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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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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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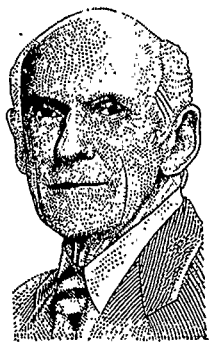
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Cranston: Badly Wounded

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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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

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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

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, 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 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.

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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 federal

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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."

(Mount Clipping in Space Below)

Keating tops state's stories

'Republic' picks top 10 of '89

The Arizona Republic

1 The biggest Bankruptcy Court case in Arizona history, the costliest collapse in the nation's savings and loan disaster and a political firestorm threatening the careers of five U.S. senators are the legacies of Phoenix financier Charles H Keating Jr.

The demise of Keating's $6 billion American Continental Corp. and Lincoln Savings and Loan is expected to cost taxpayers $2 billion. That's an average of about $1 million a day — or $45,000 an hour — for every day of the five years he controlled the Irvine, Calif.-based thrift.

In addition, 23,000 investors sank $230 million into now-worthless American Continental bonds.

The senators, dubbed the "Keating Five," are facing probes by the U.S. Senate Ethics Committee and the FBI about their intervention with federal thrift regulators.

The senators, Arizona's Dennis DeConcini, a Democrat, and John McCain, a Republican, plus Alan Cranston of California, Donald Riegle of Michigan and John Glenn of Ohio, received a total of $1.3 million in contributions from Keating to their campaigns or political organizations.

They insist they did nothing wrong, but public-opinion polls show their support dropping.

Hearings by the House Banking Committee into Lincoln's collapse led in December to the resignation of M. Danny Wall, the nation's top thrift regulator. Keating was called before the panel in November but invoked his Fifth Amendment right against self-incrimination and refused to answer questions about his operations.

Keating, 66, bought Lincoln in 1984, using $51 million in junk bonds. He then used Lincoln's federally insured deposits to make speculative bond and real estate investments.

"I wouldn't say that we are engaged in a risk-taking activity," Keating told *The Arizona Republic* in July over lunch at his beloved $260 million Phoenician Resort in Phoenix.

To some, Keating evoked a vision of new corporate dynamism. Others say he erected a "Ponzi Scheme," which simply used new investment money to pay off old investors and create an illusion of success. Federal regulators say he used "accounting gimmickry" and political influence to maintain that illusion.

Now Keating and his family are challenging the Lincoln takeover in court and promising to return investors' money.

The villains, Keating insists, are federal thrift regulators, who he says were obsessed with rules that thwarted creative investment and set out to destroy him because he would not bow to their will.

Keating and 10 American Continental insiders and their spouses are fighting a $1.1 billion civil racketeering suit, the largest government bank-fraud case in U.S. history.

In mid-April, American Continental sought federal Bankruptcy Court protection from its creditors, the largest such case ever filed in Arizona. A day later, federal thrift regulators seized control of Lincoln.

In June, *The Arizona Republic* published an investigative report raising questions about the relationships between Lincoln and two companies that received tens of millions of dollars in loans while simultaneously purchasing land from the thrift.

The newspaper later reported that Jack Atchison, a former top auditor for a prestigious national accounting firm, played a key role in persuading the Keating Five senators to meet with federal thrift regulators in April 1987. Keating hired Atchison a year later for $954,000, quadrupling Atchison's former salary.

The Republic also revealed that:

- Federal Reserve Chairman Alan Greenspan, while working as a private consultant to Lincoln in 1985, wrote to thrift regulators that it posed "no foreseeable risk" to taxpayers.
- A former California thrift regulator who had helped Keating just before leaving public office joined a company that soon benefited from a $3 million investment by Lincoln.
- A controversial purchase of a downtown Detroit hotel by Keating and associates will cost taxpayers an estimated $10 million.

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

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• Two top DeConcini campaign aides amassed more than $50 million in real-estate loans from Keating while the senator aided the thrift executive in regulatory battles.

• McCain had more than a "constituent relationship" with Keating when the senator met with regulators in Keating's behalf in 1987. McCain's wife and father-in-law had invested $359,100 in a Keating-led shopping center project. McCain and family members also made at least nine trips at Keating's expense over a five-year period. Last spring, McCain reimbursed Keating $13,433 for the trips.

By year's end, Keating, who had bluntly admitted he hoped to influence politicians through huge contributions, inadvertently had injected new life into efforts to reform the nation's campaign-finance laws.

— By Andy Hall and Jerry Kammer

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

(Mount Clipping in Space Below)

DeConcini blitzing state to defend role

By Don Harris
The Arizona Republic

Arizona Sen. Dennis DeConcini launched a $190,000 public-relations campaign Friday in an attempt to put a positive spin on what he called "serious and troubling" allegations against him in the Charles H Keating Jr. affair.

Using personal funds, DeConcini will conduct two weeks of forums around the state to answer Keating-related questions. And he plans a series of two- and five-minute television commercials plus newspaper advertisements.

In addition, DeConcini intends to meet next week with Ed Buck, who has threatened to attempt recalls of DeConcini and Sen. John McCain, R-Ariz., if they fail to agree to a broad range of campaign-finance reforms. Buck led a successful recall petition drive against then-Gov. Evan Mecham, who was ousted by the Legislature before a recall election could be held.

DeConcini, a senator for 12 years, held an hourlong

—See **DECONCINI**, *page A12*

Tom Story/The Arizona Republic

Sen. Dennis DeConcini answers reporters' questions in Phoenix during his first full-blown press conference in Arizona on the Charles H Keating Jr. affair.

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DeConcini launches media blitz

DECONCINI, *from page A1*

press conference Friday morning during which he somewhat nervously read a prepared statement and then took questions from reporters. The press conference was broadcast live by two Phoenix talk-radio stations, KTAR and KFYI. Afterward, DeConcini answered questions from KTAR listeners.

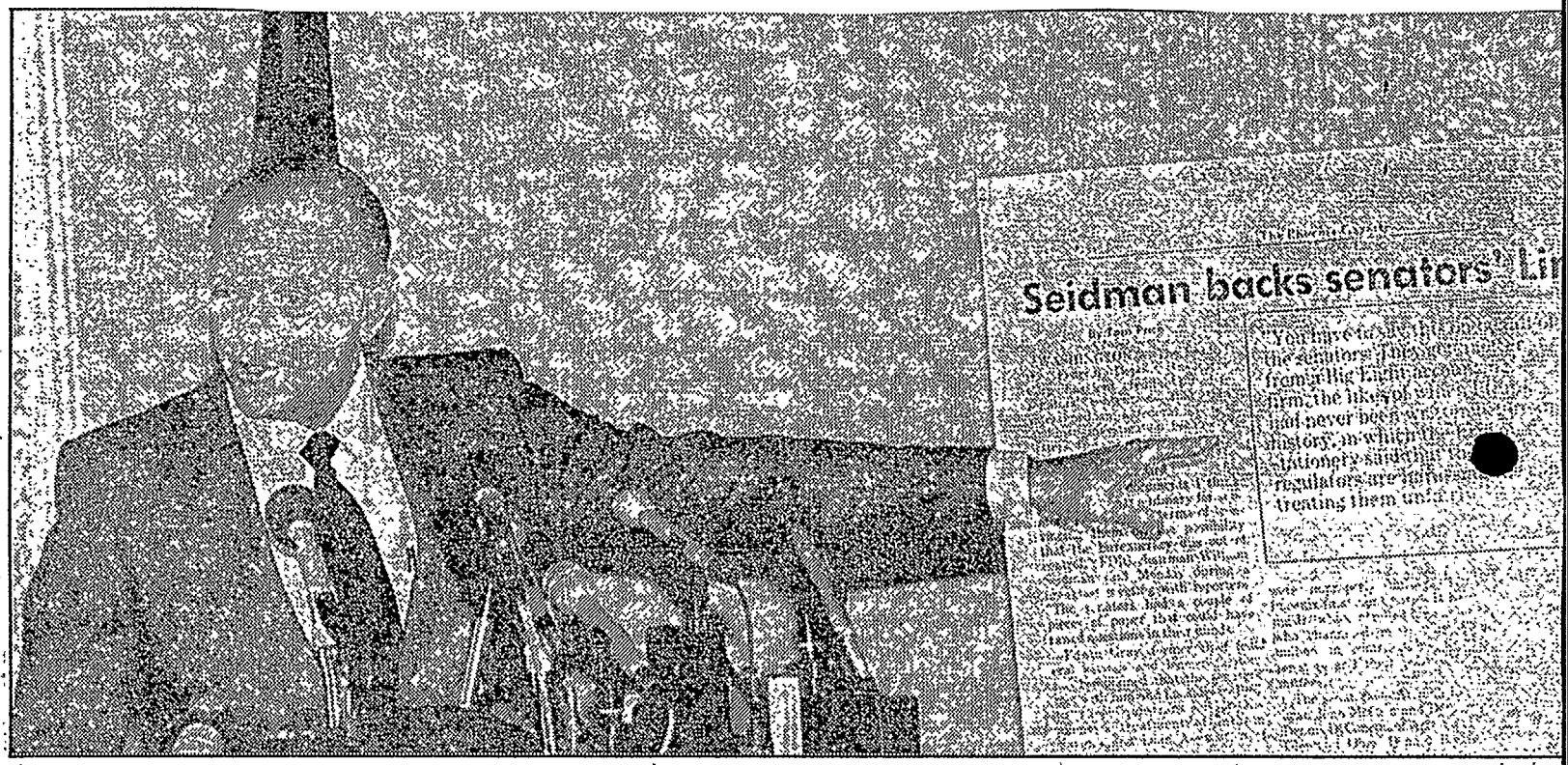
Though DeConcini previously met with individual reporters and newspaper editors around the state regarding the Keating controversy, this was his first full-blown press conference in Arizona on the subject.

McCain, also involved in the scandal, held a similar press conference in October to deny any misconduct.

Like McCain, DeConcini said that if he had known nearly three years ago what he knows now, he never would have intervened with federal regulators who seized control of Keating's failing Lincoln Savings and Loan Association in April 1989.

DeConcini also said he did not know until December 1988 that two of his key campaign aides were in business with Keating, long after a meeting he, McCain and three other senators held in April 1987 with federal banking regulators. DeConcini said he didn't know the two had received at least $50 million in loans from Keating until July, when he was told by *Arizona Republic* reporters.

He said he wishes now that his aides, Ron Ober and Earl Katz, had told him of their involvement with Keating.



Tom Story/The Arizona Re

Sen. Dennis DeConcini gestures toward a blow-up of a newspaper story Friday while defending his role in the Lincoln Savings and Loan Association affair.

As for Keating, DeConcini said, "I feel abused," adding that in his job, he expects to get "used."

Keating, who, along with his associates, had contributed $48,100 to DeConcini's 1988 campaign, stated in April in a press conference that he hoped his contributions to politicians bought influence.

It is "unfair and inaccurate" to suggest that Keating bought influence over him, DeConcini said. He added that he has returned the contributions to Keating.

Deconcini said he and the four other senators, who have been dubbed the "Keating Five," wanted to make sure that Keating was being treated fairly by the federal government.

"My experience is that federal regulators do get out of control," DeConcini said. "I think the federal government often is out of control."

But he said he primarily wants to correct what he called "the false perception that I and the other senators were responsible for the delay in closing Lincoln and, therefore, were responsible for the huge cost of Lincoln to the United States Treasury."

The cost to taxpayers to bail out Lincoln's lost federally insured deposits has been estimated at $2 billion.

DeConcini referred to sworn testimony by Edwin Gray, former chairman of the Federal Home Loan Bank Board, before the House Banking Committee in November. In response to a question, Gray said the senators' intervention had not affected the board's actions.

"I was seeking to expedite the audit (of Lincoln)," DeConcini said, "and at no time did I seek a delay."

He blamed the two-year delay on the bank board.

But even after he and the other senators had been told a criminal probe was under way involving Lincoln, DeConcini said, he intervened in early 1989 to see if a possible sale of Lincoln could be worked out.

"I was acting to prevent a costly government takeover of Lincoln and to preserve Arizona jobs," he said.

DeConcini denied that he of federal regulators a deal on beha Keating, saying he had no auth to do so and that as a senator, conduct is prohibited.

But DeConcini said the Supreme Court has determined members of Congress are oblig "cajole" federal bureaucrats.

"That's what I was doing," he

DeConcini, whose term through 1994, would not specula whether he will run again.

If his media blitz failed a Senate ethics probe found him of wrongdoing, would he co resigning? DeConcini was asked.

"I have no idea what I would all that happened," he said.

DeConcini defense is assailed

Remarks called misleading by 2 in Keating case

By Jerry Kammer and Andy Hall
The Arizona Republic

Sen. Dennis DeConcini, D-Ariz., is making misleading statements in his public-relations campaign to explain his relationship with failed-thrift owner Charles H Keating Jr., according to two men who played key roles in the Keating controversy.

Edwin Gray, former chairman of the Federal Home Loan Bank Board, and William Black, general counsel for the Office of Thrift Supervision in San Francisco, say DeConcini has given incomplete and erroneous accounts of the intervention of five U.S. senators who met with regulators in Keating's behalf in 1987.

Keating was a major fund-raiser and contributor for the senators, whose actions are under investigation by the Senate Ethics Committee.

Additionally, L. William Seidman, Federal Deposit Insurance Corp. chairman, indicated Thursday that he was displeased with DeConcini's use of a statement Seidman made in December on the senators' efforts in Keating's behalf.

DeConcini is completing the first week of a $190,000 public-relations campaign featuring paid television and newspaper advertising, a news conference and meetings with voters around the state.

Polls have indicated that the senator's popularity is sagging in the wake of disclosures regarding his relationship with American Continental Corp. Chairman Keating, whose failed Lincoln Savings and Loan is expected to cost taxpayers $2 billion.

DeConcini launched the campaign at a Phoenix news conference last Friday.

On Thursday, Bob Maynes, a spokesman for DeConcini, complained that "Gray and Black are basically repeating the same litany that we've heard before."

"It would appear (Gray) is still trying to point as many fingers away from his own performance as a regulator as he possibly can."

Maynes said Gray lacks credibility because his version of an April 2, 1987, meeting conflicts with the senators' recollections.

In a five-page letter to DeConcini, Gray on Thursday claimed that the senator

— See DeCONCINI'S, page B5

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FBI/DOJ

DeConcini's Keating-case defense assailed

— DeCONCINI'S, *from page B1*

misstated some facts and omitted others on virtually every issue DeConcini discussed in his Friday news conference.

Gray contended DeConcini suggested that Gray withdraw a regulation, opposed by Keating, which limited thrifts' investments in risky ventures such as real estate. In return, Gray said, Keating pledged to make more loans for homes.

DeConcini denies the allegation, although a March 1987 memo written by his staff and revealed by *The Arizona Republic* discusses those issues under the headings, "What American Contintental wants from Gray for concessions" and "What American Continental is willing to do."

Gray and Black said DeConcini misused their earlier statements that they did not bow to pressure from the five senators.

Black said that while he and Gray had not been intimidated, "the real question" is the meetings' influence on M. Danny Wall, who succeeded Gray on the bank board in July 1987.

Wall has denied he was intimidated.

"Under Wall, the bank board took a whole series of unprecedented actions" that benefited Lincoln, Black said. Principal among those actions were transfer of regulatory jurisdiction over Lincoln to Washington from San Francisco and a "memorandum of understanding" that allowed Lincoln to continue high-risk use of its deposits, Black said.

Black noted that a confrontation between Gray and then-House Speaker James Wright, D-Texas, was peaking in March 1987 over Gray's attempts to rein in high-flying Texas thrifts.

Black said the regulators' meetings the next month with the senators "have to be seen in light of what the speaker was trying to do because that is certainly the tactic Keating was trying to emulate."

Seidman said "no one can take any comfort" from remarks he had made previously in evaluating the controversy about the five senators.

Referring to a letter from the Arthur Young accounting firm criticizing federal regulators' treatment of the thrift and to a 1985 report from economist Alan Greenspan praising Lincoln management, Seidman said in December:

"Those two documents, I think, were pretty extraordinary for senators to receive in terms of (convincing them of) the possibility that the bureaucracy was out of control."

A Cox News Service story on Seidman's comments was published in *The Phoenix Gazette* under the headline, "Seidman backs senators' Lincoln intervention."

DeConcini shows the article in his television commercials and has carried a poster-size version around the state for his forums.

Seidman expressed displeasure with the headline.

"I think somebody misinterpreted what I said," he said.

Seidman said that while he could understand the senators' concern about Lincoln's relations with regulators, he was not defending the senators' decision to meet with the regulators, nor was he defending statements they made at the meetings.

Asked whether he disagreed with DeConcini's use of his statements, Seidman said, "If what I said is being used to say that I have passed judgment on the things that went on between the senators and the regulators, that simply isn't so."

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

Media moves

DeConcini will go to public with his story

PHOENIX (AP) — Had he known in 1987 what he knows now, he would not have intervened with federal regulators on behalf of Phoenix businessman Charles Keating Jr. or Keating's Lincoln Savings and Loan Association, Sen. Dennis DeConcini said today.

DeConcini, D-Ariz., said he did not know in April 1987 when he and four other senators met with federal banking regulators that:

• Lincoln Savings would be seized by the government.

• Keating's American Continental Corp. would file for

See DeConcini, A5

The Associated Press

MAKING A POINT — Sen. Dennis DeConcini gestures during a press conference Friday morning in Phoenix. DeConcini talked about his involvement with Lincoln Savings and Charles Keating.

(Mount Clipping in Space Below)

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DeConcini will use ads to tell story

—From, A1

bankruptcy protection.

• Keating and Lincoln would be the subject of federal criminal investigations.

• Federal regulators would file a $1.1 billion fraud and racketeering lawsuit against Keating and other American Continental executives.

• Two of his high-level campaign aides had borrowed millions of dollars from Lincoln.

• That junk bonds allegedly were marketed through Lincoln Savings offices to investors who were not made aware that the bonds were uninsured.

"As I have repeatedly said over the last several months, if I had known in April of 1987 what I now know, I would never have met with the regulators concerning Lincoln Savings," DeConcini said at a news conference today. "However, I cannot change the past and it is important that you understand why I did what I did."

It is the public's lack of understanding that causes him the most concern, DeConcini said. And he said he would launch a $190,000 media campaign to set the record straight.

"I have decided to take my case directly to the people of Arizona," he said. "I do this not as criticism of the press, but because I do not believe that the facts have been adequately heard and understood."

He said he would buy two-minute and five-minute television programs and newspaper advertising to tell his side of the story. In addition, he said, he would continue to hold public forums at locations throughout the state.

DeConcini insisted that he has done nothing illegal or unethical on Keating's behalf, but wanted only to make sure that a constituent was being treated fairly by government regulators.

"One of my responsibilities as a U.S. senator is to look out for my constituents and to see that the federal bureaucracy is responsive and responsible to their needs," he said.

DeConcini said that he went into the 1987 meeting with federal regulators armed with letters from former presidential advisor Alan Greenspan and the accounting firm of Arthur Young testifying to the financial health of Lincoln Savings.

