics Committee's offices Friday, but the panel's statement said it voted to conduct preliminary inquiries upon the recommendations of special outside counsel.

DeConcini added that he looks forward to the investigation.

"I welcome a thorough evaluation of the facts," DeConcini said. "I feel we will be exonerated."

McCain and Cranston were unavailable for comment Friday. Their spokesmen said the lawmakers expect to be exonerated. Riegle's press aide did not return calls, and the senatorial offices of Glenn and D'Amato were closed for the holidays.

In November, the Ethics Committee hired Washington attorney Robert Bennett to look into a complaint by Common Cause that the five senators misused their offices in Keating's behalf. The senators have received a total of $1.3 million in contributions from Keating, his associates and their families.

The committee said in its statement Friday, "Fairness to all concerned requires a thorough and complete review of all relevant facts and circumstances.

"Therefore, the committee, upon the recommendations of special outside counsel, has voted to conduct preliminary inquiries regarding these matters."

At issue is the senators' involvement in two meetings that were held in DeConcini's office in April 1987.

The first, on April 2, involved all of the senators, except Riegle, and Federal Home Loan Bank Board Chairman Edwin Gray. The second took place a week later with all five senators and San Francisco regulators who were probing Lincoln's operations. The thrift is based in Irvine, Calif.

The unusual sessions were held after Keating complained to the senators that his thrift was the victim of a "vendetta" by the bank board.

Gray has testified before the House Banking Committee that the first meeting included an effort by DeConcini to cut a deal for Lincoln in which the thrift would change its way of doing business if the bank board would scrap a rule limiting the high-risk investments in which Lincoln specialized.

DeConcini has denied that offer took place, and the other senators have said they do not remember such a deal being suggested.

Lincoln was seized by the federal government in April. The cost of bailing out the insolvent thrift is expected to be as much as $2 billion.

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(Mount Clipping in Space Below)

Keating alleges U.S. is looting Lincoln

Regulators blamed for $2 billion loss

By Jerry Kammer
The Arizona Republic

Under attack by federal regulators who accuse him of looting Lincoln Savings and Loan, Charles H Keating Jr. now contends that the government is doing the same thing.

Keating is blaming regulators for an estimated $2 billion in losses at Lincoln, claiming that the regulators drove the thrift into the ground with a calculated program of harassment and vendetta.

The allegations are contained in a 138-page report prepared for the federal Bankruptcy Court in Phoenix by attorneys for Keating's American Continental Corp., which is undergoing reorganization while being protected from creditors by the Bankruptcy Court.

The report claims that regulators' incompetence and pettiness destroyed Lincoln, not insider fraud as the government alleges in its $1.1 billion civil-racketeering suit against Keating and his business associates.

The report also attacks the media and the House Banking Committee, claiming that they distorted the significance of Keating donations to five U.S. senators who intervened with federal regulators on his behalf.

Keating is chairman of Phoenix-based American Continental, which operated Lincoln until the thrift was seized in April by regulators, who said it was unsafe and unsound. A projected $2 billion taxpayer bailout would make it the costliest failure in the savings and loan debacle.

Keating claims that the seizure of Lincoln was illegal and is suing to regain control of the thrift.

The American Continental report accuses regulators of targeting Keating for harassment because of his resistance to changes in federa

— See KEATING, page A5

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Keating says U.S. is looting Lincoln

— KEATING, *from page A1*

regulations governing thrifts.

After seizing Lincoln, regulators followed "a plan to reduce the value of Lincoln's assets" to justify the seizure while increasing the cost of the federal bailout, the report charges.

"In late 1988, philosophical and political goals and/or vengeance overcame whatever business sense the regulators possessed," the report charges. "They barred any skilled management of Lincoln's assets."

The report claims that regulators, because of their "deficient business analysis," are planning to sell the thrift's properties at prices below their true value.

Karl Hoyle, spokesman for the U.S. Treasury Department's Office of Thrift Supervision, defended the seizure of Lincoln as "necessary to protect the federal insurance fund" that safeguards thrift deposits.

"The purpose of the seizure was to remove those who were dissipating Lincoln's assets," Hoyle said. "That is why we took it from Mr. Keating."

Hoyle said that regulators have been criticized harshly for not seizing Lincoln sooner.

The American Continental report contends the furor over the intervention of the five senators with federal thrift regulators is exaggerated.

The senators, John McCain and Dennis DeConcini of Arizona, Alan Cranston of California, John Glenn of Ohio, and Donald Riegle of Michigan, received large campaign contributions from Keating. Their relationship with Keating is being investigated by the Senate Ethics Committee. McCain is a Republican; the others are Democrats.

The report claims that the media and the House Banking Committee "seem now to be eager" to find that the contributions "were somehow sinister, calculated to compel senators to attempt to influence improperly the (regulators)."

But it adds, "there is, of course, nothing improper about a constituent raising issues of possible regulatory impropriety with elected representatives, and the inference that lawful contributions compel men of integrity to act otherwise is simply unjustified."

The report also contends that allegations in the government's racketeering lawsuit "merely rehash further the allegations of the various (regulators') examinations" of the Irvine-Calif.-based thrift that invested heavily in undeveloped real estate, junk bonds and stocks.

The report also claims that midsummer news stories about the impending lawsuit, which was filed in September, demonstrate that the suit "has served the purposes of the federal regulators less as a lawsuit than as a vehicle and excuse for publicly pillorying defendants, humiliating them and their families, and permitting the media to act as billboards for the federal regulators' campaign of harassment and innuendo."

Keating denies buying influence

'I'm a fund-raiser,' he says, reversing statements of '89

By Michael Murphy
The Phoenix Gazette

WASHINGTON — Charles H. Keating Jr. has denied attempting to buy influence from five U.S. senators, including Arizona Sens. John McCain and Dennis DeConcini, making a sharp reversal of statements he made nearly a year ago.

Keating, after testifying in his lawsuit against the U.S. government, told reporters he "did not" attempt to purchase political favors. Keating and his associates donated more than $1 million to the senators, who have come under sharp fire for their intervention with federal regulators in 1987.

The senators' role in the affair has prompted a Senate ethics committee investigation.