He also said that after learning of a possible criminal investigation involving Keating and American Continental, he had no further contact with regulators, except in early 1988, when he attempted to determine whether Lincoln Savings could be sold.

"I was acting to prevent a costly government takeover of Lincoln and to preserve Arizona jobs," he said.

DeConcini said he was not aware that Ron Ober and Earl Katz, high-level campaign aides, had financial dealings with Lincoln Savings until December 1988.

DeConcini said he told Katz and Ober, "I wish I had known. And one of them said, 'Boy I'm sure sorry.'"

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

(Mount Clipping in Space Below)

S&L scandal still plaguing senators

DeConcini fares much worse than McCain in poll

By Sam Stanton
Republic Washington Bureau

WASHINGTON — Buffeted by their involvement in the Lincoln Savings and Loan scandal, the popularity of Arizona Sens. Dennis DeConcini and John McCain continues to suffer, according to a new Arizona Republic Poll.

But DeConcini, a third-term Democrat who has launched an all-out publicity blitz to boost his sagging approval ratings, clearly is being hurt more than McCain by his ties to former Lincoln owner Charles H Keating Jr.

Dennis DeConcini / Has launched an all-out publicity blitz to boost his sagging approval ratings.

John McCain / Is traversing Arizona this month to assess the political damage he has suffered.

The statewide poll indicates that more Arizonans are dissatisfied with DeConcini's job performance than are satisfied, a startling turnaround of his ratings in a similar survey in April.

The poll, taken of 808 Arizonans earlier this month, said 41 percent were dissatisfied with DeConcini, up from 24 percent in April.

Thirty-nine percent approved of DeConcini's performance, compared with 63 percent in April.

However, taking the poll's 3 percentage point margin of error into account in the polling process, the

— *See* **POLL**, *page A6*

KEATING SPEAKS: Developer defends lawmakers. **A9**

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POLL METHOD

The Arizona Republic Poll is based on telephone interviews conducted Jan. 4-7 with 808 Arizona adults. Random-digit dialing was used to select the sample to ensure 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 households with telephones.

Poll hints scandal plaguing senators

— POLL, *from page A1*

figures on DeConcini may be virtually even.

DeConcini spokesman Bob Maynes said he could not remember another poll in which the senator's approval ratings were lower than his unfavorable ratings.

Maynes added that he believes that many Arizonans have been misinformed about DeConcini's role in the Keating affair.

McCain, a first-term Republican, also has suffered a dramatic drop in popularity, but the percentage of people expressing dissatisfaction with his performance is much lower than DeConcini's rating.

The poll indicated that 49 percent of those surveyed were satisfied with McCain's performance, down from 63 percent in April.

Twenty-nine percent were dissatisfied, more than double the 12 percent who expressed dissatisfaction in April.

Despite the large drop from last spring, the latest survey appears to indicate that much of the damage from the Keating affair is behind the two senators.

A Republic Poll conducted in November at the height of publicity about the senators' involvement with Keating and his failed thrift, gave DeConcini a 43 percent favorable rating and a 35 percent unfavorable rating. McCain had a 48 percent favorable rating against a 27 percent unfavorable rating.

5 senators under fire

DeConcini, McCain and three other senators were under fire last year for intervening in 1987 with federal regulators in behalf of Keating, who, along with his associates and their wives, contributed a total of $1.3 million to the five men. But DeConcini has drawn stronger criticism because he is believed to be the ringleader of the so-called Keating Five.

Maynes said the poll was conducted before DeConcini began defending himself in earnest with a $199,000 advertising campaign, a news conference and a series of public forums around Arizona.

Those forums, Maynes said, have attracted about 170 people with only two saying they definitely would not vote for DeConcini if he ran for a fourth term in 1994.

Since the poll was taken, DeConcini has been criticized by two federal thrift regulators who charged that the senator has made misleading statements in his public-relations campaign.

McCain spokesman Scott Celley said McCain's office would not comment on the poll.

But McCain confidant Jay Smith, a Washington political consultant, said the similarity between the November poll and the latest survey show that "the damage has been staunched."

Drop called no surprise

He added that the drop from last spring's poll is not surprising given Keating's notoriety, and he referred to a recent poll that gave Keating only a 2 percent favorable rating.

"Hitler would probably have better numbers in Arizona than Charles Keating, and so to be associated in any way, certainly, you're going to take a hit," Smith said.

Although the latest poll did not mention Keating or Lincoln Savings, Smith said there is no doubt that the drop in McCain's ratings is directly tied to Keating.

"Absolutely, I've never seen anything like it in my life," Smith said.

He said that in polls he has done, respondents consistently mentioned Keating as a factor in their view of McCain.

But, Smith added, his polls have indicated that most Arizonans do not believe McCain should resign and that most people want him to run for a second term in 1992.

The Republic Poll was conducted Jan. 4-7 and has a margin of error of plus or minus 3 percentage points.

The poll results come at a pivotal time for both senators, who are traversing Arizona this month to assess the damage they have suffered.

Phoenix political activist Ed Buck is threatening to stage a recall drive against both men, and the two are the subject of a Senate Ethics Committee preliminary investigation.

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

(Mount Clipping in Space Below)

In Keating, DeConcini backed 'a constituent'

By Andy Hall
The Arizona Republic

Small, friendly crowds greeted Sen. Dennis DeConcini in Sun City and Tempe on Monday as he opened his weeklong series of meetings to explain to voters his relationship with failed-thrift owner Charles H Keating Jr.

DeConcini, D-Ariz., repeated the theme of his Friday news conference to 10 people in Sun City and the same number of people in Tempe. Each meeting lasted 45 minutes.

The state's senior senator told the groups that he acted properly in intervening with federal thrift regulators in behalf of Keating, a major campaign contributor and fund-raiser.

"I stuck up for an Arizona constituent as I have done time and time again," DeConcini told the Sun City meeting. "That's what I do as your senator."

Some regulators who attended two April 1987 meetings with DeConcini and four other U.S. senators, including Arizona Republican John McCain, have criticized the meetings as improper attempts at political intimidation. The senators' actions are under investigation by the Senate Ethics Committee.

DeConcini said after the Sun City meeting that he expected about 40 to people attend and he did not know how to interpret the small turnout and response. He said that focus-group studies conducted by his staff in December had found widespread dissatisfaction and misimpressions over his handling of the Keating controversy, but it was not clear how intense those feelings are.

"Based on the mail (and the turnout), this is not a burning issue," said DeConcini, who, along with McCain, faces a possible recall effort.

DeConcini said he is particularly interested in the reactions among conservative rural voters in Prescott, Flagstaff and Yuma, where he will be today.

Ironically, the Prescott meeting will be at the Hassayampa Inn, which is among the 30,000 properties in the country that once were controlled by savings and loans that have failed and are now being sold by the federal Resolution Trust Corp.

DeConcini heard no criticism from either Monday audience. Instead, he

— See DeCONCINI, page B2

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DeConcini says he stuck up for Keating, 'a constituent'

—DeCONCINI, from page B1

was praised for defending his efforts in behalf of Keating's Lincoln Savings and Loan Association.

Last year's collapse of Lincoln is expected to cost taxpayers $2 billion, and mostly elderly investors are holding an additional $230 million in now-worthless junk bonds from Phoenix-based American Continental Corp., Lincoln's former parent firm.

Earl Bowers, 63, of Glendale, thanked DeConcini for aiding his efforts last year to recover $120 from a military medical-benefits plan.

Bowers then asked DeConcini out of "which side of the mouth" Edwin Gray has been speaking. Gray, the former chairman of the Federal Home Loan Bank Board, has been sharply critical of DeConcini.

DeConcini acknowledged that Gray had been "under pressure from five senators" and former White House chief of staff Donald Regan.

But the senator said Gray has unfairly attempted to make DeConcini a "scapegoat" to cover up his own failure to prevent the collapse of the nation's thrift industry.

DeConcini appeared more relaxed than he had Friday, when he faced tougher questions at an hourlong news conference to kick off his $190,000 public-relations campaign to repair damage from publicity over his ties to Keating.

Although he will not face re-election until 1994, today he begins a statewide television-advertising campaign. Newspaper advertisements are scheduled to run this weekend.

Beth Stuart Neumann, attending the Sun City meeting, said DeConcini merely "did what every senator is asked to do by a constituent."

"I think it's unfair of the press to single him out," she said.

DeConcini will have other Phoenix-area meetings on Wednesday and then in Tucson on Friday. Information on locations and times are available from the senator's offices at 379-6756 in Phoenix, 379-4998 in the east Valley, and 670-68[illegible]

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Mike Smith/The Arizona Republic

Sen. Dennis DeConcini addresses a group of Sun City residents about his relationship with failed thrift owner Charles H Keating Jr. DeConcini has scheduled meetings with voters in Yuma, Prescott, Flagstaff, Phoenix and Tucson this week.

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

(Mount Clipping in Space Below)

Arizonan might rub elbows with 3 of 'Keating 5'



KEVEN WILLEY
Political Columnist

Conventional wisdom has it that Arizona's own Jim Simmons, retired chairman of the Valley National Bank, is President Bush's choice for the GOP seat on the Resolution Trust Corp. Oversight Board.

That's the high-brow board that will oversee the liquidation of millions upon millions of dollars worth of real-estate holdings caught in the $250 billion collapse of the savings and loan industry.

When Bush's as-yet unnamed Democratic nominee clears his background check, that person and Simmons will be subject to Senate confirmation hearings.

Guess who's likely to preside over those hearings? Sen. Donald Riegle, D-Mich., chairman of the Senate Banking Committee and noted member of the now infamous "Keating Five." And get this: Simmons presumably would be escorted into those hearings by his own two U.S. senators, none other than Dennis DeConcini and John McCain, two other members of The Five.

Pretty ironic, eh?

TV show on senators stale

Sam Donaldson and ABC's *Prime Time Live* finally got around last week to airing a piece on the Keating Five.

Seemed a bit stale: They taped most of the interviews with the five U.S. senators more than a month ago and were unable to snag any time with the grand master himself, Charlie Keating.

Nevertheless, the segment provided another glimpse at how the whole affair is playing nationally. And it gave the five senators, including DeConcini and McCain, an opportunity to once again contend that they were only responding to a constituent's complaints about an overzealous federal bureaucracy.

Just as they have thousands of times before.

Excuse me, but how many other constituents have ever warranted the attentions of five, yes, *five* U.S. senators?

Not just the attentions, mind you. These guys met. Not once, but four of them met twice. Privately. Together. With federal regulators. Without staff. After hours.

That's typical?

It's tough to believe that the $1.3 million in campaign contributions Keating and his associates poured into these guys' coffers had nothing to do with it.

King Day leadership needed

The Martin Luther King Jr. breakfast on Friday drew about 1,600 folks. Pretty impressive turnout to honor the slain civil-rights leader. And to lament, once again, Arizona's lack of a paid state holiday.

Several pro-King Day business leaders said it was very important that King's contributions be formally recognized.

So important that they will install paid King holidays for their employees right away. Right away, that is, *after* the state does.

Why wait? Whatever happened to leadership?

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

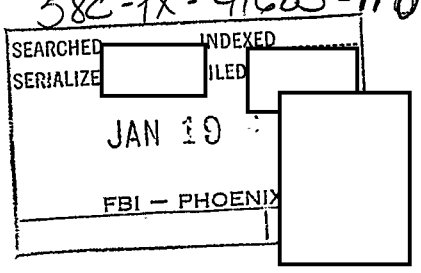
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Mofford goes against party

It's got to be every Democratic legislator's worst nightmare: A Democratic governor telling a Republican-controlled Legislature that she'd support two issues that her own party vehemently opposes.

You've already read here about how Mofford proposed slashing education-related funding by $92 million, $63 million of it from state aid to kindergarten through 12th-grade school districts.

Largely unnoticed, initially at least, was Mofford's proposal to use lease-purchase financing to pay for an 800-bed, $23.2 million prison complex in Florence.

The problem? Democrats in both chambers abhor the idea.

They contend building prisons today with tomorrow's money is like lifting the lid of a whistling tea kettle: It releases all the steam behind reviewing the state's supertough criminal code, which Democrats contend is sending too many people to prison.

But the Dems are in a tough spot. The prison population will continue to skyrocket even if the criminal code is revised, initially anyway. And if you've ruled out new taxes and oppose lease-purchase, what's left?

Private prisons?

'Shrub' for governor

You've heard that George Bush's son George was thinking about running for governor of Texas?

Columnist Molly Ivins of the *Dallas Times Herald* says Texans have taken to calling him "Shrub."

Jogger makes decision

And then there's always the one making the rounds in circles of moderate Republicans:

There's this jogger at the state Capitol. A downtown derelict jumps out from behind a bush, points a gun at the jogger's temple and asks, "Who's gonna be governor in 1990? Rose Mofford or Evan Mecham?"

The jogger thinks for a minute.

Then he says, "Go ahead and shoot me."

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

(Mount Clipping in Space Below)

DeConcini, Buck clash over 'deal'

Drop 1994 bid to avoid recall, activist warns

By Don Harris
The Arizona Republic

Sen. Dennis DeConcini and political activist Ed Buck met privately for nearly an hour Wednesday to discuss campaign-finance reform, but the session ended abruptly when Buck offered to call off recall plans if the senator would promise not to run again.

"I don't do business that way," snapped DeConcini, an Arizona Democrat. "I'm not going to work under deals or threats or intimidation. He offered me a deal."

Buck, who succeeded two years ago in getting a recall of then-Gov. Evan Mecham placed on the ballot, said he is closer than ever to launching simultaneous campaigns to oust DeConcini and Sen. John McCain, R-Ariz. The Mecham recall was canceled by the state Supreme Court after the Legislature ousted him.

DeConcini, McCain and three other U.S. senators are under a Senate ethics investigation for their efforts in behalf of millionaire developer Charles H. Keating Jr.

— See DeCONCINI, page B5



Dennis DeConcini / "I'm not going to work under deals or threats or intimidation."



Ed Buck / Says embattled Sen. Dennis DeConcini should come "totally clean."

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DeConcini, Buck clash over 'deal'

— DeCONCINI, *from page B1*

The senators intervened with federal regulators in 1987 during the regulators' investigation of Keating's Lincoln Savings and Loan Association. The thrift was taken over by the federal government last year.

At a press conference Wednesday outside DeConcini's Phoenix office, Buck said DeConcini should take steps to restore public confidence in his office by "coming totally clean."

Buck said a statement by DeConcini that he definitely will not seek a fourth six-year term in 1994 would help rebuild public trust.

DeConcini said he has not thought about whether he will run in 1994.

Buck said he doubts that most people believe DeConcini's contention that at the time of the April 1987 meetings he did not know that two key campaign aides had obtained $50 million in loans from Keating.

DeConcini has said he first learned of the loans to Ron Ober and Earl Katz in December 1988.

Buck has proposed that the senators abide by strict campaign laws imposed on state candidates and that they accept no contributions from political-action committees or from out of state. He had set a deadline of last Monday for DeConcini and McCain to agree to his terms, and said Friday he is "getting closer to a recall daily."

Buck, who met with McCain last month on campaign-reform issues, delivered a letter to McCain on Tuesday calling on the Republican to give back $112,000 in campaign contributions from Keating and Keating associates. DeConcini has returned $42,000 he received from Keating contributors.

Scott Celley, a McCain spokesman, said McCain in October asked the Federal Election Commission to determine whether Keating contributions were illegal. An investigation is under way, Celley said, adding that if the FEC decides they were illegal, McCain wants to know to whom he should return the money — Keating or federal authorities who have seized control of Lincoln.

DeConcini, meanwhile, has begun a $190,000 campaign to tell his side of the story. In television commercials, paid for by DeConcini with personal funds, he states that he is distressed because his integrity has been questioned and that "I have never violated my public trust."

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

(Mount Clipping in Space Below)

Regulator testifies in Keating suit

Outlines details of questionable land, stock deals

By Anne Q. Hoy
Republic Washington Bureau

WASHINGTON — A key federal thrift regulator detailed Wednesday a questionable 1987 land deal and a complex stock transaction involving Lincoln Savings and Loan Association to bolster the government's claim that the California thrift was recklessly operated.

Kevin O'Connell, now with the Treasury Department's Office of Thrift Supervision, testified for more than six hours about the sale of 1,000 acres of raw land by Lincoln to Tucson financier Ernie Garcia in March 1987, and a complex sale of Memorex stock that he said cost the Irvine, Calif.-based thrift $12 million in lost profits.

O'Connell painted a portrait of a high-flying thrift that engaged in unsound business practices and put its federally insured deposits at serious risk, forcing regulators to clamp down.

The testimony came on the fourth day of a hearing in U.S District Court into a suit brought by Charles H Keating Jr., who is seeking to regain control of the thrift. Keating contends the government had no grounds to seize Lincoln last April.

In another development, government lawyers released copies of memos written by a New York law firm hired by Lincoln to flag potential problems in advance of reviews by regulators.

The memos, authored by lawyer Lois Gordon, cited several problems with Lincoln's loan files, including shoddy documentation and scant financial information on borrowers. The memos even branded a $50 million loan to Garcia as "suspicious."

Government lawyers plan to call Keating and his son, Charles H Keating III, to testify Thursday. Keating invoked his Fifth Amendment right against self-incrimination and declined to testify last November when called before a House panel probing Lincoln's record collapse — the nation's costliest S&L failure.

The government has termed the 1987 land deal at issue Wednesday a "sham" transaction, contending Lincoln provided Garcia $3.5 million to make a down payment on land the thrift was selling.

The complex stock deal began in 1986 when a Lincoln subsidiary paid $79,275 for Memorex stock and later tried unsuccessfully to sell it to American Continental Corp., Lincoln's parent.

Stymied by federal regulators who blocked the sale to American Continental, the Lincoln subsidiary sold the stock instead to Garcia for $1 million. The subsidiary, AMCOR, retained an option to repurchase the stock for $4.25 million.

But AMCOR later waived its option to repurchase the stock, and it finally was sold by Garcia to American Continental for $2 million. American Continential in turn sold the stock for more than $13 million.

The government has claimed that the transaction eventually cost Lincoln about $12 million in potential profits and was another example of "dissipation of assets."

But Keating lawyer Michael Kennedy laid the blame on the regulators, saying that they refused to allow AMCOR to buy back the stock and that they forced AMCOR to pass up a chance to make a hefty profit.

Earlier in the day, O'Connell defended the government's claim that Lincoln provided the down payment for the March 1987 land deal in which the thrift sold 1,000 acres of land it owned to Garcia.

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O'Connell said Garcia put $3.5 million down on the $14 million land deal and that there was no way of tracing the source of the down payment.

But in sometimes testy exchanges with Keating lawyer John Lundin, O'Connell linked the down payment to a $20.2 million loan that Garcia secured from Lincoln on March 30, 1987 — the same day as the land deal.

The $20.2 million loan was secured by Garcia to repurchase 80 percent of the stock of his real-estate financing firm, which he had sold two years earlier to Tucson Electric Power Co.

In essence, O'Connell suggested that since Garcia got the hefty stock loan from Lincoln on the same day he bought the land from the thrift, the funds from one deal were mixed up with the other and interchangeable.

But Keating's lawyers produced a copy of a wire transfer showing that Lincoln had shipped $19.6 million of Garcia's loan directly to Tucson Electric to pay for the stock repurchase, showing that the bulk of the loan was used for exactly for what it was intended.

The document was intended to dampen the government's claim that Lincoln was illegally providing the down payment on its own land sale, an "unsound pl[redacted] that forc[redacted] government to seize the institution.

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'With all my heart and soul'

Keating denies using Lincoln as 'piggybank'

WASHINGTON (AP) — Phoenix millionaire Charles H. Keating Jr. on Friday denied "with all my heart and soul" that he used a tax-sharing arrangement at his Lincoln Savings and Loan Association to siphon off $94 million.

The arrangement between the now-collapsed Irvine, Calif., thrift and its holding company, American Continental Corp., is a centerpiece of regulators' contention that Keating was illegally using Lincoln as a "piggybank" for his massive real estate ventures.

He also is at the center of a Senate ethics investigation after raising $1.3 million for the political causes of five senators who intervened with regulators on Lincon's behalf in 1987 when examiners then were trying to curtail its risky loans and land and junk bond investments.

In response to skeptical questions from Sporkin, Keating acknowledged that that he usd part of the deferred taxes American Continental was holding on behalf of the thrift to make payments on the holding company's debt.

But when the judge asked if that was the purpose of the arrangement — to use Lincoln "as a piggybank for you and American Continental" — Keating said no.

"With all my heart and soul, I want you to know that I categorically deny that I had any concept remotely related to that," he said.

The tax agreement is one of several arrangements in which the government contends savers' government-insured deposits in Lincoln disappeared.

The Associated Press

CHARLES KEATING — Said in court Friday he didn't use a tax-sharing arrangement.

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Senator introducing reform bill to stop 'fat cats like Keating'

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Republic Washington Bureau

WASHINGTON — Sen. Mitch McConnell, R-Ky., reacting to Phoenix developer Charles H Keating Jr.'s habit of pumping huge contributions into campaign war chests nationwide, said he will introduce a bill today "to stop the campaign-financing abuses of political fat cats like Keating."

McConnell said Monday that the scandal swirling around the developer and the "Keating Five" senators calls for sweeping changes in the nation's campaign-finance laws.

The bill will include restrictions against the "bundling" of contributions from groups to individual candidates, McConnell said.

Special interests commonly coordinate contributions from their associates to raise as much as possible for certain candidates. Keating and his associates have raised massive amounts for candidates across the nation, including Sens. Dennis DeConcini, D-Ariz., and John McCain, R-Ariz.

In one instance during the 1986 campaign, McCain's office received dozens of checks in one bundle, totaling more than $50,000 in Keating-related contributions.

McConnell said that his bill is "targeted directly at the alleged abuses of the Keating affair" and that "the call for reform never has been more compelling in the wake of these revelations."

DeConcini, McCain and three other senators are embroiled in a Senate Ethics Committee probe of whether they were unduly influenced by contributions from Keating and his associates. The Federal Election Commission also is investigating, at McCain's request, whether any of the contributions were improper.

The five senators have denied any wrongdoing.

Numerous campaign-reform bills are expected to be introduced in the new session.

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McCain rejects reform demands

Attacks tactics of Ed Buck group

By Don Harris
The Arizona Republic



John McCain / "I must tell you that this kind of tactic will never work with me."



Ed Buck / "If and when I do launch a recall, I will hit the ground running."

Sen. John McCain has sent a blistering letter to Ed Buck, telling Buck that he will not cave in to demands for campaign reforms to avert a recall drive being organized by Buck.

"I must tell you that this kind of tactic will never work with me," McCain wrote in the letter, dated Thursday.

Buck, who engineered a recall drive against then-Gov. Evan Mecham two years ago, had set a Monday deadline for McCain and Sen. Dennis DeConcini to agree to a series of campaign reforms Buck has proposed, saying that otherwise, he would launch a recall effort against them.

The two Arizona senators are being criticized for their involvement with financier Charles H Keating Jr. and for intervening with federal thrift regulators in behalf of Keating and his troubled Lincoln Savings and Loan Association.

McCain told Buck, "Your intent is obviously not to have a meaningful dialogue because you have already told people you are gathering signatures for a recall even before you receive my response."

Buck denied that he is collecting recall signatures and said he has not made up his mind whether to launch simultaneous recall drives against DeConcini, a Democrat, and McCain, a Republican. But Buck said he is putting together a recall organization and lining up financial support and petition circulators.

"If and when I do launch a recall, I will hit the ground running," Buck said. "We need to be organized. Once I take out petitions, I will have an army of people ready."

Organizers would have to gather a minimum of 291,135 valid signatures against each senator within four months after launching the petition drive to force a special election that the senators would have to win to retain their offices.

McCain met with Buck in December to discuss campaign reforms. DeConcini is scheduled to get together with Buck on Wednesday.

In his letter, McCain questioned the goals of Buck's organization, named "Beyond Recall." McCain said Buck seeks "to activate the most extreme action available in our Constitution to handle cases of severe malfeasance in office because you do not agree with public officials on campaign reform."

"McCain should not be afraid of a recall," Buck said. "He should look at it as a vote of confidence. Both senators should say a recall would enable them to put this issue behind them."

Buck also said that recalls can be launched for any reason or for no reason at all and are not necessarily reserved for officials guilty or suspected of serious misconduct.

Among the reforms Buck wants McCain and DeConcini to follow are abiding by the strict campaign-spending limits already imposed on state candidates and refusing to accept contributions from political-action committees or from out-of-state sources.

McCain and DeConcini have said they have been pursuing a series of reform measures in the Senate.

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Cranston would let Lincoln investors sue U.S.

Measure will target bondholders with no other remedy

The Associated Press

LOS ANGELES — Sen. Alan Cranston said Monday that he will introduce legislation to allow investors to sue the government if they fail in other efforts to recover losses from worthless junk bonds sold at Lincoln Savings and Loan Association.

Cranston said his legislation, to be introduced this week, would allow about 23,000 bondholders to file suit against the U.S. government if they are unsuccessful in suits against Lincoln, its parent company, Phoenix-based American Continental Corp., and American Continental Chairman Charles H Keating Jr.

The government usually is immune from such suits, but Cranston said there are precedents allowing suits in cases of government negligence.

"Documents I have received from the Office of Thrift Supervision in Washington and the General Accounting Office are clearly enough evidence on which to bring a case of negligence against the government," the California Democrat said.

He spoke at the latest in a series of news conferences intended to deflect blame that had been aimed at him for investor losses stemming from Lincoln's collapse last year.

Cranston, Senate majority whip, is one five senators under investigation by the Senate Ethics Committee for intervening with regulators in behalf of Keating. The five, who include Sens. Dennis DeConcini, D-Ariz.; John McCain, R-Ariz.; Donald Riegle, D-Mich.; and John Glenn, D-Ohio, received a total of $1.3 million in campaign contributions from Keating and his family.

Three recent polls show Cranston's popularity with California voters has plunged to its lowest level since he came to the Senate in 1969, but he has promised to seek re-election next year.

By focusing on the bondholders, he hopes to disarm one of the most personally damaging allegations against him — bondholders' testimony before a House committee that his intervention for Keating made him partly responsible for their losses.

State and federal officials say the bondholders, mostly Los Angeles-area retirees, were targeted by Lincoln to switch nearly $200 million of federally insured deposits into the uninsured junk bonds, which now are worthless. Cranston said investors were victims of bait-and-switch tactics that regulators should not have allowed.

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

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DeConcini media blitz is berated

Demand made that Keating 5 talk to House

By Sam Stanton
Republic Washington Bureau

WASHINGTON — The "Keating Five" senators came under renewed attack Tuesday, with a harsh demand that they be called to testify before Congress on their involvement in the Lincoln Savings and Loan scandal.

A member of the House Banking Committee singled out Democratic Sens. Dennis DeConcini of Arizona and Alan Cranston of California, for specific criticism. Rep. Toby Roth, R-Wis., said DeConcini and Cranston should tell their story to the committee rather than spending time and money on public-relations campaigns.

Roth's request to subpoena the five senators was denied. But his comments were the strongest yet to be leveled against the senators by a fellow member of Congress.



Toby Roth / "I have to ask — I'm compelled to ask — 'Where are the senators?' "

"I see they're spending $190,000 to reframe the issue," Roth said, referring to DeConcini's media blitz in Arizona two weeks ago.

"He ought to come before this committee."

The House Banking Committee is probing the collapse of Charles H Keating Jr.'s former thrift.

Roth said that Cranston should be ashamed for announcing Monday that

— See DeCONCINI, page A9

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DeConcini PR campaign berated by House member

— DeCONCINI, *from page A1*

he would push a bill to allow the 23,000 holders of the Keating-issued bonds eventually to sue the U.S. government to recoup their losses. Cranston last year was assailed by Californians who put their life savings into the now-worthless bonds.

"One senator before this committee was criticized for getting some 23,000 people into trouble, and now he's asking the taxpayers to bail these people out," an exasperated Roth said. "I mean, doesn't the man have no shame?"

Roth, who has fought unsuccessfully for months to have the panel call the senators to testify, also said the committee should call DeConcini to explain his claim that Edwin Gray, the former Federal Home Loan Bank Board chairman, lied to the panel in December.

"I have to ask — I'm compelled to ask — 'Where are the senators?'" Roth said. "When a senator calls a press conference and states point-blank that a witness under oath lied before this committee, that is a challenge to this committee, and the senator ought to either voluntarily come or be subpoenaed."

DeConcini spokesman Bob Maynes said the senator will testify if called by Rep. Henry Gonzalez, D-Texas, chairman of the Banking Committee.

Gonzalez has said for months that he sees no need to call the senators, and he rejected Roth's request.

"I'll leave that up to higher powers," Gonzalez said, pointing out that the Senate Ethics Committee already is probing the activities of the five senators.



Sens. Dennis DeConcini (left) and Alan Cranston have been further criticized for spending time and money on public-relations campaigns.

Cranston spokesman Murray Flander did not respond to a request for comment, but Cranston said in introducing the bill Tuesday that the bondholders were the victims of "negligence by various federal agencies and instrumentalities" that permitted the sale of the bonds by Keating's American Continental Corp.

"As their senator, I consider it is as if members of my own family had been stripped of their life savings," Cranston said.

DeConcini, Cranston and the other three senators — Republican John McCain of Arizona and Democrats John Glenn of Ohio and Don Riegle of Michigan — each accepted large Keating-related contributions and intervened with federal regulators in Keating's behalf. Some regulators have said the senators' action delayed the seizure of Lincoln, allowing it to rack up higher losses.

Roth's made his demand at the start of a new round of hearings on the failure of Lincoln, which the federal government seized April 14.

The committee held several hearings last fall on the thrift, which may cost more than $2 billion to bail out, and the panel agreed Tuesday to continue the hearings by issuing subpoenas to three new witnesses.

Those three, indicted junk-bond pioneer Michael Milken and Arizona businessmen Fernando Acosta and Ernie Garcia, had ties to Lincoln.

However, panel members acknowledged that at least two of them — apparently Milken and Garcia — probably would refuse to testify. Garcia invoked his Fifth Amendment rights against self-incrimination earlier this month in a court hearing. Acosta agreed to testify in a suit in which Keating is trying to regain control of Lincoln.

The House panel also heard a request that Keating be asked again to testify. The Phoenix businessman cited his Fifth Amendment rights before the committee late last year and declined to testify. But since then, he has given press interviews on Lincoln and testified in his court suit.

Gonzalez said he did not believe it is necessary to call Keating again, adding that enough information can be gleaned from his associates and from federal regulators.

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

(Mount Clipping in Space Below)

Keating defends 5 senators who intervened for his S&L

Says lawmakers tried to aid thrift 'critical' to states

By Anne Q. Hoy
Republic Washington Bureau

WASHINGTON — Charles H Keating Jr. on Sunday rallied to the defense of the "Keating Five" senators who intervened with federal thrift regulators in 1987 in behalf of his Lincoln Savings and Loan Association.

In a nationally televised appearance on NBC's *Meet the Press,* Keating defended Arizona Sens. Dennis DeConcini, a Democrat, and John McCain, a Republican, and three other senators whose attempts to get regulators off Keating's back are the subject of a probe by the Senate Ethics Committee.

Keating said the senators properly pressed federal regulators eager to shut down the Irvine, Calif.-based thrift because regulators were threatening a business "critical to the economy" of their states. He said the senators "had a lot to talk about with respect to the viability of Lincoln."

"It wasn't an ordinary problem," Keating said. "It was a problem of taking down a savings and loan which was critical to the economy, the employment in those areas in which the senators served.

"It was a question of $500 billion being lost."

The embattled Arizona developer also denied his earlier claim that the more than $1 million in campaign contributions he raised for the five senators was intended to buy their influence.

Keating, who has launched a national public-relations campaign to improve his tarnished public image, again distanced himself from a comment he made last April, as he did for the first time earlier this month.

Last April, Keating said, "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. I want to say in the most forceful way I can, I certainly hope so."

Saying the comment was "a dumb way to say what I wanted," Keating cast himself as a fund-raiser. He said he "wanted to be involved in the process; 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 also said the only way "to support the system" is to "raise funds and support the people."

He said the anticipated record loss to taxpayers of more than $2 billion that Lincoln's failure is expected to cost would have been avoided had federal regulators listened to the senators.

"Had someone listened to the senators, for example, this country's

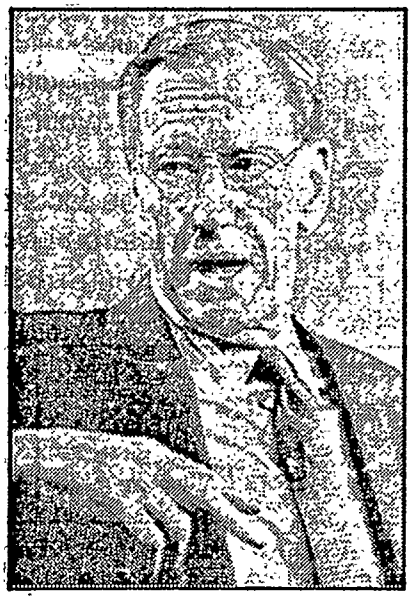
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Ron Edmonds/The Associated Press

Charles H Keating Jr., appearing on NBC's *Meet the Press,* defends the senators who intervened with federal thrift regulators in his behalf.

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taxpayers would be $500 billion better off," Keating said. "I am convinced that the cost of this, this debacle is going to exceed $500 billion."

Under Senate ethics scrutiny are two April 1987 meetings held in DeConcini's office. Four senators — DeConcini, McCain and Democrats Alan Cranston of California and John Glenn of Ohio — met April 2 with Edwin Gray, then head of the now-defunct Federal Home Loan Bank Board to pressure him to scuttle an investment rule Keating opposed.

A week later, Democratic Sen. Don Riegle of Michigan joined the same group when it pressured San Francisco regulators to speed up an exam of Lincoln. Keating was among each senator's largest fund-raisers.

Keating, chairman of Lincoln's Phoenix-based parent company, American Continental Corp., is fighting in federal court in Washington to regain control of Lincoln. Keating presented the most vigorous defense of his actions during two days of testimony in that case earlier this month.

The court appearance contrasted sharply with his brief appearance before a House panel in November, when he declined to answer questions and invoked his Fifth Amendment right against self-incrimination.

Keating also is the subject of probes by a California federal grand jury, the Securities and Exchange Commission, the FBI and the Internal Revenue Service.

As he has done repeatedly, Keating blamed federal regulators for Lincoln's failure, stressing that they improperly seized "a profitable property."

He also denied government claims that he and family members drained Lincoln's federally insured deposits to pay themselves more than $34 million in hefty salaries and bonuses and that he had Lincoln offices wiretapped after regulators took over the institution.

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

(Mount Clipping in Space Below)

Ex-editor says Ohio paper went easy on Charles Keating

BY BERNIE SHELLUM
Free Press Business Writer

In a sharply worded protest, a former business editor of the Cincinnati Enquirer has accused the newspaper's top editors of "burying" or "spiking" stories about Charles Keating Jr., a native of the city who is the central figure in the $2.5-billion failure of Lincoln Savings & Loan Association.

The newspaper's chairman, a largely honorary post, is William Keating, a brother of Charles Keating.

John Morris stated his protest in a resignation letter dated Dec. 22, although he acknowledged in the letter that he had been "put on notice by management to leave by the end of the year."

Morris contended that the paper's top editors had suppressed "stories that are not upbeat about downtown, retailing or Realtors."

"While all newspapers have one or two sacred cows, the Enquirer has more than most," Morris said in the letter. "They are spawned by the conflict between revenue and news, the unannounced agendas of management, (and) an expressed willingness to protect friends from unfavorable print."

The government filed a $1.1-billion lawsuit against Charles Keating and his top associates in September, accusing them of looting the thrift, based in California, of millions of dollars in insured deposits. William Keating was initially a defendant in that suit, but was dropped in December.

Other lawsuits have been filed

See EDITOR, Page 2B

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Ex-editor says Ohio paper went easy on Keating

EDITOR, from Page 1B

against Charles Keating and his associates on behalf of thousands of investors, including residents of Michigan and Ohio, who bought junk bonds issued by Keating's Phoenix-based American Continental Corp. and sold through Lincoln, the company's main holding.

As one example of the Enquirer's alleged self-censorship, Morris cited editor George Blake's deletion of a description of a champaign-splashed, window-smashing party at Charles Keating's Phoenix headquarters from a story the newspaper published Dec. 19, 1988.

Blake has acknowledged that he edited out all references to the party but denied he had been influenced by Keating.

According to Morris, however, Blake's editing of the story helped persuade business proprietors that they could pressure the Enquirer into recasting stories "in a more favorable light."

Blake did not return telephone calls Tuesday seeking comment on Morris' letter.

A former publisher of the Enquirer, William Keating left that post in May 1986 to become chief executive officer of the Detroit Newspaper Agency, which manages the business affairs of the Free Press and News under a joint operating agreement.

On Tuesday, Morris would not comment on any aspect of his departure from the Enquirer.

Morris previously edited the business section of the Milwaukee Journal and served as the Chicago bureau chief for American Banker, a daily newspaper for the banking industry.

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Routing Slip
FD-4 (Rev. 4-20-81)

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DETROIT FREE PRESS

Date: 12/12/89
Edition:

Title:

Character:
or
Classification: 58C-PX-41605
Submitting Office: DETROIT

Indexing:

Michigan buyers' bonds just too good to be true

BY BARRY ROHAN
Free Press Business Writer

Mary Chmura says the American Continental Corp. bonds seemed almost too good to be true — and they were.

For over two years, the 70-year-old from St. Clair Shores got a $50-a-month check — the return on her investment of $5,000. It kept coming right up through last April, when American Continental Corp. filed for bankruptcy.

"I'm a widow and I try to get more for my money," she says. "This is a 12 percent return, twice what you'd get at a bank, and it looked like such a good deal, I almost invested everything. I sure would have been sick if I had done that."

■ **William Keating is reportedly negotiating a deal in the Lincoln S&L lawsuit. Story, Page 10A.**

Melvin LaLonde, a retired paper mill worker in Menominee, wasn't so fortunate. He bought $100,000 worth of the bonds, about half his life savings.