Keating would not comment further, but appearing later on CNN's "Moneyline," he said his controversial statement a year ago "was a dumb way to say it."

In April, when the Phoenix developer was talking of his financial largesse to politicians and whether he expected favors, he said: "I want to say in the most forceful way I can, I certainly hope so."

"I'm sorry I said it that way," Keating said Friday. "I'm a fund-raiser. I never contributed $8 million to anybody. What I did is what I've been doing for 30 years."

In his CNN appearance, Keating also blamed the government for causing the nation's savings and loan crisis, and said "something's wrong" when the public and press fail to question the "vilification of so many people, so many institutions through a constant spewing out of the government."

"We didn't have losses," Keating said of Lincoln Savings and Loan. "The losses occurred when they (federal regulators) moved in and after three years of examination took us down."

As a result of the government's seizure, Keating also predicted that "they'll wreck" The Phoenician Resort.

See ■ Keating, A-3

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■ Keating

From A-1

Keating's defense was the strongest he has made in public since the government seized Lincoln. He said that the thrift was being operated by the government "in an unsafe and unsound" manner. Keating said on television and in the court that Lincoln was singled out because of its non-traditional investment activities.

"The government comes in, confiscates the S&L, sits on the assets and everything deteriorates," he said. "This is an Alice in Wonderland situation."

Earlier in the day, a confident Keating concluded his testimony before a federal judge by saying he found the government's case against his operation of Lincoln Savings "lacking — as I expected I would."

"To me, it's obvious that they have not made a case," Keating told reporters Friday outside U.S. District Court. "Our turn now starts."

Keating was testifying Friday in a preliminary hearing on his lawsuit against the government that seeks to regain control of the thrift. The hearing is for the judge to determine if there is enough evidence to have a trial.

Lawyers for the Office of Thrift Supervision plan to call as a final witness an accountant who examined Lincoln. Then Keating's team of lawyers is to present its case.

No date has been set for continuation of the hearing.

Keating's lawyers said it would take at least eight days to present their explanation of why Keating believes regulators acted "arbitrarily and capriciously" when they took over Lincoln.

During his second day of testimony, Keating told U.S. District Judge Stanley Sporkin that Lincoln and its parent company were singled out for harassment by regulators who he claimed ruined what had been a profitable thrift.

"We were making money, big money. It was a profitable association right up to the end," the Phoenix developer said. "Had they left us alone, we, in my opinion, would still be making $100 million a year."

Keating is challenging the government's decision to seize Lincoln, an Irvine, Calif., thrift, on April 14. Federal regulators claimed Keating was operating the thrift in an "unsafe and unsound" manner by using it as a source of cash for his real estate empire and his own enrichment.

During an exchange with Sporkin, however, Keating described as "garbage" and "fiction" the case used by regulators to persuade the Federal Home Loan Bank Board to seize the thrift.

"The power of the FHLBB is awesome," Keating told Sporkin. "When you didn't comply, you became subject to an audit. They did come in and, basically by fiat, ruin your balance sheets."

The FHLBB is now the Office of Thrift Supervision.

Despite Keating's protests, a skeptical Sporkin said he was awed by the developer's ability to persuade the bank board in 1986 to move their examination of Lincoln from San Francisco to Washington, D.C.

The transfer came under sharp criticism last year by the House banking committee and its chairman, Rep. Henry Gonzalez, D-Texas, who said the two-year delay that resulted in the closure of Lincoln would cost taxpayers an additional $2 billion.

Keating maintained the San Francisco regulators, who recommended in 1986 that the thrift be seized, were so antagonistic toward Lincoln that he personally appealed to then-bank board chairman M. Danny Wall to transfer the exam.

"I was rankled and said, 'Hey, get us a fair forum,'" Keating said. "I was personally and directly and keenly aware that unless we got away from the 11th District (the San Francisco region of the bank board) . . . we could not possibly continue to operate."

Sporkin, a former Securities and Exchange Commission enforcement chief, said the bank board was "very generous" to Keating. "You're lucky I wasn't at the SEC when you made those requests," the judge told Keating.

"You would agree that's an unusual action taken by the board," Sporkin said.

Keating insisted the board's sole mission was to seize Lincoln.

"In my view, the new exam was ordered because the conclusions of the preliminary exam were not sufficient for them to take Lincoln, which is what they wanted to do," Keating said.

The developer, who appeared calm during an entire day's worth of testimony, said American Continental Corp., Lincoln's parent company, tried to comply with regulations but was ignored by all but a handful of regulators.

Also Friday, government attorneys claimed that American Continental chief financial officer Andrew Liggett was warned in 1986 by the company's outside accounting firm, Arthur Andersen & Co., that a tax-sharing agreement between Lincoln and American Continental might be improper.

The agreement is the centerpiece of the government's case, in which it claims Keating used the agreement to illegally siphon $94 million from the thrift. Keating on Friday denied that allegation, saying he believed the agreement was only a "housekeeping measure."

FD-350 (Rev. 5-8-81)

(Mount Clipping in Space Below)

Public relations

DeConcini tells his S&L story in Surprise

By JENNIFER ARP
Daily News-Sun staff

SURPRISE — Arizona Sen. Dennis DeConcini's strategy to beat an ethics rap in the Keating affair was unveiled during an appearance Monday that resembled a closing argument in court.

In a 45-minute presentation at the Sun Ridge Recreation Center, the Tucson senator steadfastly denied he was unduly influenced by Phoenix businessman Charles Keating Jr.

"I resent the accusation that I

See Few, A4



...ors' Lincoln intervention

...on behalf of ...k a letter ...puzzling ...ch I think ...n before in ...firm on its ...be ...ing the company, ...y.

— William Seidman, FDIC chairman

Seidman said the senators may have had reason to believe Lincoln's complaints.

"You have to say this on behalf of the senators: They put a letter from a Big Eight accounting firm, the likes of which I think had never been written before in history, in which the firm on its stationary said that the regulators are harassing the company, trying to ... it's ... unfairly, etc., etc.," Seidman said.

In addition to that letter from the Arthur Young accounting firm, Seidman noted, the senators were given a letter from Alan Greenspan, who now heads the Federal Reserve Board — "another one of high credibility that confirmed that this institution was being run in a second manner."