About 115 Michigan residents are listed among 23,000 unsecured creditors in the American Continental bankruptcy. The 23,000 creditors bought an estimated $250 million in the company's now-worthless high-yield bonds.

Phoenix-based American Continental is the parent company of Lincoln Savings & Loan Association of Irvine, Calif., the center of the collapsed empire of Charles Keating Jr. Bank regulators are calling the firm's failure the nation's biggest savings and loan scandal.

In Los Angeles on Monday, a judge opened a hearing on whether to freeze more than $100 million in Lincoln Savings assets that bondholders allege were illegally transferred to banks and companies in Switzerland, the Bahamas and Panama.

U.S. District Judge Stephen Wilson is hearing one of various lawsuits filed against Keating and the companies he controlled. The plaintiffs contend the assets were transferred out of the country after the investors were misled into buying the high-risk securities known as "junk bonds."

Michigan residents' claims for money invested in the company's bonds range from $2,000 to the $100,000 invested by LaLonde.

Nationally, the investors included retirees who reportedly bought the bonds in the false belief that their funds were federally insured, like bank deposits. Many bought them on the recommendation of stockbrokers and other investment professionals.

"Nobody told me the bonds were federally insured," says Chmura. "But because it was a savings and loan, I just sort of assumed it."

Chmura says she bought the bonds

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PATRICIA BECK/Detroit Free Press

Mary Chmura of St. Clair Shores shows her American Continental Corp. bond that paid her $50 a month — until the firm declared bankruptcy. About 115 Michigan residents held the bonds.

Stockbroker James Fangman said the bonds looked so good, he sold $5,000 worth to his mother.

at the suggestion of a now-retired St. Clair Shores financial planner, whom she declined to identify to save him embarrassment.

"I don't blame him," she says. "It was my choice, there was no high pressure. I blame Charles Keating."

Chmura said she can't afford to lose the $5,000, especially while she is trying to help her daughter pay medical bills for a grandchild who has cancer.

"I don't exactly need jewels and furs to make me happy," she said. "I live moderately. I just need bread and butter on the table."

LaLonde said he retired eight years ago as a laborer in a Wisconsin paper mill.

He said he bought his bonds 2½ years ago from the Waukesha, Wis., offices of Offerman & Co., a Minneapolis-based stock brokerage, after seeing an advertisement in the Milwaukee Sentinel.

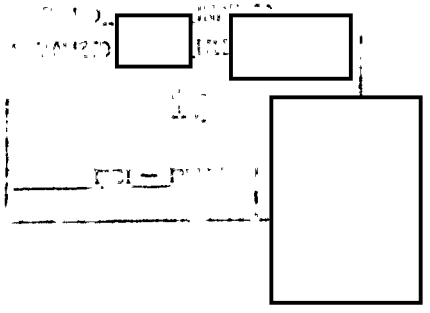
"Naturally, I would like the money back," he said, noting that no one has told him what his chances are.

James Fangman, a stockbroker in Offerman's Waukesha offices, said Monday the American Continental bonds once looked so good, he sold $5,000 worth to his mother.

Fangman said he also bought 200 shares of now worthless stock in the company for himself.

"This has hurt my company and it has hurt my clients more so," he said. "In 20-20 hindsight, you could say, 'How could you be so stupid?' But, unfortunately, we believed it was a good investment and apparently we made a mistake or we just got fooled."

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

Date: LOS ANGELES TIMES
Edition: SAT., DEC 9, 1989
Front Section, Page 32

Title: CRANSTON SAYS HE'LL OVERCOME TARNISHED IMAGE

Character: CORRUPTION
or
Classification: 80-33B
Submitting Office: LOS ANGELES

Indexing:

Cranston Says He'll Overcome Tarnished Image

By JOHN BALZAR
TIMES POLITICAL WRITER

First, he could feel it as his popularity plunged. Then he saw it measured in shocking black and white in the newspaper. And, by his own admission, Sen. Alan Cranston is no "dreamer" about the difficulty of redeeming his political career.

But Cranston said Friday he is not a believer, either—he does not believe things are as bad as the Los Angeles Times Poll measured them to be. He does not believe that 79%, or four-fifths, of Californians really think it is time for a new senator in 1992, when his term ends.

Above all, Alan Cranston said he is not a quitter. So drop that talk, he said to opponents. He's still determined to run. He has peered into the abyss before, and fought his way back.

"I intend to run. I will run, and I have a reasonable—I think—prospect of winning. And I'm no dreamer. I've been through a lot of hard campaigns. I've lost campaigns," the four-term senator told a jampacked press conference at his Brentwood reelection headquarters.

"I've seen myself and others come back from difficult circumstances and win. And I believe that can be done here."

The Times Poll sampled public opinion about Cranston in light of his having accepted large political donations from Lincoln Savings & Loan owner Charles H. Keating Jr., and then intervening with federal regulators on Keating's behalf. In a span of just eight weeks, Cranston's favorableness rating dropped 24 points as measured by the poll.

Times Poll Director I.A. Lewis said that, in 20 years in the business, he has seen other public officials plummet further but never in his memory had someone fallen so far so fast.

Cranston's fighting words did little to dampen the ambitions of a growing number of younger Democrats who believe the venerable Cranston will not rebound, not this time, not at 75. List makers could count at least seven Democrats of standing who are eyeing the seat or who would have to be considered potential rivals.

Rep. Barbara Boxer of Greenbrae, in Marin County, already has active supporters in the Hollywood feminist movement fanning the flames for her. The thinking goes that, if she makes headway, other Democrats who might otherwise be hesitant will be stirred into action.

Interviews with officeholders, contributors and strategists found a consensus on several mentionable names for such roles: state party chairman and former Gov. Edmund G. Brown Jr., San Francisco Mayor Art Agnos, state Controller Gray Davis, Rep. Mel Levine of Santa Monica and Rep. Robert T. Matsui of Sacramento. One dark-horse non-politician who has earned a spot on the "mentionables" list is Frank G. Wells, president of Walt Disney Co.

The list could grow longer still, depending on the outcome of the 1990 state elections—with either big Democratic winners feeling confident, or narrow losers trying to get back in the fight.

Rep. Nancy Pelosi of San Francisco, who is close to Boxer, told Bay Area reporters on Thursday that Cranston should "think very seriously" about retiring. She said a fifth term for the senator "would have been difficult even absent this incident."

"I'm not at all surprised by the poll that shows my image is down," Cranston said. "But I'm also not discouraged. Images are images, facts are facts. And I'm confident that, when the facts get through, the people of California can make a good judgment on my record of integrity and accomplishment in the Senate."

In particular, Cranston said the poll cast the worst possible light on him because respondents were told the basic outline of the senator's relationship with Keating and the troubled Lincoln S&L. Then they were asked their views.

"I wouldn't vote for myself, frankly, if all I knew about me was what the charges have been and what the bad press has described," he said. ". . . I dispute the fact that four-fifths of the people of California have the view that was in that poll."

He stood stoic at his press conference. Those who expected a show of emotion, or to be able to read dread in his eyes, were disappointed.

There is, he said, "plenty of time" in the next three years to face his critics, and to hope that investigations by the Senate and federal authorities clear his name and his actions.



Sen. Alan Cranston

He indicated that one thing he is counting on to save him is his legendary fund-raising prowess, the very thing that landed him in political trouble. Cranston declined Friday to reveal how much money he has raised for his far-off reelection campaign. He said he wanted to build up the total in the final weeks of 1989 to impress would-be challengers when campaign finance reports are compiled at year's end.

Those who doubt his resolve for this upcoming campaign are reminded by Cranston's supporters of the role that luck has played throughout his Senate career. He unexpectedly drew a feeble opponent in his first race in 1968, which he was never expected to win. In 1974 and 1980 he again drew weak challengers. Then, in 1986, he came up against a stronger and more moderate candidate in then-Rep. Ed Zschau of San Mateo. But Zschau obligingly foundered in the late going. Why, his supporters ask, should Cranston doubt his luck this time?

Cranston's chief defense of his actions is that, yes, he and other senators intervened in a protracted federal investigation of Keating's company. But Cranston insisted that he did nothing improper, that he sought only a speedy resolution, not necessarily a favorable one, and that he acted as no special favor to Keating, even though the businessman had given Cranston $47,000 in contributions and $850,000 for voter registration groups.

"It is my duty to try to resolve matters that involve constituents, and that is exactly what I was doing," Cranston said.

As for helping such an important contributor, Cranston asked how could he not? "I would be one sorry senator if I refused to help someone because that person had contributed to me."

While Democrats take stock of the senator as political prey, Republicans are beginning to rustle, too. Among those likely to consider the race are Zschau and conservative television commentator Bruce Herschensohn. Others mentioned are Reps. David Dreier of La Verne and Robert K. Dornan of Garden Grove.

Times political writer Keith Love contributed to this article.

Cranston's explanations seem more and more bankrupt

ORANGE COUNTY REGISTE
Pg F-3
Date 12/17/89
Edition Sunday
Title
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or
Classification: 58C-PX-41605
Submitting Office: LA
Indexing:

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.

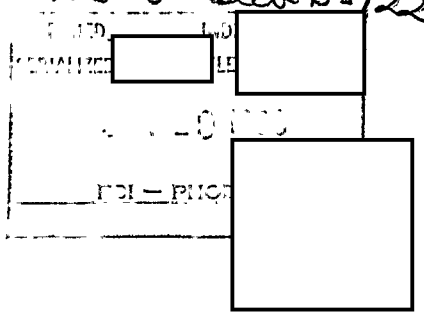
In the parlance of Capitol Hill, all five senators who attended those twin after-hours meetings with the banking regulators were "tanked."

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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FD-350 (Rev. 5-6-81)

(Mount Clipping in Space Below)

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 advantage of

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

LOS ANGELES TIMES
Date: SAT. DEC. 2, 1989
Edition: Front Section, Page A36

Title: DEUKMEJIAN DEFENDS SAMUELIAN

Character: BF&E
or
Classification: 80-33B
Submitting Office: LOS ANGELES

Indexing:

FBI, DOJ

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

FD-350 (Rev. 5-6-81)

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

LOS ANGELES TIMES
LOS ANGELES, CA

Date: THURS., DEC. 7, 1989
Edition: DAILY PG. A26

Title: FPPC PROBE FOCUSES ON 3 IN LINCOLN SAVINGS CASE

Character:
or
Classification:
Submitting Office: LOS ANGELES

Indexing:

FPPC Probe Focuses on 3 in Lincoln Savings Case

By RALPH FRAMMOLINO
and CARL INGRAM
TIMES STAFF WRITERS

SACRAMENTO—The state's Fair Political Practices Commission has opened an investigation into whether two appointees of Gov. George Deukmejian—including Corporations Commissioner Christine W. Bender—violated conflict-of-interest laws in connection with the troubled Lincoln Savings & Loan, it was learned Wednesday.

In addition, the commission is investigating whether Deukmejian's top political fund raiser, Los Angeles attorney Karl M. Samuelian, violated the law by failing to register as a lobbyist when he contacted Bender and other state officials on behalf of Charles H. Keating Jr., chairman of Lincoln's parent company, sources said.

The parent firm, American Continental Corp., early last year secured state approval for the issuance of more than $200 million in high-risk bonds.

"We are looking into alleged violations of the Political Reform Act in connection with Lincoln," said FPPC spokeswoman Sandra Michioku. She declined to elaborate.

It was learned, however, that the allegations before the FPPC grew out of a legislative hearing last week in which Samuelian, Bender and her predecessor as corporations commissioner, attorney Franklin Tom, explained their roles in the Lincoln controversy.

Both Tom and Bender worked for Samuelian's law firm before their appointment by Deukmejian to their public posts. In February, 1987, Tom resigned as commissioner and returned to the law firm. He was succeeded by Bender, his deputy.

Within weeks of his departure, Tom contacted his former agency to request that files for Lincoln's parent company, American Continental Corp. of Phoenix, be moved from San Francisco to Los Angeles and that matters before the commissioner involving the firm be expedited.

A year later, Tom and Samuelian met with Bender and her assistants to seek approval for American Continental to continue selling more than $200 million in high-risk bonds to investors, most of them Southern California retirees. Bender approved the request to sell the debentures. More than 22,000 investors bought the bond, which became worthless with the firm's bankruptcy in April.

Public records filed by Bender state that she received more than $515 in gifts from Samuelian's law firm in the year preceding her decision, including a $350 "luncheon in my honor" in May, 1987; a $15 lunch in June, 1987; and a $150 dinner for herself and her husband in June.

State law says that no state administrative official shall participate in a governmental decision "in which he knows or has reason to know he has a financial interest." The law further defines financial interest as any source of income, including gifts, totaling $250 or more 12 months prior to the decision being made.

It could not be determined late Wednesday whether the gifts are part of the FPPC investigation.

Bender could not be reached for comment late Wednesday, but in an earlier interview she said that she did not agree with the notion that she should sever all her ties with her former law firm.

"The idea that we would never again speak to people we've known before we've become public officials isn't realistic," Bender said.

Two Contacts

During last week's legislative hearing, ex-commissioner Tom conceded that he contacted his former agency twice to discuss American Continental Corp. matters just weeks after he left to go back to work for Samuelian's firm. But he said that those contacts were "ministerial"—and not violations of rules that prohibit a commissioner from representing firms before his former agency for 12 months.

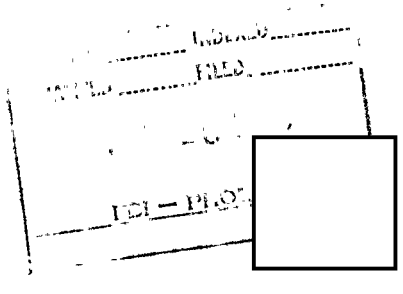
Also during the hearing, attorney Samuelian denied reports that he "lobbied" Bender and her department to give approval for the bonds in March, 1988—an activity covered by the political reform act and requiring public disclosure of the contacts.

Samuelian, who said he was hired as an attorney by Keating in 1985, described his discussions with Bender and her subordinates as meetings to "represent a client as a lawyer."

The issue before the FPPC, however, is whether Samuelian's contacts were within the state's definition of lobbying, The Times has learned.

Robert S. Draper, attorney for Samuelian and Tom, said late Wednesday that he was unaware of the FPPC investigation but said that his clients did not violate state rules.

Staff writer Paul Jacobs contributed to this story.



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CRANSTON INQUIRY WIDENS TO INCLUDE SIGNING OF VOTERS

HE SOLICITED FOR DRIVES

F.B.I. Investigating Charges That Registration Groups Sought Out Democrats

By RICHARD L. BERKE
Special to The New York Times

LOS ANGELES, Dec. 5 — The inquiries into Senator Alan Cranston's contacts with Charles H. Keating Jr., who headed a savings and loan institution that failed, have now focused attention on the activities and financing of three voter-registration groups backed by the California legislator.

Federal law-enforcement authorities say they are examining whether employees of two of the organizations were instructed to register more Democrats than Republicans, as employees working for one of the groups have said recently. This would amount to a violation of the tax-exempt status that the groups enjoyed based on their nonpartisanship.

Both Mr. Cranston and his son, Kim, the unsalaried operator of one of the groups, denied in interviews here that the organizations violated their charters by seeking to enroll a disproportionate share of Democrats.

Cranston Denies Wrongdoing

Senator Cranston, the Democratic whip, who is one of five Senators whose ties to Mr. Keating are being examined by a special counsel retained by the Senate Ethics Committee, also denied that the tax-exempt committees were organized to pile up contributions from Mr. Keating's savings-and-loan businesses and from supporters in other corporations.

But the inquiries into the three groups illustrate the trouble that Mr. Cranston, known for his fund-raising prowess, now faces in his home state with both public interest groups and with Federal investigators.

Common Cause, a lobbying organization in Washington, and other associations that examine campaign finance matters are citing Mr. Cranston's activities as a case study in how nonpartisan groups are used to collect political money from financial sources that are restricted in how much they can directly donate to a campaign.

Continued on Page A16, Column 1

Moreover, the Federal Bureau of Investigation is interested in the groups because of the large amounts of money flowing to them from major donors, including Mr. Keating and his associates, according to Federal law-enforcement officials.

Documents Sent to F.B.I.

The officials, speaking on condition of anonymity, said that the F.B.I. became interested in the voter-registration groups after California banking regulators sent them documents last July that showed how successful the organizations were in raising money.

The bureau, as well as the Securities and Exchange Commission, has been investigating Mr. Keating's failed business, the Lincoln Savings and Loan Association, and the Senate ethics committee is looking at what motivated the five Senators to help Mr. Keating in his troubles with Federal regulators.

Federal law-enforcement officials said one reason the F.B.I was particularly interested in the Cranston-affiliated organizations was the sums involved: Mr. Keating or his company gave the groups $850,000 in late 1987 and early 1988, far more than the money he channeled to benefit the other senators' contests. That does not include $47,000 in direct campaign contributions from Mr. Keating or his associates to Mr. Cranston's 1986 re-election campaign, and $85,000 for a California Democratic voter drive that largely benefited the Cranston organization.

The other Senators linked to the Lincoln case are Dennis DeConcini, Democrat of Arizona, who received a $55,000 campaign contribution; John McCain, Republican of Arizona, whose campaign got $112,000; Donald W. Riegle Jr., Democrat of Michigan, who received $76,000, and John Glenn, Democrat of Ohio, who got $34,000 for his campaign and $200,000 for a political action committee he controlled.

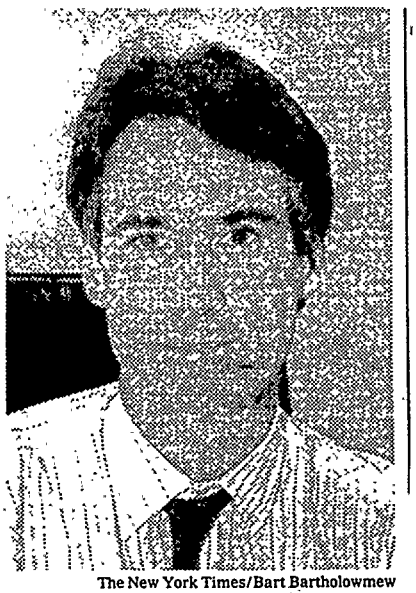
Other politicans have established nonprofit charitable or educational foundations that rely on donations from their political supporters. But Mr. Cranston, who describes registration as a "driving force" in his political career, has been the most successful with his voter groups. He raised roughly $7 million for as many as 30 voter groups in the 1988 campaign, his aides say.

In an interview last week, Senator Cranston said he had aggressively solicited contributions for the groups from many longtime political and financial supporters, including Mr. Keating, with whom he met in Phoenix, where the Lincoln thrift's parent company, the American Continental Corporation, is based. But the Senator insisted there was never a "quid pro quo" with donors seeking his influence on senatorial business.

'Not My Responsibility'

Asked whether some donors were less interested in voter registration than in currying favor with him, Senator Cranston replied: "It's not my responsibility to figure out what's in

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The New York Times/Bart Bartholowmew

Kim Cranston, son of Senator Alan Cranston, is the head of a group being investigated.

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somebody else's head when they're making contributions. As long as they don't ask for a quid pro quo, that's acceptable behavior."

Fred Wertheimer, president of Common Cause, which called upon Federal officials to investigate Mr. Keating and his contributions, said that the Cranston registration groups "open up the whole question as to how people can use money to help public officials in undisclosed ways."

The three groups registered mostly Democrats and relied greatly on Mr. Cranston for making solicitations. The Senator collected virtually all the money for his son's group, the Los Angeles-based Center for Participation in Democracy and for the Forum Institute, a Washington-based group that operated in 13 states. Both organizations are listed by the Government as charitable, thus donors receive tax exemptions on their contributions.

The third group, USA Votes, is also based in Washington and mobilized registration drives in several states. It is not tax exempt. The center and USA Votes paid for extensive fund-raising trips Mr. Cranston made on their behalf.

While it was not required, American Continental filed records with the state of California showing that American Continental gave $400,000 to the Center for Participation in Democracy in 1988. It was by far the largest single contribution of the $1.4 million in donations that the group collected.

In addition, American Continental's contribution schedule shows that the $400,000 was the largest single contribution the company made that year to any foundation or political organization. Another $325,000 went to the Forum Institute and $125,000 to USA Votes.

Operations to Be Suspended

The board of the Forum Institute recently voted to suspend its registration operations beginning Jan. 1 because of the adverse publicity involving Mr. Cranston and Mr. Keating. "They felt like fund raising would be very difficult under the present circumstances," said William H. Jeffress, a lawyer for the group.

For the same reason, the Center for Participation in Democracy has effectively stopped raising money and the board plans to meet soon to discuss whether to disband, said Cruz Reynoso, a former California Supreme Court Justice and the group's current chairman.

One of the law-enforcement officials said he had seen information suggesting that the Center for Participation in Democracy was partisan in nature, which would violate its tax-exempt status.

"We want to establish what the real purpose of these voter registration groups was," said the official, who added that Federal authorities would soon begin questioning donors and employees of the registration groups and would seek workers' payroll records.

Senator Cranston said the groups were as vigorous in registering Republicans as in registering Democrats. He acknowledged that for voter drives, the group selected poor and minority neighborhoods, which were roughly 70 percent Democratic, but noted that such selecting was "perfectly legal and proper."

"It was carefully done in accordance with legal requirements," he said.

Registration groups are permitted to select communities with more potential voters in a particular party, but they are not allowed to use coercion or fraud to build up one party's voter rolls.

Concern About Registration

Dino Blackburn, who registered voters in Oakland, Calif., for several weeks in 1988 for the Center for Participation in Democracy, said he grew concerned with its emphasis on Democrats. Workers, he said, were told to frequently cite the name of the Rev. Jesse Jackson in encouraging blacks to register. If that were true, it could be a violation of the group's tax-exempt status, which prohibits it from promoting a particular candidate.

Mr. Blackburn, a Republican, said the group kept a running tally of how many Democrats each worker registered. "They kept score," he said. "It was clear that they only wanted Democrats."

Other former workers of the group offered similar views but refused to be identified.

Kim Cranston, who founded the center in 1987 and is now chief of staff to Leo T. McCarthy, the California Lieutenant Governor, described Mr. Blackburn and other critics as among "a few disgruntled former employees."

He said there was no effort by the group's officials to improperly slant registration toward Democrats. "I personally went to three of the large training sessions," Kim Cranston said, "and told people what it meant to be nonpartisan."

Unaware of F.B.I. Inquiry

While he was aware of a broader F.B.I. investigation of the five Senators, Senator Cranston said he had not been aware that officials were closely scrutinizing the voter groups. He said the only contact he had had with the F.B.I. came several months ago when he telephoned the bureau director, William Sessions, to offer his assistance in any inquiry related to Lincoln Savings.

All five Senators met with thrift regulators in an effort that delayed the Federal takeover of Lincoln concern, which is based in Irvine, Calif. Mr. Cranston was able to collect so much more money because of his nonpartisan groups.

While the donors were limited in how much they could give to Mr. Cranston's political campaigns, labor groups, companies and wealthy individuals could give as much as they wanted to his registration projects, get a tax deduction from two of the groups and not be subjected to Federal regulations requiring that the donation be made public.

Robert M. Stern, co-director of the California Commission on Campaign Financing, a private research organization here, called voter registration "a very laudable goal," but added that he was troubled by the suggestion that "the money was given was not good government but to influence a public official."

Senator's Role Is Cited

Several major donors said in interviews that they gave money because they believed that registering voters was an important cause. Yet some acknowledged that Mr. Cranston's in-

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volvement made contributing much more attractive, and said they would not have given to the groups had the Senator not approached them.

Asked why his union gave $25,000 to one of the groups in 1988, George B. Gould, legislative director of the National Association of Letter Carriers, said: "I'm not going to kid you. Alan's involvement was a two-fer for us: He's been a good vote, a good friend legislatively. But this was a good program."

Mr. Keating is not the only donor to the voter groups that Mr. Cranston has sought to assist. In each case, Mr. Cranston has emphasized, he was only trying to help a constituent.

In another example, the investment firm of Drexel Burnham Lambert Inc. gave $25,000 to another Cranston-affiliated group, the Western Center for Voter Education, according to California state records. The money was solicited from Michael Milken, who was head of the firm's junk bond department but has since been indicted on insider trading charges.

Fund-raising skills now seem more burden than blessing.

Mr. Cranston and some other members of the California delegation in Congress helped to lobby the Securities and Exchange Commission into abandoning its effort to force Drexel Burnham to move its junk bond department from Beverly Hills to New York.

An affiliate of another California thrift group, the Columbia Savings and Loan Association, gave $15,000 to the Center for Participation in Democracy in 1988. The previous year, Mr. Cranston had played a role in Senate passage of an alternative to a proposed amendment, opposed by Columbia, to limit thrift investment in junk bonds.

Several donors commended Mr. Cranston's registration efforts. "The Senator has not been a supporter of the oil industry over the years," said Albert Greenstein, a spokesman for ARCO, which gave $20,000 to one of the voter groups in 1988.

"But we felt that voter registration was an issue that crossed party lines. We felt that this committee would be effective," Mr. Greenstein said.

Asked about the inquiries into the voter groups, Kim Cranston insisted: "People are trying to read ulterior motives in the whole thing. What my motivation was, what my father's motivation was, was basically to increase citizen participation."

Big Contributors

Donors who gave $15,000 or more in 1988 to the Center for Participation in Democracy, a voter registration group operated by Senator Alan Cranston's son, Kim, according to filings with the California attorney general's office.

American Continental Corp.	$400,000	Gary Goldberg, television producer	$25,000
E & J Gallo Winery	$100,000	Julian Burke	$25,000
Association of Trial Lawyers of America	$100,000	Liz Claiborne Foundation	$25,000
International Brotherhood of Teamsters	$100,000	Barbra Streisand Foundation	$25,000
The Forum Institute	$50,414	Swig Foundation	$25,000
Sheet Metal Workers' International Association	$50,000	L. Lawrence Foundation	$25,000
Western Center for Voter Education	$32,000	National Association of Letter Carriers	$25,000
Hotel Employees and Restaurant Employees International Union	$30,000	American Federation of State, County and Municipal Employees	$25,000
The Gersten Co., a developer based in Beverly Hills, Calif.	$25,000	Southwest Regional Council United	$25,000
First Executive Corp.	$25,000	ARCO	$20,000
I.C.N. Pharmaceuticals, Inc.	$25,000	Wells Foundation	$20,000
Allen & Company	$25,000	Service Employees International Union	$20,000
		Columbia Savings and Loan Association	$15,000

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 "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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pg A3

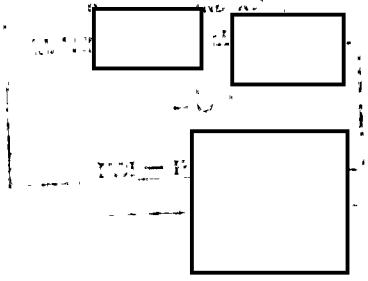
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bank board's investigation of Lincoln. He has noted that both Gray and his successor, M. Danny Wall, have testified that they were not swayed by the contacts that they received from the senators.

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.

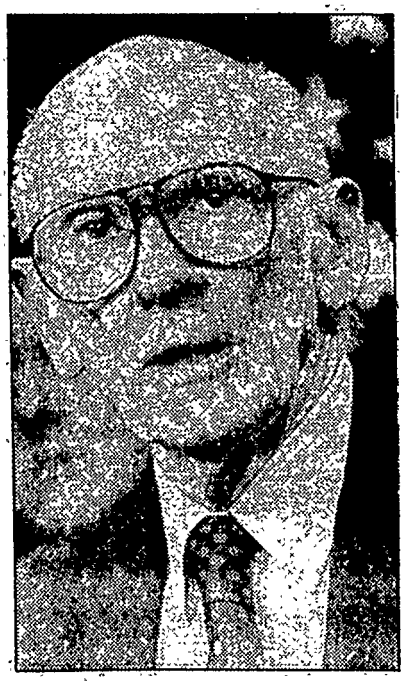
Gray also said in an interview that Cranston made no such statement during a subsequent meeting on April 9, 1987, between the five senators and top federal regulators from San Francisco, who were responsible for the Lincoln inquiry. A transcript of the second meeting shows that Cranston, who attended 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.



Los Angeles Times

Sen. Alan Cranston

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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.

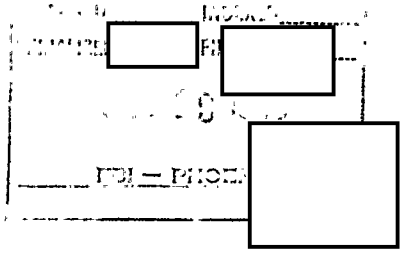
"We know he contacted our office and wanted us to get involved in an issue, but we declined to get involved in that issue," Bill Livingstone said.

He said the call came in 1985, the same year as the campaign contributions.

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S&L, Parent Firm Reportedly Gave State GOP $95,000

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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.

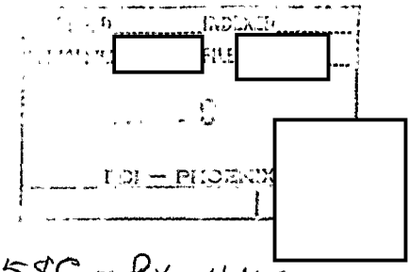
Samuelian said the contributions included $75,000 by American Continental to the California GOP, $20,000 to a fund known as the Presidential Trust and $5,000 made at a so-called Victory '88 fund-raising event.

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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Institute Keating helped fund to shut down

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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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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]

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FBI DOJ

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?"

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" for 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."

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

(Mount Clipping In Space Below)

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 $2.6 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, A18, Col. 1

(Indicate page, name of newspaper, city and state.)
"The Washington Post"
Washington, D.C.
p. A1
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Indexing:

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.

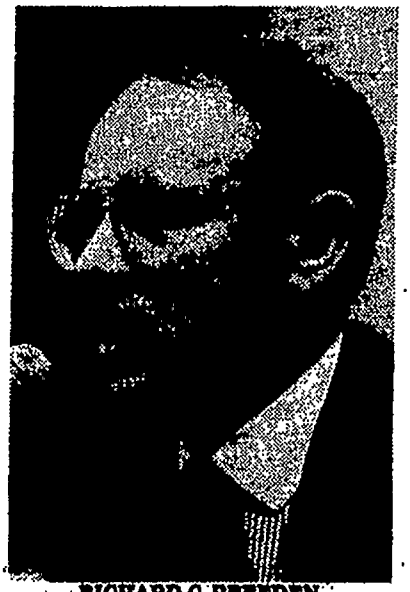
Breeden also surprised the committee by disclosing that former commissioner Thomas called SEC enforcement director Gary Lynch in 1988 to ask about the investigation of Lincoln and volunteered "a favorable character reference" for Keating.

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.

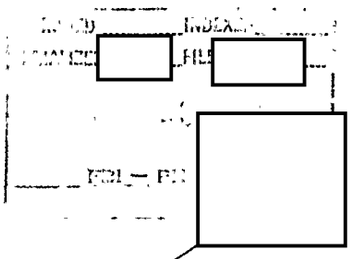


RICHARD C. BREEDEN
. . . . says he has doubled staff on case



BY JAMES K.W. ATHERTON—THE WASHINGTON POST

Connie Wickman testifies as Shirley Lampel and Ramona Jacobs listen during House committee hearing yesterday.



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58C-PX-41605-B-130

(Mount Clipping in Space Below)

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.

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.

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

LOS ANGELES TIMES

Date: WED., NOV. 15, 1989
Edition: Front Section, Page 15

Title: JUSTICE DEPT. WEIGHTS PROBING SENATORS' LINCOLN S&L TIES

Character: or
Classification: 80-33B
Submitting Office: LOS ANGELES

Indexing:

FBI/DOJ

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

(Mount Clipping in Space Below)

Cranston seeks aid in inquiry

Attorney to help prepare response

By MARK BARNHILL
Daily News Washington Bureau

WASHINGTON — Sen. Alan Cranston has hired a lawyer to help respond to an ethics inquiry about his contacts with federal regulators on behalf of former Lincoln Savings and Loan Association head Charles H. Keating Jr., aides said Tuesday.

William W. Taylor, a partner in the Washington, D.C., law firm of Zuckerman, Spaeder, Goldstein, Taylor and Kolker, was retained by Cranston more than a week ago, said Victoria Lion, a press aide to the California Democrat.

Money from Cranston's campaign treasury will be used to pay legal fees, Lion said. She would not disclose how much the law firm was expected to be paid.

The Washington Post reported Sunday that the FBI investigation into possible criminal charges against Keating has been expanded to include Keating's dealings with Cranston and four other senators, who received a combined $1.3 million in political contributions from the bank president. Cranston aides say FBI agents have not contacted the senator.

Lion said Cranston hired the outside counsel to provide legal advice and to "assist in answering the (Senate) Ethics Committee."

The Ethics Committee has asked the five senators to explain why they met in 1987 with regulators who were planning to take action against Keating's Lincoln Savings and Loan Association.

The others are Sens. Dennis DeConcini, D-Ariz.; John McCain, R-Ariz.; John Glenn, D-Ohio, and Donald W. Riegle, D-Mich.

Edwin J. Gray, former chairman of the Federal Home Loan Bank Board, testified last week that DeConcini urged him to ease investment restrictions on Lincoln. He said Cranston, McCain and Glenn, who also were present, "raised no objection whatsoever."

The senators have denied Gray's account, and Cranston has insisted he asked regulators only to wrap up their lengthy investigation of Lincoln — and never sought to influence the outcome.

Cranston has denied that he intereceded because of Keating's donations, which included $850,000 to three voter registration drives he supported and $35,000 to his personal re-election campaign.

But shortly after the meetings, the Lincoln case was transferred to Washington and a new investigation ordered — delaying action against the failing institution for two years.

The federal government seized Lincoln last April, the day after its parent, American Continental Corp., filed for bankruptcy protection. Government officials estimate the collapse will be the costliest savings and loan failure in history and will cost taxpayers more than $2.5 billion.

Last month, the watchdog group Common Cause asked the Senate Ethics Committee and the Justice Department's Public Integrity Section to investigate the senators' conduct.

The Ethics Committee has asked each senator to explain his actions. Murray Flander, Cranston's press spokesman, said the senator's response to the Ethics Committee was likely to be completed by late this week and would be released to the public.



Alan Cranston
Seeks legal advice

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

DAILY NEWS
SAN FERNANDO, CA

Date: WED., NOV. 15, 1989
Edition: VALLEY PG. 10

Title: CRANSTON SEEKS AID IN INQUIRY

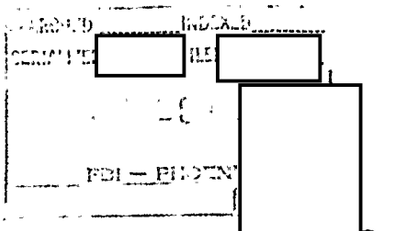
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LOS ANGELES TIMES
LOS ANGELES, CA

Date: WED., NOV. 8, 1989
Edition: DAILY PGS. A1 & A14

Title: EX-OFFICIAL SAYS CRANSTON LIED ABOUT BID TO AID S&L

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LOS ANGELES

Indexing:

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. 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.

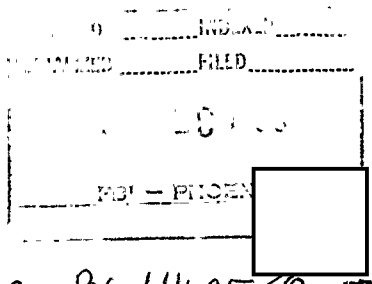
Gray said DeConcini was so indebted to Keating that he even pledged to the Ronald Reagan Administration to vote in favor of assistance to the Nicaraguan rebels in 1986 in exchange for getting a Lincoln stockholder, Lee H. Hinkel, appointed to the bank board.

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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Senators Face Justice Dept. Probe of Lincoln Ties

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Date 11/15/89
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Indexing:

By RONALD J. OSTROW
and JAMES S. GRANELLI
TIMES STAFF WRITERS

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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

Please see SENATORS, D6

fully examining suspicious activity by lawmakers. "This is receiving very, very heavy scrutiny," one source familiar with the matter said.

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.

(Mount Clipping in Space Below)

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.

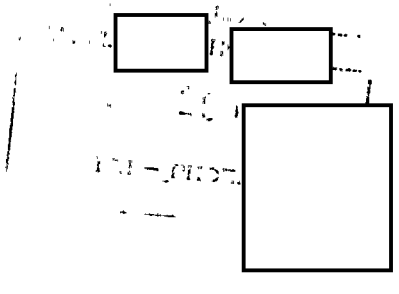
Samuelian is scheduled to testify before a state legislative committee Wednesday about his efforts to influence state decisions that permitted American Continental Corp. to sell high-risk, uninsured bonds through Lincoln branches.

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.



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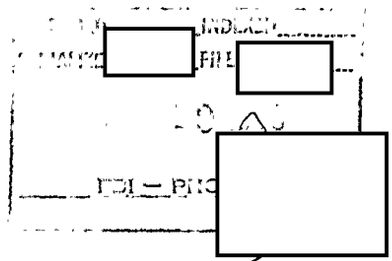
Newspaper page name of newspaper city and state: ORANGE COUNTY REGISTER PG A3

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Date: LOS ANGELES TIMES
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Front Section, Page 3

Title: VAST INVESTMENT IN STATE POLITICS BY KEATING TOLD

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Indexing:

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

FBI/DOJ

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:

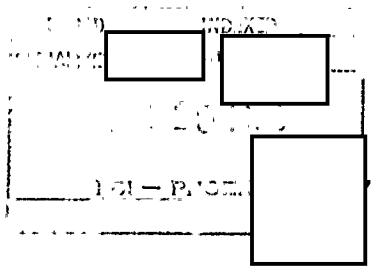
- Deukmejian received $173,000 from the Arizona businessman and his associates. The governor received $80,000 directly from American Continental and Lincoln Savings; $19,000 from Keating and his family members; $51,000 from other American Continental subsidiaries and executives; and $23,000 from Keating 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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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.