Seidman said Greenspan also termed the regulators' actions a "mistake," as a precursor to referring the investigation to the Justice Department for possible criminal prosecution. Lincoln was asked to "a very serious qua...

Daily News-Sun photo by Mollie J. Hoppes

MAKING HIS CASE — Senator Dennis DeConcini defends his involvement in the Lincoln Savings and Loan controversy Monday at Sun Ridge in Surprise. A small crowd attended the noontime conference.

(Indicate page, name of newspaper, city and state.)

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Few attend DeConcini presentation

— From, A1

intervened because Keating gave me money," the senator said, referring to a meeting he and four other senators had with federal regulators auditing Keating-controlled Lincoln Savings & Loan Association.

The April 1987 meeting has brought ethics probes of the senators' actions. The meeting between regulators and legislators preceded the government seizure of Lincoln Savings and a federal fraud and racketeering lawsuit against Keating.

"I say that the regulators are pointing a finger at the political figures," DeConcini told about a dozen people on hand for the presentation, which included a historical look at the senator's association with Keating dating to 1981 and exhibits of letters, press statements and house banking committee testimony.

The presentation was one of many DeConcini has planned throughout Arizona this month to salvage what he considers an "impugned" reputation.

"In my opinion, in my value system, there's nothing more important than my reputation and my family," DeConcini said, explaining why he intends to spend thousands of dollars on an advertising campaign to convince the public his actions on behalf of Keating were neither illegal nor unethical.

"I stuck up for an Arizona constituent as I have done time and again. That's what I do as your senator," he said.

At the close of the presentation, several audience members sided with DeConcini and agreed with his contentions that federal regulators ultimately are to blame for Lincoln's collapse at a potential cost to taxpayers of $2 billion.

Earl Bowers of Glendale told DeConcini he is disturbed by statements that former chief thrift regulator Edwin Gray made to the news media regarding the Lincoln intervention.

"I'm confused as to what side of the mouth he's talking on," Bowers said of Gray.

DeConcini speculated a "besieged" Gray is looking for a scapegoat to justify his own failings.

"He (Gray) was the man in charge. He could have shut Lincoln down," the senator said.

Bowers, a veteran, also thanked DeConcini for his assistance in resolving a personal "feud" with the federal bureacracy in an insurance matter involving his wife.

DeConcini said during his 13 years in office he and his staff have come to the aid of 75,000 Arizonans like Bowers, the vast majority of whom were not contributors.

"I haven't won them all, but we've done it," he said.

Beth Stuart Neumann of Sun City, who described herself as a longtime DeConcini supporter, told the senator she hoped the Keating issue would not di courage him from seeking r election in 1994. "We need yo in the Senate," she said.

DeConcini said he does n yet know whether he will see another term.

Addressing other matters the forefront nationally, De oncini said:

• The U.S. Navy is conduc ing routine exercises off t north coast of South Americ although on a "sustained" bas in the event Colombia and oth countries ravaged by illeg drug trade will request logi ical and intelligence gatheri support in the drug war.

"If they want ou elp, ought to be prepared to give to them," DeConcini said.

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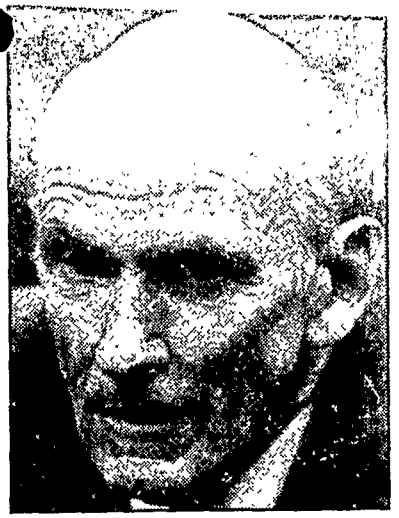
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Cranston dogged by Lincoln

Senator defends self while traveling state

By Chris Knap
The Register



Sen. Alan Cranston
Coming to OC today

■ **PICTURE:** How the Cranston-Keating relationship unfolded/**4**

For Sen. Alan Cranston, Lincoln Savings & Loan is the problem that will not go away.

As he crisscrosses the state this month, seeking to re-establish his credentials as a leader on national issues, his involvement in the collapse of the Irvine-based thrift continues to bedevil him.

Monday, in Marin County, schoolchildren at Davidson Middle School asked him to explain. Later that day in a forum on women's issues at San Rafael City Hall, a man who would identify himself only as "not in politics" also demanded an explanation.

"I think that somewhere down the line, you're going to have to respond to the American public as to why you continued to stay involved with (Lincoln owner) Charles Keating," the man said.

Alan Cranston accepted nearly $1 million from Keating for his re-election campaign and other political causes. Eight times, he called or met with federal regulators to discuss Lincoln Savings & Loan.

Please see **SCRUTINY/6**

The bond holders and many longtime Cranston supporters are angry at the senior senator for his involvement in the case. Even those who believe he has done no wrong say his career has been badly damaged.

Now Cranston, 75, a champion of liberal causes through four US Senate terms, is having to answer the questions he had hoped would go away. He schedules community forums on toxic pollution, offshore oil drilling and abortion rights. But the reporters — and invariably, someone in the audience — wants to know about Lincoln.

Today, Cranston visits Orange County to discuss open space, the homeless and women's issues. One woman who has become an unofficial leader among those who lost money at Lincoln has promised to picket.

Earlier this week, in a Volkswagen van bobbing over Highway 101 between Sausalito and San Rafael, Cranston talked with a Register reporter.

Interventions by him and four other senators on behalf of Keating had no effect on the decisions of regulators, he said. He violated no ethical rules of conduct. In short, he may have made a political mistake, but he did nothing wrong.

"When I get the facts through the press to the public I think the people of California are very fair and impropriety," he said.

That is a view that some Cranston supporters don't share.

"Alan's been terribly hurt by even appearing with the other senators," said former California Gov. Edmund G. "Pat" Brown Sr., a longtime Cranston ally.