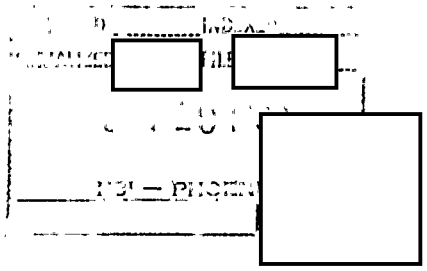
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DAILY BREEZE
TORRANCE, CA

Date: SUNDAY, NOV. 19, 1989
Edition: PAGE A16

Title: STATE LEGISLATURE'S ROLE IN S&L SCANDAL NEEDS EXAMINATION
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Title: CHIEF OF FAILED S&L PUT PRESSURE ON STATE OFFICIALS MEMO SAYS

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Indexing:

Chief of Failed S&L Put Pressure on State Officials, 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 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 only met Keating 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."

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

FBI/DOJ

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.

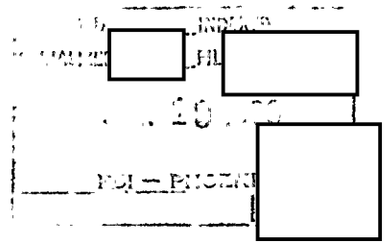
"Keating was complaining about overzealous regulators," Geoghegan said in an interview. "Crawford was pushing him back. Keating was asking us to approve all his future deals. . . . He wasn't a guy who belonged in a regulated industry, because he didn't like people telling him what to do."

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," he said.

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.



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Cranston inquiry intensifies

Ethics panel hires independent counsel

By MARK BARNHILL
Daily News Washington Bureau

WASHINGTON — The Senate Ethics Committee hired an independent counsel Friday to review the conduct of Sen. Alan Cranston and four other senators who met with regulators on behalf of former Lincoln Savings head Charles H. Keating Jr.

Cranston, in a statement released by his office Friday night, pledged to cooperate but asserted that he had done nothing wrong.

"I did not violate any laws, ethical standards or rules of the Senate," Cranston said. "But the decision about retaining outside counsel properly resides with the Ethics Committee and the committee, having made that decision, can be assured of my utmost cooperation."

The committee appointed Washington lawyer Robert S. Bennett to help determine whether there is enough evidence to open formal ethics proceedings against the lawmakers.

At issue is whether Cranston and the other four lawmakers, who together received $1.3 million in political contributions from Keating, exerted improper pressure to delay regulatory action against the failing thrift.

"The action does not suggest in any way that the committee has found any indication of wrongdoing, or that a violation of any rule or law has occurred," the ethics panel said in a statement.

The independent counsel will assist "in obtaining and analyzing additional information" that the committee will use "to determine whether additional procedures are warranted" against the five senators, the statement said.

In addition to Cranston, the others are Sens. Dennis DeConcini, D-Ariz.; John McCain, R-Ariz.; John Glenn, D-Ohio; and Donald W. Riegle Jr., D-Mich.

All five senators have denied any wrongdoing in the Lincoln Savings case.

The committee also asked Bennett to evaluate a complaint that Sen. Alfonse M. D'Amato, R-N.Y., violated Senate rules in connection with the federal housing scandal.

On Thursday, Cranston had urged the committee to close the matter without further action. But on Friday, Cranston said in his statement that Bennett's appointment "will further promote confidence in the Senate's process for reviewing the conduct of its members.

"I am confident the outside counsel will concur with our view that my conduct was entirely proper," Cranston said.

Based on the independent counsel's report, the ethics committee will decide whether to formally open a three-step procedural action against the senators.

The first step is a "preliminary inquiry" to determine whether

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LOS ANGELES

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there is a "reason to believe" that rules violations occurred.

The next step would be an "initial review" to determine whether there is "substantial credible evidence" of violations.

The final step is a full investigation to decide if there is "clear and convincing evidence" that standards were violated, and whether discipline should be recommended to the Senate.

The ethics committee, responding to a complaint by the watchdog group Common Cause, asked the senators last month to explain why they met in 1987 with regulators who wanted to close down Lincoln Savings and Loan.

The FBI has questioned some federal officials about the Lincoln situation, and according to several published reports the Justice Department is considering a possible inquiry into whether the senators violated any laws.

Examiners for the Federal Home Loan Bank Board in San Francisco were investigating Lincoln's finances in 1987 when Keating complained that he was being targeted unfairly.

Cranston, McCain, DeConcini and Glenn met with then-Bank Board Chairman Edwin J. Gray on April 2, 1987, and those four senators plus Riegle met a week later with regional officials from the board's San Francisco office.

Cranston and DeConcini also phoned Gray's successor, M. Danny Wall, last spring to endorse Keating's attempt to sell Lincoln before regulators obtained a court order to seize it.

The government finally seized Lincoln last April, the day after its parent American Continental Corp. filed for bankruptcy protection. Federal officials estimate that the Lincoln failure will cost taxpayers at least $2.5 billion and be the most expensive savings-and-loan failure in history.

Cranston has said that his actions have been misrepresented by the press and government regulators, including Edwin J. Gray, former chairman of the Federal Home Loan Bank Board.

Gray told the House Banking Committee last week that the senators pressured him to ease restrictions on risky Lincoln investments, in return for a "quid pro quo" agreement from Lincoln to increase its mortgage lending.

A month after the meetings, the Lincoln case was transferred to Washington and a new investigation ordered — delaying action against the failing institution for two years.

Cranston acknowledges that he urged regulators to wrap up their lengthy investigation of Lincoln, but he denied that any deal was offered.

"I never attempted to derail any investigation of wrongdoing at Lincoln," he said in a letter to the ethics committee released Thursday.

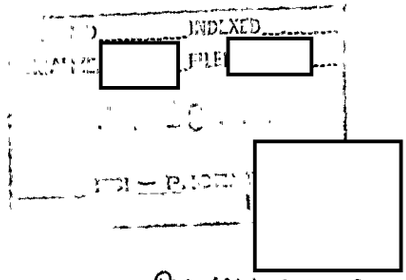
He said that he simply was trying to ensure that his constituents — including 740 Lincoln employees and 14,000 depositors — were being treated fairly.

Cranston also has denied that his meeting with regulators was linked to political money he solicited from Keating — including at least $35,000 for his 1986 re-election campaign, $85,000 for the California Democratic Party and $850,000 for three voter-registration drives that Cranston supported.

Keating said at a press conference last April that his contributions were intended to win political influence. The five senators are all powerful members of the Senate Banking Committee.

In addition to the contributions to Cranston, Keating gave $76,100 to Riegle; $48,100 to DeConcini; $112,000 in contributions and $13,433 in gifts and travel expenses to McCain; $34,000 to Glenn and $200,000 to a political committee associated with Glenn.

Like Cranston, the other four senators all restated their innocence on Friday.



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LOS ANGELES, CA

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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 to run 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

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 substan-

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 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 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

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.

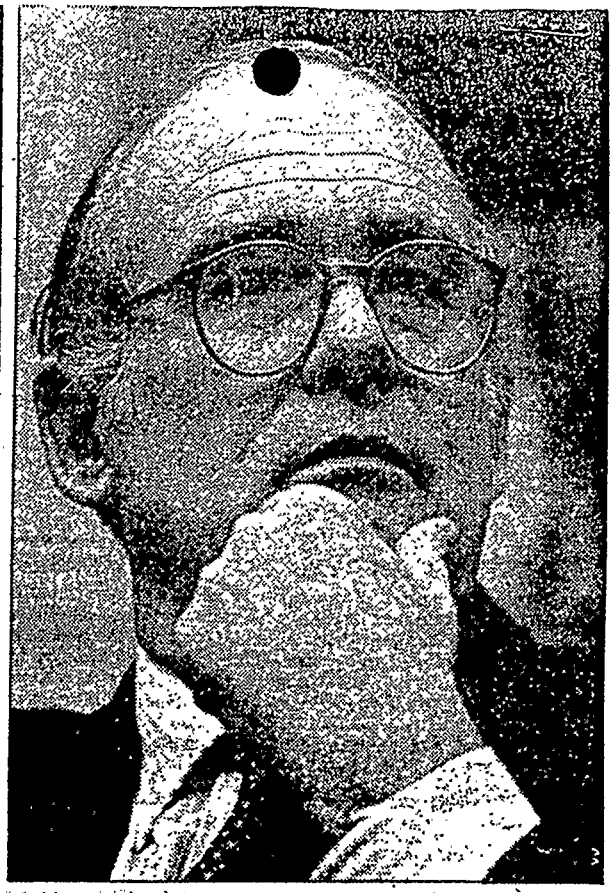
After being assured that Lincoln was safe and sound, she had signed two pieces of paper and handed over a $30,000 cashier's check. She could not read the fine print, and she said no one ever read the documents to her.

"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.

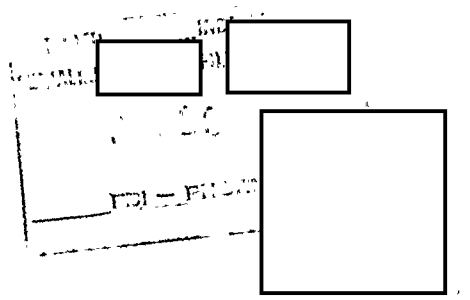




GARY AMBROSE / Los Angeles Times

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

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FD-350 (Rev. 3-6-81)

(Mount Clipping in Space Below)

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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 activities.

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 intervention by five senators to

FBI/DOJ

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 [illegible]

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.

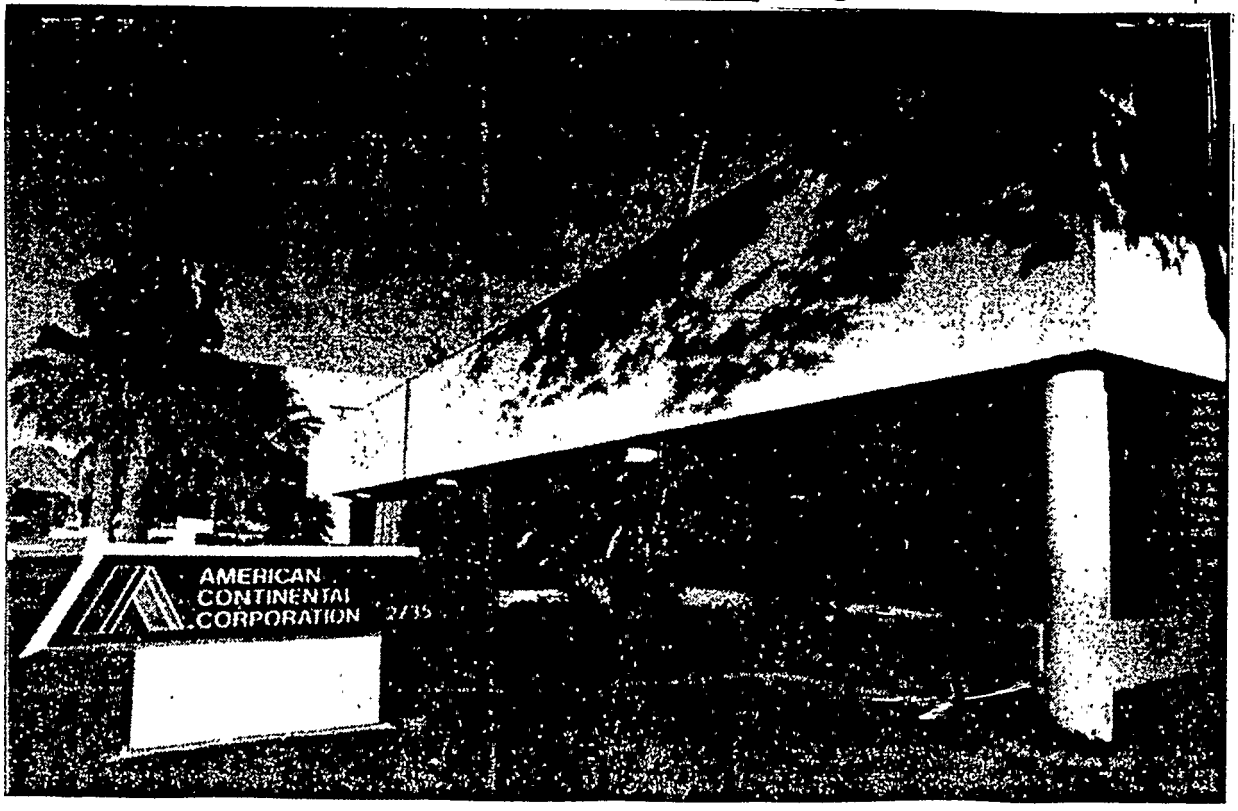
But an exemption for Lincoln was never granted, and the Gray-Keating conflict grew.

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.

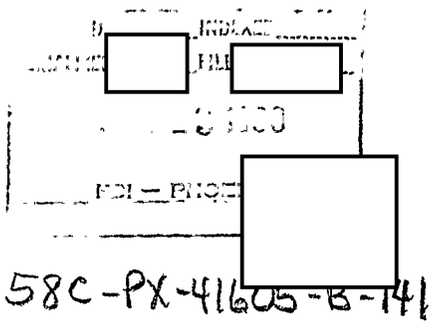


THE ASSOCIATED PRESS

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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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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Edition: MON., NOV. 20, 1989
Front Section, Page 13

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Character:
or
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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.

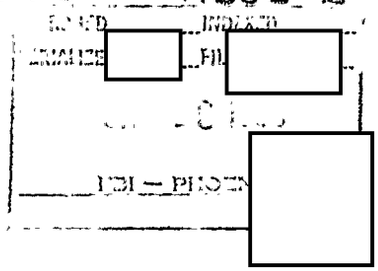
I would also like to correct some misimpressions, fostered in the press and elsewhere. I am not responsible for loss of taxpayer funds through a delay in shutting down Lincoln or the losses of innocent California bond investors. I never attempted to derail any investigation of wrongdoing at Lincoln, 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

58C-PX-41605-B-142



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

(Mount Clipping in Space Below)

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.

(Indicate page, name of newspaper, city and state.)
DAILY NEWS
Date: SUN., NOV 19, 1989
Edition: FRONT SECTION, PAGE 1
Title: CRANSTON'S HOPES FOR '92 CLOUDED
Character: or
Classification: 58C-PX-41605
Submitting Office: LOS ANGELES
Indexing:

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 Fiander 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.

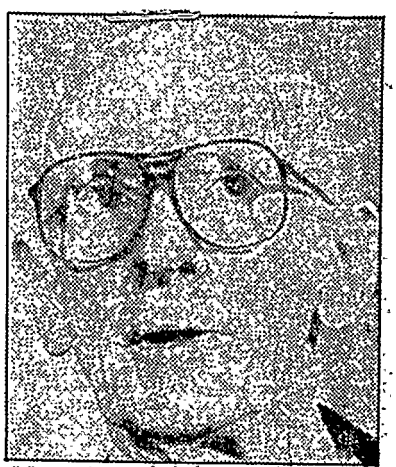
Cranston could be helped if Wilson is elected governor next year, according to pollster Steve Teichner. Under that scenario, there would be two U.S. Senate races in California in 1992.

"If there is a second seat to debate on, not all the attention will be focused on him," Teichner said.

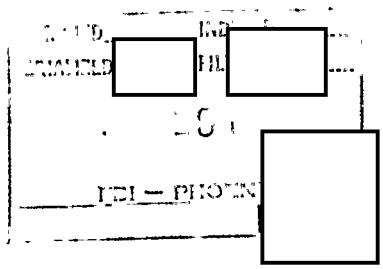
Perhaps no one is watching more closely than Zschau, who has been preparing for a rematch since 1986 when Cranston narrowly defeated him with a campaign that raised questions about Zschau's integrity.

"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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58C-PX-41605-Sub-B-143

Deukmejian confidant tells of Lincoln role

Samuelian lobbied ex-partner to win state approval of bonds

Newspaper city and state: ORANGE COUNTY REGISTER pg A3
Date 11/30/89
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Title
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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

Newspaper City and State

(Mount Clipping in Space Below)

Date
Edition

Title

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Classification:
Submitting Office:

Indexing:

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.

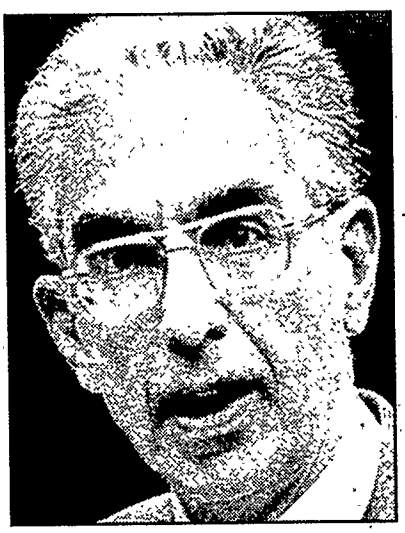
"The laws favor the entrepreneur," Crawford testified. "You can't take (their thrifts) away without due process. Due process sometimes means no process. Every time you try to take aggressive action you talk to your attorneys, and they say 'Why do you want to do that?' "

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



Christine Bender
Lobbyist's ex-partner OKd bonds



Karl Samuelian
Lobbied on behalf of Lincoln parent

partner.

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.

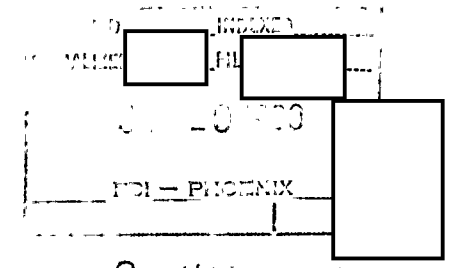
The Department of Corporations conflict-of-interest code prohibits a former commissioner from representing an applicant before the department for a period of one year. Tom had resigned as commissioner and returned to Samuelian's law firm less than one month before the phone call.

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."

FBI



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58C-PX-41605-Sub B-144

T-1 A2C

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

(Mount Clipping in Space Below)

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Edition: 11/1/89

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or
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Indexing:

FBI was asked to probe donations by Keating to a Cranston group

By Jonathan Lansner
The Register

WASHINGTON — California savings-and-loan regulators said Tuesday that they asked the FBI to investigate a $400,000 donation by Lincoln Savings and Loan's then-parent company to a voter-registration drive linked to Sen. Alan Cranston of California.

In testimony before the House Banking Committee, regulators said they suspected that Irvine-based Lincoln was being stripped of assets by its parent, American Continental Corp., and the company president, Charles Keating Jr.

Regulators also suspected that Keating was using insured deposits to buy political influence.

The donation that caused state regulators to call in the FBI in July was the payment in February 1988 by the Phoenix-based American Continental to The Center for Participation in Democracy, a voter-registration drive sponsored by Cranston and run at the time by his son, Kim.

During the third day of testimony, one federal regulator who was called in to investigate the Lincoln failure testified that he found evidence of "overwhelming fraud," specifically citing an estimated $34 million the Keating family made on salaries, bonuses and stock sales from the failed companies.

The Register reported in July that federal officials believed Lincoln was put on the hook for a $15 million loan used to buy American Continental stock from company insiders, and that Keating and eight top executives were paid millions in salaries in 1988.

"I think there's a track record of massive dissipation of assets,"

Please see LINCOLN/20

LINCOLN: Regulators asked FBI to investigate donations

FROM 1

Richard Newsom, the senior examiner for the state agency that discovered the donation, told the committee Tuesday.

Keating and American Continental officials have denied wrongdoing.

The House committee is investigating the April collapse of Lincoln and whether political intervention helped extend American Continental Corp.'s control of the savings and loan.

Insuring Lincoln's deposits could cost more than $2 billion, which would make it the costliest savings-and-loan failure in the nation's history.

Newsom explained that his agency uncovered the $400,000 contribution as part of its examination of the company's books last year. The department gave the information to criminal investigators because its agency had no expertise in the area of political practices.

Newsom told the committee that his boss, William Davis, the department's chief deputy, called their discoveries "too hot."

A Cranston spokesman, Murray Flander, said he was unaware of any criminal probe into the donation, part of a series of links between the senator and the company. Flander said there was no wrongdoing on either Cranston's part.

"What Alan has said it that he let his zeal (for supporting voter registration) get in the way of his judgment. It was too much from one person," Flander said, referring to Cranston's solicitation of $850,000 from Keating for the voter-registration campaign.

According to Newsom's testimony, what concerned regulators about the $400,000 contribution to the voter-registration group was:

- Its size, representing a large chunk of the company's $1 million in total donations and the group's $1.3 million in collections for the year.
- That the voter-registration group's current president is Cruz Reynoso, a former California Supreme Court justice and an attorney working for the New York law firm handling American Continental's regulatory matters.
- That the address used by the group is a property owned by the Cranston family that also housed Cranston's 1992 election fund-raising efforts.
- That the group was swapping funds with two other Cranston-linked political groups, the Forum Institute and the Organizing Institute, which had Rep. Nancy Pelosi, D-San Francisco, as a director.
- That Kim Cranston sent James Grogan, a former aide of Sen. John Glenn, D-Ohio, who went to work for American Continental as an attorney, a thank-you note for the donation.

Cranston was one of five US senators, including Glenn, who met twice with federal regulators in April 1987 about Lincoln, just before regional federal examiners in San Francisco recommended a government takeover of the savings and loan. American Continental, whose officials contributed to the campaigns of all five senators, did not lose Lincoln until April 1989.

Cranston, a member of the Senate Banking Committee, also called federal regulators in April asking them to consider a rescue plan that would have seen Lincoln sold by American Continental to a group headed by former Rep. John Rousselot, a Republican from the Los Angeles area.

The two ranking members of the House Banking Committee, Chairman Henry Gonzalez, D-Texas, and Rep. Chalmers Wylie, R-Ohio, have said they turned down similar requests to call regulators on behalf of the Rousselot deal.

Also, a Cranston aide called state regulators this past spring about the state's part in the sales process. Regulator Davis said only one other US senator, Dennis DeConcini, D-Ariz., had ever contacted his agency about any savings and loan. DeConcini, who also attended the five-senator meeting in 1987, also inquired in April about Lincoln.

The other senators who interceded were John McCain, R-Ariz., and Donald Riegle, D-Mich., chairman of the Senate Banking Committee. The Senate ethics committee has asked the five senators to explain their actions in the Lincoln proceedings.

Keating, a Phoenix businessman and former Cincinnati lawyer, is scheduled to testify Tuesday before the House committee.

So reluctant were regulators in Washington to move on Lincoln that House Banking Committee Chairman Henry Gonzalez, D-Texas, has asked President Bush to fire Danny Wall as director of the Office of Thrift Supervision.

At one point, Wall transferred supervison of Lincoln from the San Francisco office to more sympathetic regulators in Washington.

Newsom said he considers the federal investigation of Lincoln a "whitewash."

He said Keating spoke openly of his political influence and made the "amazing" claim that the taxpayers would be stuck with $2 billion in bailout costs unless he were permitted to stay in business.

Newsom said the $255 million in bonds issued by American Continental through its Lincoln branches were nothing but "a scam" because there was no chance the money ever would be repaid.

The bonds, now worthless, were purchased by 23,000 Lincoln customers, many of them retirees who wrongly assumed that the bonds, like regular deposits, were insured by the federal government.

American Continental filed for bankruptcy-court protection in April, the day before Lincoln was taken over by federal regulators.

The Resolution Trust Corp., now disposing of hundreds of failed, federally insured S&Ls, has filed a $1.1 billion civil suit against Keating and other corporate officers and insiders in an effort to recover some of the lost money.

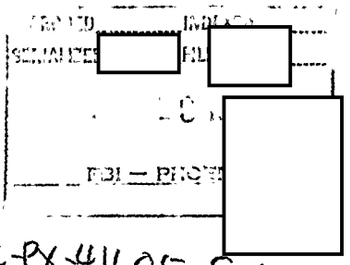
No criminal charges have been filed, but the FBI is conducting an investigation of Lincoln in Arizona and California.

John Meek, a federal S&L examiner based in Chicago, said he found "overwhelming evidence" of fraud when he was called into the Lincoln case last fall.

Meek said that from early 1985 to late 1988, the Keating family got at least $34 million in salaries, bonuses and stock sales from the failing companies. He said five executives, including Keating, his son, Charles III, and his son-in-law, Robert Wurzelbacher, were drawing salaries and bonuses of more than $1 million a year each.

Investigators found that American Continental had other subsidiaries in the Bahamas and Panama that do not appear on the company's organization chart.

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Charles H. Keating Jr.
Blamed for demise of Lincoln S&L

(Indicate page, name of newspaper, city and state.)
T. 1, 1-A
The Orange County Register

Date:
Edition: 11/6/89

Title: Keating heads back to face an unsympathetic Congress

Character:
or
Classification:
Submitting Office: Irvine
SAC-LA-101615

Indexing:

Keating heads back to face an unsympathetic Congress

By Jeff Weir
and Jonathan Lansner
The Register

WASHINGTON — Four years ago, a proud, confident and politically connected Charles H. Keating Jr. lobbied Congress to fight regulations that limited the real-estate investments of thrifts such as his Lincoln Savings and Loan in Irvine.

"It is burning down the house to roast the pig — that's what these regulations are!" Keating told the House Subcommittee on Commerce, Consumer and Monetary Affairs. "To earn money, in my opinion, it is essential to be deregulated."

With that triumphant appearance, Keating — the Phoenix millionaire who had political allies in Congress and the White House, and enthusiastic backing from economists such as Alan Greenspan — put federal regulators on notice that he would fight their attempts to place "suicidal" investment restrictions on savings and loans.

On Tuesday, a dramatically different Charles Keating returns to Capitol Hill for another round of testimony before many of the 225 lawmakers who readily backed his anti-regulation pitch in 1985.

No longer the toast of the town, he returns as a political pariah

Please see **LINCOLN/A4**

■ **WITNESSES:** Testimony will detail Lincoln's downfall/**A14**

■ **CONVENTION:** Thrift officials brace for more tough times/**C1**

1

FROM 1

who figuratively burned down the house of Lincoln Savings and saddled taxpayers with a $2.5 billion debt, the costliest savings-and-loan bailout in history.

Keating, subpoenaed to testify before the House Banking Committee, is the lead witness in an all-star lineup of regulators and business associates who participated, on one side or another, in what lawmakers now describe as the "debacle of Lincoln Savings."

His long-anticipated appearance Tuesday should cap four weeks of committee hearings on what some committee members have called "the looting of Lincoln Savings." According to members of the committee, the case hinges on regulatory mistakes, political influence-peddling, and Keating's greed.

"This is the biggest bank heist in history," said Rep. Jim Leach, R-Iowa. "The great question that remains to be resolved is whether we have a congressional Watergate in the making."

Despite a history of outspokenness — Keating flatly acknowledged last spring that he expected the recipients of his numerous campaign contributions to use their influence on his behalf — Keating is expected to refuse to testify Tuesday on grounds that his statements might incriminate him.

Keating has refused to comment on the hearings. His lawyers in Washington, however, have repeatedly dismissed the testimony against Keating as "riddled with inaccuracies" that were "too outlandish" to rebut.

Federal regulators seized Lincoln Savings on April 14, one day after Keating put Lincoln's corporate parent, American Continental Corp., into Chapter 11 bankruptcy. In September, the Resolution Trust Corp. filed a $1.1 billion racketeering and fraud lawsuit against Keating, his relatives and various Lincoln executives.

The suit, accompanied by criminal investigations of Keating by the FBI, US Attorney's Office, and Securities and Exchange Commission, alleged that American Continental drained millions of dollars from Lincoln through forged accounting, phony land deals and insider loans.

The House Banking Committee is trying to determine why federal regulators waited until April to take action against Lincoln when they had ample evidence as far back as 1987 of the thrift's shaky financial condition.

So far, most of the sworn testimony suggests that M. Danny Wall, who became chairman of the Federal Home Loan Bank Board in July 1987, pulled the plug on his own investigators by rejecting their recommendations to seize Lincoln. He then took the unprecedented move of transferring jurisdiction of Lincoln's case from the San Francisco office to the bank board's headquarters in Washington, and ordered his staff to work out an amicable settlement with Keating.

The delays gave Keating more time to run up Lincoln's losses, while paying himself a $2 million salary. The delays also allowed Keating to launch new ventures, including the sale of $200 million in now worthless junk bonds to more than 23,000 California investors.

"Clearly, we were shot in the back by the bank board as we battled to protect the taxpayers from Lincoln Savings," said William Black, regional counsel for the Office of Thrift Supervision in San Francisco. "There are two conclusions to draw from the Lincoln debacle. First, it need not have happened and would not have happened if the bank board had showed any backbone. Second, future Lincolns can still happen because the same folks are still in charge of regulating thrifts."

Wall, scheduled to testify before the committee Nov. 21, has repeatedly accused the committee of trying to make him the scapegoat for mistakes that were made by many officials, including the politicians who lobbied on Keating's behalf. Wall also said he only tried to give Keating the same due process that he would give to other owners of troubled savings and loans.

"You don't have to be a rocket scientist to see that there is culpability in Washington," said Leach, the congressman.

As a sidelight to the regulatory inquiry, the banking committee also is probing the network of political contacts that Keating, 66, manipulated to thwart the crackdown on Lincoln, according to the regulators who testified during the past three weeks.

In a city that thrives on political intrigue, the subplot of Keating's influence peddling has become almost more important than unraveling the regulatory whodunit of Lincoln Savings.

To date, the reputations of five US senators, including Democrat Alan Cranston of California, and several ranking members of the House have been sullied by disclosures of the campaign contributions they took from Keating, and by the detailed revelations of their attempts to intervene with regulators on Lincoln's behalf in 1987 and 1989.

Cranston, who solicited nearly $900,000 in campaign contributions from Keating and his associates, originally defended his actions as part of a lawmaker's normal chore of representing constituents. But in recent weeks, he not only has acknowledged the "stupidity" of aiding Keating, but has volunteered to cooperate with a Senate ethics committee investigation of his conduct.

"You could say he was stupid," said Cranston spokesman Murray Flander. "He simply did not

know."

The web of Keating contacts, moreover, has widened each week as the names of other politicians, including some members of the banking committee, have surfaced as participants in Keating's bid to keep regulators at bay.

One of those is Doug Barnard, a Georgia Democrat who received $20,000 from Keating in 1985 and 1986, and who discussed Lincoln's troubles with then-bank board Chairman Edwin Gray in 1986. Barnard, ironically, presided over the February 1985 subcommittee hearing in which Keating charged that increased regulation would "burn down the house" of the thrift industry.

Another committee member linked to Keating — and who has been conspicuously absent from the first three hearings on Lincoln — is Frank Annunzio, an Illinois Democrat who wrote a Keating-backed resolution in 1985 that urged Gray to relent on his assault of the deregulated savings and loan industry. That resolution was signed by 225 members of Congress.

A third committee member, Carroll Hubbard Jr., D-Kentucky, also has ties to Keating. In April, Hubbard urged Wall to support a rescue plan for Lincoln that would have enabled Keating to sell the institution and get out from under the regulators who wanted to close it.

Cranston and Sen. Dennis DeConcini, D-Ariz., both of whom can claim Keating as a constituent, also asked Wall to consider the buyout proposal. When Wall rejected the bid, Keating put American Continental and its subsidiaries into bankruptcy.

While tarnishing the reputations of many politicians, the hearings have made a star out of the chairman, Rep. Henry Gonzalez, D-Texas. Unlike the senators who accepted more than $1.3 million from Keating, Gonzalez is a financial loner who refuses to take honorariums or money from political-action committees.

Gonzalez has doggedly pursued the Lincoln investigation, even at the risk of embarrassing political colleagues who did favors for Keating when he was riding high as one of the most free-spending political benefactors in the country.

Keating, who once boasted that he had spent $50 million fighting regulators, paid himself and his family $34 million in the three years preceding American Continental's bankruptcy.

In 1986, Keating paid $1 million to his son, Charles III, for serving as American Continental's top real-estate executive. The year before, his son had worked as a busboy in a restaurant. In 1988 — while American Continental was losing money — Keating's son earned $1.1 million, while Keating's son-in-law Robert Wurzelbacher was paid $1.2 million. Another son-in-law, Robert Hubbard Jr., received $570,000 in salaries and bonuses, according to documents filed with the committee.

In addition to taking care of his family with money that the federal government said was siphoned from Lincoln, Keating took care of business associates.

According to the regulators who have sifted through Lincoln's books, Lincoln paid $17 million in finder's fees to a Swiss bank that lined up a $170 million investment by the Kuwaiti government in American Continental's Arizona hotels. Lincoln also bought a minority share for $18 million in a Netherlands Antilles bank that provided down payments for many of Lincoln's real-estate deals.

Witnesses will detail downfall of Lincoln S&L

By Jonathan Lansner
and Jeff Weir
The Register

WASHINGTON — Even if Charles H. Keating Jr. refuses to testify before the House Banking Commitee on Tuesday, the other scheduled witnesses are expected to provide plenty of fireworks about the downfall of Lincoln Savings and Loan.

The most damaging testimony, especially for the politicians who did Keating's bidding, should come from Edwin Gray, the former Federal Home Loan Bank Board chairman who was Keating's primary nemesis in the mid-1980s.

Gray ran the nation's savings and loans during an era of deregulation that allowed institutions such as Lincoln, based in Irvine, to forgo traditional home mortgages for high-risk investments in real estate and junk bonds.

When Gray attempted to crack down on these practices in 1985, he not only incurred Keating's wrath, but found himself on the receiving end of hostile communications from lawmakers who had received campaign contributions and gifts from Keating.

In addition to telling the committee about the calls and notes he received from politicians, Gray has said that Keating tried to get him fired by the Reagan administration. Gray also said Keating once offered him a job as a means of ousting him from the bank board.

Gray said five senators — Alan Cranston, D-Calif., Dennis DeConcini, D-Ariz., John McCain, R-Ariz., Donald Riegle, D-Mich., and John Glenn, D-Ohio — improperly urged him and his staff at two meetings in April 1987 to make rules changes favorable to Lincoln.

Those meetings occurred at the same time that Gray's examiners in San Francisco were recommending Lincoln's takeover. The senators, acting on information from Keating's accountants, also confronted Gray about Keating's claims of harassment from regulators.

Tuesday's hearing also will feature testimony from three men who assisted in Keating's battle against regulators:

- Jack Atchison, who in 1987 certified the audit of American Continental, of which Lincoln Savings was a subsidiary. Atchison then went to work for Keating in 1988 at a salary of nearly $1 million a year. He is also the person who allegedly persuaded the five senators to confront Gray and his staff about the alleged regulatory harassment of Lincoln.
- Atlanta attorney Lee Henkel, who was put on the three-person Federal Home Loan Bank Board in November 1986 by the White House at Keating's request. Henkel, who had borrowed more than $60 million from Lincoln, immediately proposed rules that would have allowed Lincoln to increase its speculative real-estate investments. Henkel resigned from the board in April 1987, after disclosure of his borrowings from Lincoln.
- Larry Taggart, California's former savings and loan commissioner, who approved American Continental's purchase of Lincoln in early 1984. In December 1984, one month before he left office, Taggart also approved Lincoln's request to shift $800 million to subsidiaries for direct real-estate investments.

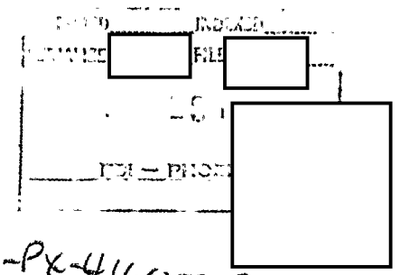
In January 1985, Taggart went to work for a San Diego financial firm that subsequently sold nearly 20 percent of its stock to Lincoln for $2.9 million. And in August 1986, Taggart complained about Gray's crackdown on the investment practices of savings and loans in a letter to White House chief of staff Donald Regan, according to documents supplied to the committee.

The House Banking Committee hearings originally were scheduled to conclude this week with testimony from Wall. Now, because of the growing nationwide interest in the Lincoln case, the hearings have been extended for at least two more weeks.

Some of the most direct victims of Lincoln's demise, the Southern Californians who bought American Continental junk bonds at Lincoln, only to have them rendered worthless by American Continental's bankruptcy-court filing, are scheduled to testify.

But the House Banking Committee won't have the last word on the Lincoln story. The Senate ethics committee has launched an informal probe of the five senators who helped Keating in 1987. Federal prosecutors, meanwhile, are reviewing the downfall of Lincoln Savings for possible criminal indictments against Keating and some of his associates.

"I hope Congress learns something from all of this," said Rep. Christopher Shays, R-Conn.



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Accountant pleads 5th Amendment before panel probing Lincoln S&L

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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.

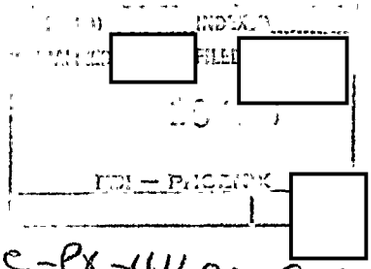
Gray complained that the Reagan White House, most notably Chief of Staff Donald Regan, repeatedly gave him a hard time about his attempts to clean up the troubled industry.

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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ORANGE COUNTY REGISTER
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Date 11/7/89

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

By Chris Knap,
Jonathan Lansner
and Jeff Weir
The Register

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

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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.

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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.

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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.

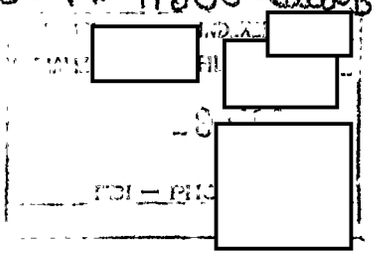
That meeting, Barrone and Cannon said, persuaded the league to abandon its support of the proposed restrictions. Crawford reached the same conclusion in mid-December, according to department records.

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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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**

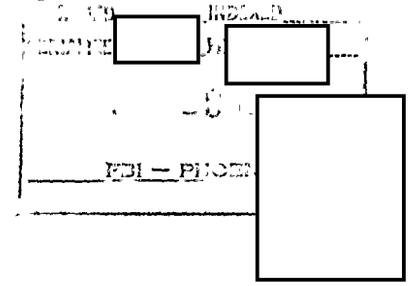
"My election campaigns have never been tainted by improper or illegal donations," Pashayan said in a statement. "And while nothing has been proven against Lincoln yet, I am determined to avoid any appearance of impropriety on my part."