"(Cranston should) weigh very carefully whether to run again," said Rep. Nancy Pelosi, D-San Francisco, a former director of Cranston's voter-registration drive.

Lu Haas, a long-time Cranston strategist who served as the senator's press secretary from 1969 to 1981, is convinced Cranston did no wrong. But he reports, sadly, "Some of his old friends are absolutely disturbed by this."

As a former political insider, Haas believes he sees the situation clearly.

"If there's a right or wrong in this situation, I think it's in the system. It's not in what Alan actually did. Money is corrupting the system, not in the sense of bribes, but that to become an elected official, you have to become part of the big money machine. That, per se, is a corruption."

Cranston has always courted wealthy donors — virtually every federal politician does.

Haas even chuckled at the practice, describing "a sort of Robin Hood effect" from Cranston taking huge sums from wealthy conservatives and then using the money to advance liberal causes: abortion rights, nuclear disarmament, a ban on offshore oil drilling, dedications of huge sections of desert to the national park system.

But to liberals who prefer not to think about the role of money in the political system, the Lincoln case came as a shock.

"Voters avert their eyes from the blunt truth," Haas said. "Then they are disappointed when someone is exposed as having done this in the grand style."

Between 1985 and 1988, Cranston collected from Keating and his associates at least $35,000 in campaign contributions, $850,000 for his voter-registration efforts and $85,000 for the California Democratic party's statewide efforts.

"I don't think any politician can take $850,000 from a developer and then do favors for him and not expect eyebrows to be raised," Haas said. "It's an enormous amount of money."

And there are other, similar cases in Cranston's record, although not on such a scale.

Between 1986 and 1988, for instance, Cranston collected more than $50,000 from Drexel Burnham Lambert and its junk-bond chief, Michael Milken. Much of the money went into the voter projects, but Cranston collected $4,000 in honorariums in 1986 and 1987, according to public-disclosure forms.

In January, Cranston wrote the Securities and Exchange Commis-

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sion, asking the agency to drop its demand that Drexel move its junk-bond department from Beverly Hills to New York. After the lobbying by Cranston and other congressmen, the SEC did so.

The senator's Washington spokesman Murray Flander described the letter as "an effort to keep a local business here in California."

"Alan Cranston has finally been exposed for something he has been doing all along," Orange County Republican Party Chairman Thomas Fuentes said. "For years he has maintained a liaison with special interests on particular issues whereas overall his votes have been anti-business and pro-liberal."

Cranston does not deny that he solicited money from people with different political agendas.

"I live in a state where it costs more to run than anywhere else in the country," he said. "In the last race I had I set a record for what a Democratic candidate has raised, over $13 million, and I still got outspent by my opponent (Ed Zschau), who raised $15 million plus.

"It's a very unpleasant situation, and it leads to suggestions of impropriety, even if there are no improprieties committed. I worked to change this system long before this incident arose."

Cranston calls intervention with federal officials "constitutent services," and says he has helped thousands of people — contributors and non-contributors — in similar ways.

"I help anybody that seems to have a legitimate problem with the government," he said.

Cranston said Lincoln had more than 700 employees and 140,000 depositors.

"You can't ignore it when somebody with that big an operation says he's got an unfair problem," he said. "If I took the position that because somebody has contributed to me I can't lift a finger for them, even if they seem to have or may have a just case, I would not be a very worthy senator. Out of political cowardice, I would avoid taking a look at the (complaints) of a constituent that seemed to have some difficulties — I'm not going to ever take that wimpishlike position."

But Sherry Bebitch Jeffe, senior political scientest at Claremont Graduate School's Center for Politics and Policy, said Cranston's actions cannot be excused as part of the system.

"It has always been the case that some constituents, mostly large contributors, are more equal than others. But ... what Cranston did for Keating is not the same as helping an old lady cut through red tape," Jeffe said.

Shirley Lampel, of Tustin, a widow who is losing her sight to diabetes, agreed.

Lampel, 58, took $30,000 from her husband's life insurance settlement out of a savings account and purchased junk bonds at Lincoln, chiefly for the monthly income they promised. She thought it was guaranteed.

"I trusted the FSLIC (federal deposit insurance sticker) on the door of Lincoln Savings," Lampel said. "I was cheated. This Keating took my $30,000 and he was off. But Charles Keating could have never done what he did without Cranston and the help of the four other senators.

"They opened the hen-house door to this fox."

As Cranston has traveled the state this month, he repeatedly has said he will run for re-election in 1992.

"I believe that the people who have been with me will be with me when the election comes. And it's a long way off, fortunately." he said.

Lampel is doing everything she can to ensure that does not happen.

"I have been Paul Revere-ing this story. Whoever I can tell, I do. As long as I have someone who will drive me, I will be there with my picket sign wherever Alan Cranston appears.

"He can run for president or for dogcatcher — but he'll never be elected."

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Page 135 ~ Duplicate - 58C-PX-41605 (LA) section 2 serial 40;
Page 136 ~ Duplicate - 58C-PX-41605 (LA) section 2 serial 40;
Page 137 ~ Duplicate - 58C-PX-41605 (LA) section 2 serial 40;
Page 138 ~ Duplicate - 58C-PX-41605 (LA) section 2 serial 40;
Page 145 ~ Duplicate - 58C-PX-41605 (LA) section 1 part 2 pages 130-144;
Page 146 ~ Duplicate - 58C-PX-41605 (LA) section 1 part 2 pages 130-144;
Page 147 ~ Duplicate - 58C-PX-41605 (LA) section 1 part 2 pages 130-144;
Page 148 ~ Duplicate - 58C-PX-41605 (LA) section 1 part 2 pages 130-144;
Page 149 ~ Duplicate - 58C-PX-41605 (LA) section 1 part 2 pages 130-144;
Page 150 ~ Duplicate - 58C-PX-41605 (LA) section 1 part 2 pages 130-144;
Page 151 ~ Duplicate - 58C-PX-41605 (LA) section 1 part 2 pages 130-144;
Page 152 ~ Duplicate - 58C-PX-41605 (LA) section 1 part 2 pages 130-144;
Page 153 ~ Duplicate - 58C-PX-41605 (LA) section 1 part 2 pages 130-144;
Page 154 ~ Duplicate - 58C-PX-41605 (LA) section 1 part 2 pages 130-144;
Page 155 ~ Duplicate - 58C-PX-41605 (LA) section 1 part 2 pages 130-144;
Page 156 ~ Duplicate - 58C-PX-41605 (LA) section 1 part 2 pages 130-144;
Page 157 ~ Duplicate - 58C-PX-41605 (LA) section 1 part 2 pages 130-144;
Page 158 ~ Duplicate - 58C-PX-41605 (LA) section 1 part 2 pages 130-144;
Page 159 ~ Duplicate - 58C-PX-41605 (LA) section 1 part 2 pages 130-144;
Page 160 ~ Duplicate - 58C-PX-41605 (LA) section 3 serial 79;
Page 161 ~ Duplicate - 58C-PX-41605 (LA) section 3 serial 79;
Page 162 ~ Duplicate - 58C-PX-41605 (LA) section 3 serial 79;
Page 163 ~ Duplicate - 58C-PX-41605 (LA) section 3 serial 79;
Page 164 ~ Duplicate - 58C-PX-41605 (LA) section 3 serial 79;

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FOI/PA
DELETED PAGE INFORMATION SHEET
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Page 7 ~ Duplicate;
Page 8 ~ Duplicate;
Page 9 ~ Duplicate;
Page 11 ~ Duplicate;
Page 12 ~ Duplicate;
Page 22 ~ b6; b7C; b7D;
Page 23 ~ b6; b7C; b7D;
Page 41 ~ Referral/Consult - EOUSA;
Page 42 ~ Referral/Consult - EOUSA;
Page 43 ~ Referral/Consult - EOUSA;
Page 44 ~ Referral/Consult - EOUSA;
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Page 58 ~ Referral/Consult - EOUSA;
Page 59 ~ Referral/Consult - EOUSA;
Page 60 ~ Referral/Consult - EOUSA;
Page 91 ~ b6; b7C;
Page 92 ~ b6; b7C;
Page 113 ~ b6; b7C;
Page 114 ~ b6; b7C; b7D;
Page 122 ~ Referral/Consult - DOJ;
Page 123 ~ Referral/Consult - DOJ;
Page 150 ~ Referral/Consult - DOJ;
Page 151 ~ Referral/Consult - DOJ;
Page 152 ~ Referral/Consult - DOJ;
Page 153 ~ Referral/Consult - DOJ;
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Memorandum

To : SAC PHOENIX 58C-PX-41605 Date 1/19/90

From : SA [redacted] b6 b7C

Subject: ALLEGATIONS AGAINST US SENATORS
ALAN CRANSTON, ET AL;
CPO;
OO: PX

The purpose of this memorandum will be to provide an organizational guide for the administration of this matter.

Sub A	1A's
Sub B	Newspaper articles
Sub C	FD-302's
Sub D	Teletypes
Sub E	Incoming Airtels
Sub F	Outgoing Airtels

<u>This serial should be maintained as the top serial of the main file and sub files A through F.</u>

7-Phoenix (1-58C-PX-41605 Main)
(1-58C-PX-41605 SUB A)
(1-58C-PX-41605 SUB B)
(1-58C-PX-41605 SUB C)
(1-58C-PX-41605 SUB D)
(1-58C-PX-41605 SUB E)
(1-58C-PX-41605 SUB F)
REB:mlr
(7)

File - Serial Charge Out
FD-5 (Rev. 6-17-70)

File _____ Date _____
Class. Case No. Last Serial

☐ Pending ☐ Closed

Serial No.	Description of Serial	Date Charged
45	FD-25	10/12/90
46	memo dtd 10/11/90	10/12/90
51	memo of USA 12/17/91	12/19/91
52	Change to Serial 53	
56	FD302 re [redacted]	2/7/92
58		3/12/91

b6
b7C

RECHARGE Date _____

To _____ From _____

Initials of Clerk _____ Date _____

Date charged

Employee

Location

★ U.S. GPO:1989-241-706/08023

File - Serial Charge Out
FD-5 (Rev. 6-17-70)

File 58 PX 41605 D Date _____
Class. Case No. Last Serial

☐ Pending ☐ Closed

Serial No.	Description of Serial	Date Charged
1	Permanently placed in 58 PX 41605 D	

Employee

RECHARGE Date _____

To _____ From _____

Initials of Clerk _____ Date _____

Date charged

Employee

Location

★ U.S. GPO:1989-241-706/08023

File - Serial Charge Out
FD-5 (Rev. 6-17-70)

File 58 PX 41605 Date _____
Class. Case No. Last Serial

☐ Pending ☐ Closed

Serial No.	Description of Serial	Date Charged
2	Remanette Pleas	
	in 58 PX 41605 D	

Employee

RECHARGE Date _____

To _____ From _____

Initials of Clerk _____ Date _____

Date charged

Employee

Location

★ U.S. GPO:1989-241-706/08023

File - Serial Charge Out
FD-5 (Rev. 6-17-70)

File 58 PX 41605 Date _____
Class. Case No. Last Serial

☐ Pending ☐ Closed

Serial No.	Description of Serial	Date Charged
3	Remand in 58 PX 41605 D	

Employee

RECHARGE Date _____

To _____ From _____

Initials of Clerk _____ Date _____

Date charged

Employee

Location

★ U.S. GPO:1989-241-706/08023

Memorandum

To : SAC, PX 58C-PX 41605 P Date 11/20/89

From : SAA [redacted] b6 b7C

Subject : U.S. SENATOR ALAN CRANSTON
ET AL
BRIBERY : CORRUPTION OF FEDERAL OFFICIALS - LEGISLATIVE
(00 : PX/LA)

On 11/20/89 a copy of the statements of the witnesses that testified before the U.S. House of Representatives Hearings on Lincoln Savings, Wash, D.C. were overnight-expressed to FBI, Santa, Ana, Calif to the attention of SA [redacted] along with a copy of the Opening statement on Oct 26, 1989 of Congressman Henry Gonzales, Head of the House Banking Committe. a copy of the witness list is attached b6 b7C

58C-PX-41605-4
SEARCHED ____ INDEXED ____
SERIALIZED INIT FILED ____
NOV 20 1989
FBI PHOENIX
[redacted]

(1)
SF

Witness List

10:00 a.m.
Thursday
October 26
2128 RHOB

William Crawford, Commissioner, California State Department Savings and Loans

William Davis, Deputy Commissioner, California State Department of Savings and Loans

Mike Patriarca, Acting Principal Supervisory Agent, San Francisco Region, Office of Thrift Supervision.

William Black, Acting District Counsel, San Francisco Region, Office of Thrift Supervision

H. Joe Selby, Former Director of Regulatory Affairs, Federal Home Loan Bank of Dallas.

Opening √ 0

Henry Gonzalez, Head of House Committee

File - Serial Charge Out
FD-5 (Rev. 6-17-70)

File 58 PX 41605 Date _____
Class. Case No. Last Serial

☐ Pending ☐ Closed

Serial No.	Description of Serial	Date Charged
5	Returned in 58 PX 41605 D	

Employee

RECHARGE Date _____

To _____ From _____

Initials of Clerk _____ Date _____

_____
Date charged

_____
Employee

_____
Location

★ U.S. GPO:1989-241-706/08023

FBI

TRANSMIT VIA:
☑ Teletype
☐ Facsimile
☐ _____

PRECEDENCE:
☐ Immediate
☐ Priority
☑ Routine

CLASSIFICATION:
☐ TOP SECRET
☐ SECRET
☐ CONFIDENTIAL
☐ UNCLAS E F T O
☑ UNCLAS

Date 11/20/89

FM FBI PHOENIX (58C-41605) (P)

TO DIRECTOR FBI/ROUTINE/

FBI LOS ANGELES (58C-PX-41605)/ROUTINE/

FBI SAN FRANCISCO (58C-PX-41605)/ROUTINE/

BT

UNCLAS

CITE: //3630//

SUBJECT: ALLEGATIONS CONCERNING U.S. SENATORS ALAN CRANSTON, DENNIS DE CONCINI, JOHN GLENN, JOHN MC CAIN, DONALD REIGLE, CHARLES H. KEATING, JR., DBA LINCOLN SAVINGS AND LOAN (LSL) ASSOCIATION OF CALIFORNIA AND AMERICAN CONTINENTAL CORPORATION (ACC), PHOENIX, ARIZONA; CORRUPTION OF FEDERAL PUBLIC OFFICIALS - LEGISLATIVE; OO: PHOENIX/LOS ANGELES.

RE LOS ANGELES TELETYPE TO DIRECTOR NOVEMBER 14, 1989, PHOENIX TELCALL TO SAN FRANCISCO, NOVEMBER 20, 1989.

REBIKF

KFX0100.324

Approved: LJN/DFB Transmitted _____ (Number) (Time) Per _____

MRI: 1513 JULIAN DATE: 325

ISN: 011 ACCEPTED AT: 1728

FILTER FILENAME: KFX0105O.321

OPERATOR'S INITIALS: DSL

58CPX41605 - 5

*U.S. GPO. 1987 — 181-486

^PAGE TWO PX 58C-4605 UNCLAS

FOR THE INFORMATION OF SAN FRANCISCO, PHOENIX AGENTS [redacted] AND LOS ANGELES AGENTS [redacted] WILL BE IN SAN FRANCISCO, NOVEMBER 27-30, 1989, TO CONDUCT INTERVIEWS OF EMPLOYEES OF THE OFFICE OF THRIFT SUPERVISION (OTS). AGENTS WILL BE STAYING AT THE MARK HOPKINS HOTEL. NO ASSISTANCE IS REQUESTED OF SAN FRANCISCO FBI AT THIS TIME. SAC'S LOS ANGELES, SAN FRANCISCO AND PHOENIX CONCUR IN AGENTS' TRAVEL TO INTERVIEW OTS EMPLOYEES. THE UACB AGENTS WILL TRAVEL AS DESCRIBED.

BT

b6
b7C

File - Serial Charge Out
FD-5 (Rev. 6-17-70)

File 58 41605 Date _____
Class. Case No. Last Serial

☐ Pending ☐ Closed

Serial No.	Description of Serial	Date Charged
6	Remand	
	58-41605 D	

Employee

RECHARGE Date _____

To _____ From _____

Initials of Clerk { _____ _____ _____ } Date { _____ _____ _____ }

_____
Date charged

_____
Employee

_____
Location

★ U.S. GPO:1989-241-706/08023

0006 MFI 01645

RR FBIPX

DE FBIAT #0014 3390341

ZNY FFFFF

R 042333Z DEC 89

FM FBI ATLANTA

TO FBI PHOENIX (58C-PX-41605)/ROUTINE/

BT

UNCLAS E F T O

CITE: //3040:1378//

SUBJECT: ~~ALLEGATIONS AGAINST UNITED STATES~~ SENATORS, ALLEN CRANSTON; DENNIS W. DECONCINI; JOHN GLENN; ET AL; OO:LOS ANGELES/PHOENIX.

REFERENCE TELCALL FROM SPECIAL AGENT [redacted] TO PHOENIX DIVISION, DATED NOVEMBER 30, 1989. b6 b7C

ADMINISTRATIVE:

FOR INFORMATION OF PHOENIX DIVISION, THE ATLANTA DIVISION, THOMASVILLE RESIDENT AGENCY, HAS RECEIVED INFORMATION REGARDING THE ABOVE-CAPTIONED CASE. THIS INFORMATION HAS BEEN OBTAINED CONFIDENTIALITY. IT IS REQUESTED THAT THE CASE AGENT

58C-PX-41605-6

SEARCHED [redacted] INDEXED [redacted]
SERIALIZED [redacted] FILED [redacted]
DEC 4 1989
FBI — PHOENIX

(SA [redacted] BE CONTACTED PRIOR TO ANY ACTION INVOLVING THIS INFORMATION. b6 b7C

ON NOVEMBER 13, 1989, A CONFIDENTIAL SOURCE OF THE ATLANTA DIVISION MET WITH SPECIAL AGENT [redacted] THOMASVILLE RESIDENT AGENCY.

SOURCE STATED THAT [redacted] b6 b7C b7D

0-9 (Rev. 8-16-79)

TRANSMIT VIA: Airtel

CLASSIFICATION: Unclas

DATE: 12/5/89

FROM: Director, FBI

TO: SACs, Phoenix (58C-PX-41605)
Los Angeles

ALLEGATIONS CONCERNING U.S. SENATORS ALAN CRANSTON, DENNIS DECONCINI, JOHN GLENN, JOHN MCCAIN, DONALD RIEGLE; CHARLES H. KEATING, DBA LINCOLN SAVINGS AND LOAN (S&L) ASSOCIATION OF CALIFORNIA AND AMERICAN CONTINENTAL CORPORATION; PHOENIX, ARIZONA; CORRUPTION OF FEDERAL PUBLIC OFFICIALS - LEGISLATIVE; OO: PHOENIX OO: LOS ANGELES

ReButelcal of SSA [redacted] to SSA [redacted] Phoenix Division on 11/29/89. b6 b7C

Enclosed for Phoenix are copies of the testimony and exhibits of individuals appearing before the Committee on Banking, Finance and Affairs, U.S. House of Representatives, and a copy of the Congressional Record - Senate relating to the response of Senator Cranston to Common Cause from the Senate Ethics Committee.

For information of receiving offices, on 11/30/89, representatives of the White-Collar Crimes Section and Congressional Affairs Office met with Robert S. Bennett, of the law firm Dunnell, Duvall, Bennett and Porter. Bennett, the brother of William Bennett, Director of National Drug Control Policy, has been appointed by the Senate Select Committee on Ethics to investigate their actions of the captioned senators in the intervention on behalf of Lincoln S&L Association with the Federal Home Loan Bank Board.

The purpose of this meeting was to open a line of communication in view of the parallel investigative interests in this matter. Discussed were areas of common concerns and an offer of, to the extent permissable by policy and legal considerations, an exchange of information. Issues regarding original evidence and the possibility of granting of immunity were discussed.

Bennett assured that his office would only accept copies of documents from witnesses eliminating the problem of the FBI having to obtain the originals from his office. As it relates to the granting of immunity, Bennett indicated that the FBI would be notified in ample time to allow appropriate investigative action and to prepare for procedures to insulate investigative Agents from the testimony. Bennett advised that public hearings are a possibility, however, this was several months away.

ICC 58PX41605E

58C-PX-41605-7

FBI/DOJ

The meeting, which was cordial throughout, concluded with the agreement to keep the lines of communication open and to exchange information, where possible.

FBIHQ is currently in the process of obtaining copies of the television programs, "Nightline" on 11/22/89, and "This Week with David Brinkley," of 11/26/89, relating to captioned matter. Upon receipt, Phoenix and Los Angeles will be provided with copes of same. Phoenix and Los Angeles should remain alert to any information pertaining to interviews both in print or electronic media, of captioned subjects and/or possible witnesses in captioned matter.

0-9 (Rev. 8-16-79)

TRANSMIT VIA: AIRTEL

CLASSIFICATION: _____ DATE: 11/13/89

FROM: Director, FBI

TO: SACs, Phoenix (58C-PX-NEW)

CHANGED:
ALLEGATIONS CONCERNING U.S. SENATORS ALAN CRANSTON, DENNIS DECONCINI, JOHN GLEN, JOHN MCCAIN, DONALD RIEGLE; CHARLES H. KEATING, DBA LINCOLN SAVINGS AND LOAN (S&L) ASSOCIATION OF CALIFORNIA AND AMERICAN CONTINENTAL CORPORATION, PHOENIX, ARIZONA; CORRUPTION OF FEDERAL PUBLIC OFFICIALS - LEGISLATIVE; OO: PHOENIX; OO: LOS ANGELES

Title marked changed to indicate actual character of case as "Corruption of Federal Public Officials". Title previously carried character as "Corruption of State and Local Public Officials."

Re: Buteletype to receiving offices dated 11/9/89, and Butelcall of SSA [redacted] to SSA [redacted] Phoenix Division and SSA [redacted] Santa Anna Resident Agency, on 11/10/89. b6 b7C

Enclosed for receiving offices are two copies each of a Memorandum dated 11/7/89, from Edward S. G. Dennis, Jr., Assistant Attorney General, Department of Justice to the Director, FBI, re captioned matter. Enclosed for Phoenix, under separate package copy and sent overnight express, are the Financial Disclosure Statements for captioned U. S. Senators, and the testimony and exhibits of individuals appearing before the Committee on Banking, Finance and Urban Affairs, U. S. House of Representatives.

During re telcall to SSA [redacted] Phoenix Division was requested to xerox enclosures sent overnight express and make available for Los Angeles Division. b6 b7C

(3) - Phoenix (Enc. 2) TO SA mumgers/gs
2 - Los Angeles

IC cleared 58PX41605E

58C-PX-41605-8
SEARCHED ____ INDEXED ____
SERIALIZED HUR FILED DUR
NOV 20 1989
FBI - PHOENIX
[redacted]

FBI/DOJ

File - Serial Charge Out
FD-5 (Rev. 6-17-70)

File 58 PX 41605 Date
Class. Case No. Last Serial

☐ Pending ☐ Closed

Serial No.	Description of Serial	Date Charged
9	Report	
	58 PX 41605 E	

Employee

RECHARGE Date

To From

Initials of Clerk

Date

Date charged

Employee

Location

☆ U.S. GPO:1989-241-706/08023

File - Serial Charge Out
FD-5 (Rev. 6-17-70)

File 58 PX 41605 Date _____
Class. Case No. Last Serial

☐ Pending ☐ Closed

Serial No.	Description of Serial	Date Charged
10	Permanently Charged in 58 PX 41605-D	

Employee

RECHARGE Date _____

To _____ From _____

Initials of Clerk _____ Date _____

Date charged

Employee

Location

☆ U.S. GPO:1989-241-706/08023

Memorandum

To : SAC, PX 29A-LA-102009 SUB P Date 8/18/89

From : SAA [redacted] b6 b7C

Subject : DESERT GEM
MISCONDUCT 24
(CC: PX/L1)

ATTACHED IS A COPY of A memorandum dated July 25, 1985 from American Continental Employee [redacted] b6 b7C reflecting $20,000 in total contributions from American Continental employees and family members To [redacted] Senator Dennis DeConcini, (Arizona) Electin Committee. This memorandum was located during an investigative review of documents in PX case 58C-PX-40548 (NON-FGJ RECORDS).

58C-PX-41605-11

SEARCHED INDEXED
SERIALIZED FILED
DEC 14 1989
FBI — PHOENIX

[redacted] b6 b7C

1 — PX 29A-LA-102009
1 — LA 58C-PX-41605

July 25, 1985

[redacted]

b6
b7C

Scottsdale, Arizona 85253

Dear [redacted]

Please find enclosed the following contributions to the Dennis Deconcini Election Committee for Campaign '88:

Name	Contribution
[redacted]	$2000
Charles H Keating, Jr.	1000
[redacted]	1000
	1000
	1000
	1000
	1000
	2000
	1000
	1000
	1000
	2000
	1000
	1000
	1000
	1000
	1000

20,650 OK

Sincerely,

[redacted]

[redacted] on

CONTRIBUTIONS TO DENNIS DECONCINI '88 CAMPAIGN
BY CHARLES H. KEATING, JR. AND RECOGNISED ASSOCIATES

CASE NUMBER: 29A-PX-102009
CASE SUBJECT: CHARLES H. KEATING, JR. et al

NAME	BANK	ACCOUNT NUMBER
[redacted]	INTERWEST BANK	[redacted]
	LINCOLN SAVINGS AND LOAN	
	VALLEY NATIONAL BANK	
KEATING, CHARLES H. JR.	VALLEY NATIONAL BANK	0680-6961
KEATING, CHARLES H. JR. SPECIAL	VALLEY NATIONAL BANK	1468-2014
[redacted]	VALLEY NATIONAL BANK	[redacted]
	VALLEY NATIONAL BANK	
	VALLEY NATIONAL BANK	
	VALLEY NATIONAL BANK	
	VALLEY NATIONAL BANK	
	FIRST INTERSTATE BANK	
	MERRILL LYNCH-BANK ONE-COLUMBUS, OH	
	VALLEY NATIONAL BANK	
	VALLEY NATIONAL BANK	
	VALLEY NATIONAL BANK	
	FIRST INTERSTATE BANK	
	VALLEY NATIONAL BANK	
	LINCOLN SAVINGS AND LOAN	
	SCOTTSDALE COMMERCIAL BANK	
	VALLEY NATIONAL BANK	
	WESTERN SAVINGS	
	LINCOLN SAVINGS AND LOAN	
	VALLEY NATIONAL BANK	
	UNITED BANK (NOW CITIBANK)	
	VALLEY NATIONAL BANK	

b6
b7C

Memorandum

To : SAC, PX 58C-PX-41605 Date 12/18/89

From : SAA [redacted] b6 b7C

Subject : SENATOR ALAN CRANSTON;
ET AL
Bribary; Corruption of Public Officials - Federal
OO: PX
OO: LA

On Dec 14, 1989 MAYOR Herb DrinkWATer, Scottsdale, Arizona Advised writer That ~~IAD~~ CONNECTION with his 1980 election his campaign received A Bundle of checks from Charles Keating that totaled $27,000. The checks were not accepted by Mayor DrinkWater NOR were the checks sent over by Keating in DrinkWATer's two subsequent re-elections. The contributions were returned AS They exceeded DrinkWaters personal Limits on Amounts he will Accept for CONTributions from one source.

58C-PX-41605-12
SEARCHED [redacted] INDEXED MR
SERIALIZED MW FILED MW
DEC 18 1989
FBI - PHOENIX

(3)

1-29D-LA-102009 SUB C

b6 b7C

File - Serial Charge Out
FD-5 (Rev. 6-17-70)

File _____ Date _____
Class. Case No. Last Serial

☐ Pending ☐ Closed

Serial No.	Description of Serial	Date Charged
13 -		
18	Placed in	
	58 PX 4/605 - B	

_____
Employee

RECHARGE Date _____

To _____ From _____

Initials of Clerk { _____ _____ _____ }

Date { _____ _____ _____ }

_____
Date charged

_____
Employee

_____
Location

U.S. GPO:1989-241-706/08023

File - Serial Charge Out
FD-5 (Rev. 6-17-70)

File 58 CPX 41605 Date _____
Class. Case No. Last Serial

☐ Pending ☐ Closed

Serial No.	Description of Serial	Date Charged
19	Permanently placed in 58 PX 41605 Sub F	

_____
Employee

RECHARGE Date _____

To _____ From _____

Initials of Clerk _____ Date _____

_____
Date charged

_____
Employee

_____
Location

★ U.S. GPO:1989-241-706/08023

File - Serial Charge Out
FD-5 (Rev. 6-17-70)

File 58 PX 41605 Date _____
Class. Case No. Last Serial

☐ Pending ☐ Closed

Serial No.	Description of Serial	Date Charged
20 – 29	Placed in 58 PX 41605 B	

_____
Employee

RECHARGE Date _____

To _____ From _____

Initials of Clerk _____ Date _____

_____
Date charged

_____
Employee

_____
Location

★ U.S. GPO:1989-241-706/08023

Memorandum

To : SAC PX 58C-41605 P Date 1/16/90

From : SA [redacted]

b6
b7C

Subject : Allegations against US Senators, Alan Cranston, et al
CPO
OO: PX

It is recommended that a Sub C Volume be opened for FD302's and other sub volumes as follows:

C ✓ FD302
D ✓ - Teletypes
E ✓ - airtels (incoming)
F ✓ - Bu airtels (outgoing)

Rotor 4
Open Sub files as set forth in memo

58C-PX-41605-30

SEARCHED ..... INDEXED .....
SERIALIZED ..... FILED .....
JAN 11 1990
FBI - PHOENIX

[redacted]

b6
b7C

MAIN-
58C-PX-41605 SUB
311

SEARCHED ____ INDEXED
SERIALIZED ____ FILED

JAN 2 ? 1990

FBI — PHOENIX

[redacted]

b6
b7C