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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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 be 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.

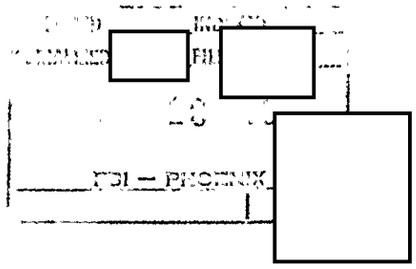
Jordan's 1987 trip from Washington to Phoenix was taken with Cranston's approval, the senator said through a spokesman.

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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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."

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.

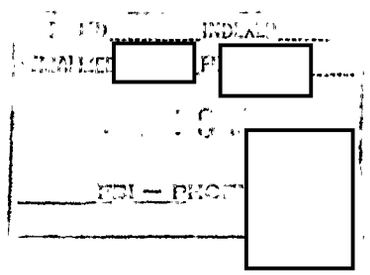
After Lincoln formally agreed to comply with the restrictions, Crawford said, the directive was withdrawn, Crawford said.

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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LOS ANGELES TIMES
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Wall Rejects Pressure to Quit as Top S&L Regulator

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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.

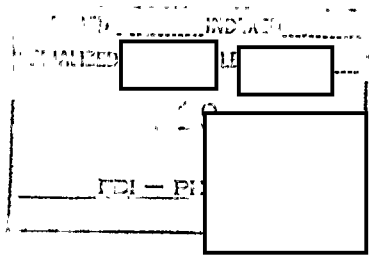
House Banking Committee Chairman Henry B. Gonzalez (D-Tex.), who has been holding hearings into the Lincoln debacle, has said Wall systematically misled the committee about the extent of the nation's failing S&L problem and mishandled his regulatory duties. He has asked the President to fire Wall.

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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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.

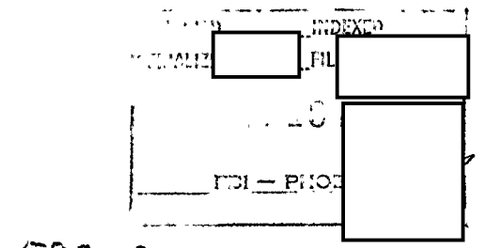
Mr. Breeden also said he is doubling the commission's staff investigating possible securities fraud at Lincoln, based in Irvine, Calif., and American Continental, based in Phoenix. He declined to disclose the status of the inquiry or how many staff members had been assigned to it.

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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WALL STREET JOURNAL
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Ethics Panel to Conduct Cranston Investigation

■ Lincoln S&L: Outside counsel to be appointed over allegations involving influence peddling by senators.

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LOS ANGELES TIMES
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intervened with federal regulators on behalf of Lincoln Savings & 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.

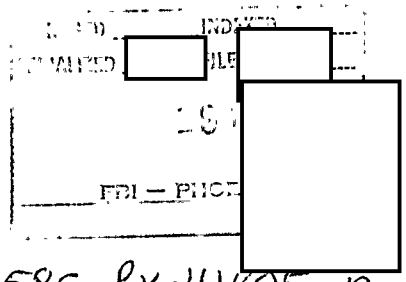
Cranston's legal brief also disputed the testimony of three elderly California women before the House Banking Committee earlier this week. The three had said that they held Cranston personally responsible for the loss of their life savings as a result of investments in bonds issued by Lincoln's parent 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 TIMES

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Classification: 58C-PX-41605
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Indexing:

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.

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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.

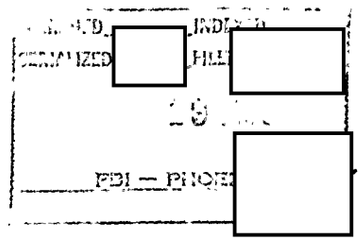
Keating will be the final witness called this year as part of the House committee's inquiry into the demise of Lincoln, the most expensive single thrift collapse in history.

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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Wall Denies Politics Altered S&L Rulings As Lincoln's Ex-Owner Refuses to Testify

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WALL STREET JOURNAL

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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.

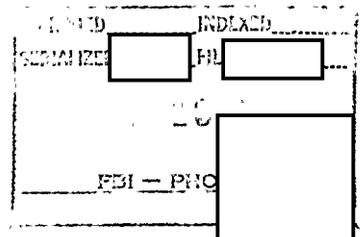
At a crucial May 5, 1988, meeting of the Federal Home Loan Bank Board (which was predecessor to the Office of Thrift Supervision), Mr. Wall declared he knew Mr. Keating personally, though not well, according to the official minutes of the closed session. "It seems to me Mr. Keating in my own knowledge 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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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

Newspaper page name of newspaper city and state
LOS ANGELES TIMES
PG A1

Date 11/22/89
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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 though 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.

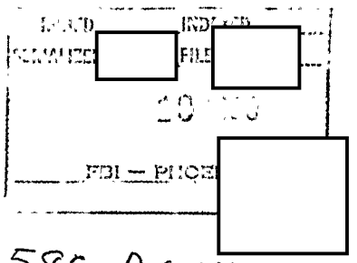
In his appearance before the committee, Keating declared: "I have no testimony to give today. . . . On the advice of counsel, I respectfully exercise my constitutional prerogative and privilege and refuse to answer questions here today."

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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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.

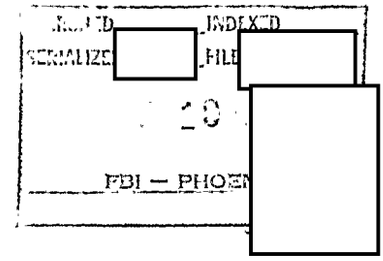
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Cranston Says Lincoln Charges Are 'Ridiculous'

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.),

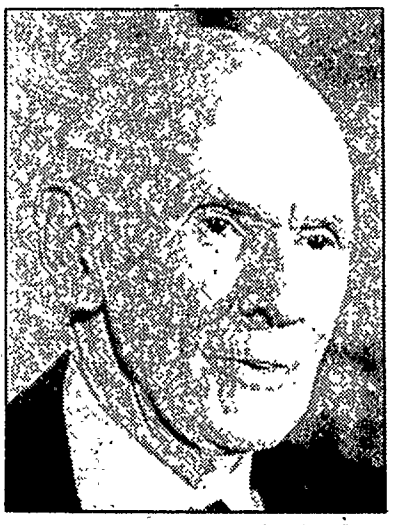
■ **FAMILY AFFAIR**
Keating's brother runs finances for Detroit's JOA papers. D1
■ **LOSSES MOUNT**
$60-million loss puts Lincoln down $877 million for year. D5

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.

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."

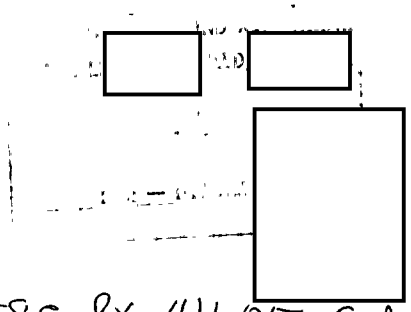
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LOS ANGELES TIMES
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Regulator Confirms He Met With Owner of Lincoln S&L

■ 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.

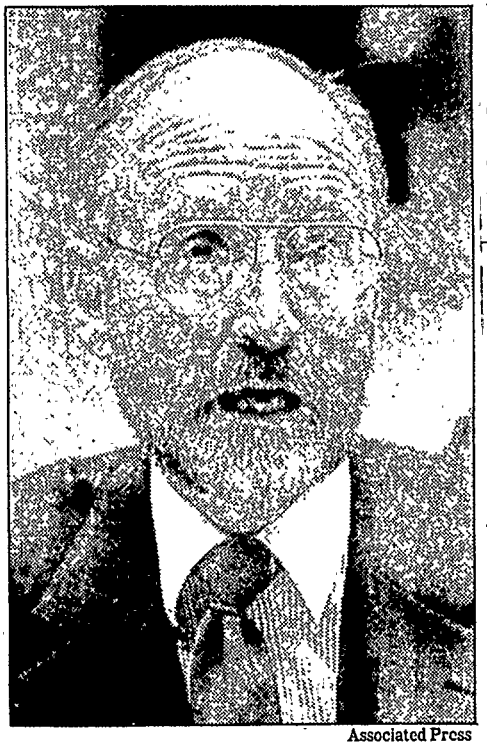
Keating, who has been charged with milking Lincoln's assets and thus precipitating the worst savings and loan disaster in the nation's history, had been introduced to Wall several years earlier in the office of Sen. Jake Garn (R-Utah). Before heading the bank board, Wall was an adviser to Garn.

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."

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



Associated Press

M. Danny Wall

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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.

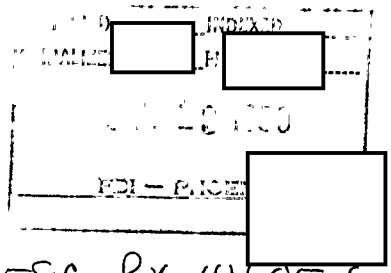
Wall said he had attended two institute board meetings on behalf of the senator before becoming FHLBB chief. Weiss said Wall also has served as a program speaker for the institute from time to time.

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The Orange County Register

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Regulators say their phone at Lincoln was wiretapped

By Jeff Weir
The Register

WASHINGTON — California thrift regulators testified Thursday that their private telephone line at Lincoln Savings & Loan had been wired so Lincoln employees could eavesdrop on their strategy talks about the Irvine-based thrift's tangled finances.

The disclosure of a potentially bugged line, which was immediately referred to the FBI for investigation, might help explain why Lincoln's owner, Charles H. Keating Jr., always seemed to be one step ahead of the regulators who wanted to close Lincoln in 1987, the witnesses said.

Representatives of Lincoln, seized by regulators in April, emphatically denied any knowledge of the tampered line.

"We were suspicious of what was going on," William Crawford, commissioner of the California Savings and Loan Department, told the House Banking Committee. "They seemed to know what we were thinking. When we asked for something, they'd have the answer ready. We wondered how they could supply the answers so fast."

The rigged line, set up in an office that Lincoln had dedicated to the state examiners who were continually going over Lincoln's books, was discovered by investigators after the Federal Deposit Insurance Corp. seized Lincoln on April 14.

"We felt they had some kind of special intelligence," Deputy Commissioner William Davis said. "They always seemed to know what we were going to do before we did it."

It is unclear, the witnesses said, how long the phone line had been "compromised," or whether anyone ever eavesdropped on their conversations.

"I have talked to corporate management and they have told me they never authorized or participated in any bugging or phone-tampering of any kind," said Keating's lawyer, Leonard Bickwit.

He added, without providing examples, that "The hearings have been riddled from the start with factual inaccuracies. These have become so pervasive that they may well undermine the committee's purpose in holding the hearings."

The hearings, which resume next week, were called to unravel a mystery that will cost taxpayers hundreds of millions of dollars: why regulators delayed taking action against Lincoln for two years, despite having evidence of its unsound investment practices in 1987.

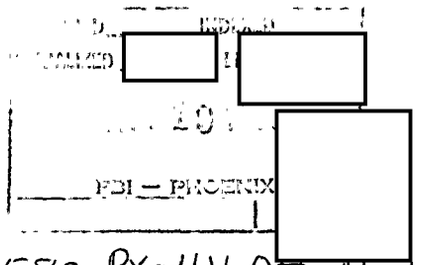
"That's the $64 question," said William Black, acting district counsel for the Office of Thrift Supervision in San Francisco. "Why did the bank board do what it did? I don't know the answer."

The House Banking Committee, which has heard many tales from regulators about the political pressures and bullying tactics that Keating allegedly used to thwart their investigations, took the news of the bug in stride.

Several times before the hearings, Gonzalez characterized the Lincoln case as "mini-Watergate."

The regulators also testified Thursday that the examiners at Lincoln were so concerned about potential leaks of information to Keating that they started using pay telephones instead of the phones at Lincoln's headquarters, to talk to superiors in San Francisco.

After the takeover, investigators swept the premises for phone taps and other electronic listening devices. Two tampered phone lines were discovered late April 21, a Friday, according to a confidential report that was released to the committee. But when investigators returned to Lincoln to conduct further tests April 23, they discoverd that one of the two tampered lines had been deactivated.



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P. 1, 16
The Orange County Register

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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 a takeover," said Karl Hoyle, spokesman for the office.

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

Particulary 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

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.

Indicate page, name of newspaper, city and state

Date 10/26/89
Edition

Title

Character
or
Classification
Submitting Office

Indexing

FBI Probing Report of Payment Scheme at S&L

By JAMES S. GRANELLI
and RONALD J. OSTROW
TIMES STAFF WRITERS

FBI agents are questioning former officers and employees of Irvine-based Lincoln Savings & Loan to determine if top executives were paid excessively high salaries with the understanding they would contribute some of that money to political candidates, sources familiar with the federal investigation said.

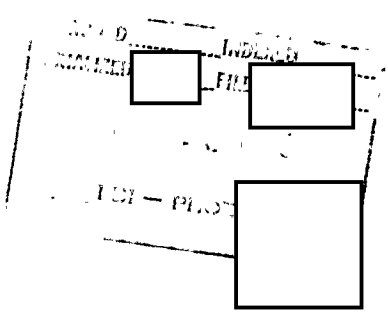
The inquiries involve a larger number and broader group of people than previously reported, the sources said. It was reported earlier this week that the FBI has quizzed state and federal regulators about their knowledge of any scheme to funnel corporate assets to political campaigns.

Creditors who lost millions of dollars in the April collapse of Lincoln and bankruptcy of its parent firm, American Continental Corp. in Phoenix, have claimed in lawsuits that political donations helped American Continental Chairman Charles H. Keating Jr. wield influence over regulators and keep the S&L alive about two years beyond the point it should have been seized.

"There's no question there's an extensive investigation going on," said Bradley J. Boland, an American Continental spokesman. "At least 30 people we know of have been interviewed by the FBI. But they all told us that they said their contributions were purely voluntary and that they were not reimbursed at all."

Campaign contributions are expected to be one of the topics at a hearing today before the House Banking Committee, which is investigating what could become the costliest failure in thrift history. Taxpayers are likely to pay $1.1 billion to $2 billion to repair the damage.

An American Continental spokesman vehemently denied that executives were paid high salaries for the purpose of financing political contributions and circumventing campaign laws that



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limit contributions to $1,000 per person.

He also denied there was pressure on any employee to contribute money to politicians, though Keating encouraged them to support the candidates of their choice.

Keating and about 75 family members, employees and business associates contributed more than $700,000 in campaign contributions to 37 politicians. More than $300,000 of that went to Sen. Alan Cranston (D-Calif.) and four other U.S. senators, all of whom intervened with federal regulators on behalf of Lincoln.

In addition, Cranston solicited $850,000 from Keating for three voter registration groups, including one headed by Cranston's son, Kim.

One of the witnesses expected to testify today before the Banking Committee had been quoted in a newspaper report earlier this week as saying Lincoln laundered campaign funds illegally. But the witness, William J. Crawford, commissioner of the state Department of Savings and Loan, said he was misquoted.

Crawford also said an FBI document referring to his conversation with a Lincoln executive contained substantial errors. "I don't know that there was any order to pay anything to anyone, and no absolute suggestion that executives had to make contributions," he said.

Crawford said that if asked, he would explain to the Banking Committee what he knows about employee contributions to political campaigns.

Employees and executives interviewed shortly after Lincoln's collapse said then that they were never pressured into making contributions, though they sometimes arrived at work to find solicitations from political or religious groups on their desks.

"We can categorically deny that people were paid in order to make campaign contributions," the American Continental spokesman said. "They were not reimbursed and not forced to do it. Any campaign contributions made by employees was made absolutely voluntarily."

FD-350 (Rev 5-8-81)

(Mount Clipping in Space Below)

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

Date: LOS ANGELES TIMES
Edition: FRONT SECTION, PAGE 1
Fri., Oct. 27, 1989

Title: TOP REGULATOR BLOCKED S&L SEIZURE, PANEL TOLD

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Submitting Office: LOS ANGELES

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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.

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(Indicate page, name of newspaper, city and state.)
Daily News
Los Angeles, CA
Date: Monday, Oct. 30, 1989
Edition: Front Section, pg. 1 & 8

Title: Keating's Influence Called Wide, Deep

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or
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LOS ANGELES

Indexing:

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

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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"

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

(Mount Clipping in Space Below)

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.

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

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Title: CRANSTON DEFENDS LINCOLN ACTIONS

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DAILY NEWS
SAN FERNANDO, CA

Date: THURS., NOV. 30, 1989
Edition: VALLEY PG. 18

Title: CRANSTON SAYS HE WON'T RESIGN OFFICE; EXPECTS RE-ELECTION

Character:
or
Classification:
Submitting Office: LOS ANGELES

Indexing:

Cranston says he won't resign office; expects re-election

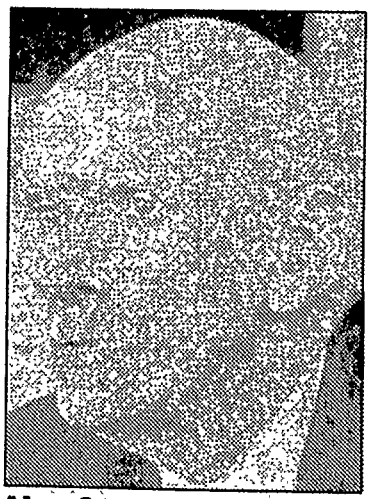
By PATRICK McGREEVY
Daily News Staff Writer

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.

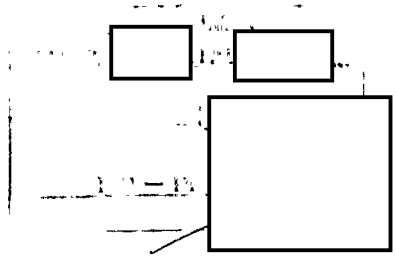
The five senators including Cranston received $1.3 million in political contributions from Keating, who is chairman of Lincoln's parent company.

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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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.)

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LOS ANGELES TIMES
LOS ANGELES, CA

Date:
Edition: THURS., NOV. 30, 1989
DAILY PG. A32

Title: RIEGLE SAYS MEDIA MISREPORTS PROBE OF LINCOLN SAVINGS

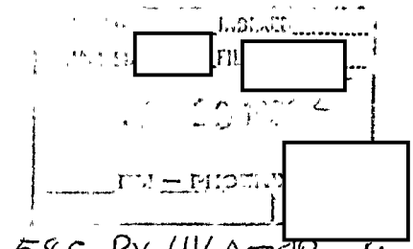
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(Mount Clipping in Space Below)

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 fundraising, 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

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

LOS ANGELES TIMES
Date: SUN. Nov. 26, 1989
Edition: OPINION SECTION, PAGE M4

Title: LINCOLN SAVINGS, CRANSTON LOSSES: PERCEPTIONS OF POLITICAL PROPRIETY

Character: BF&E
or
Classification:
Submitting Office: 80-33B

LOS ANGELES

Indexing:

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.

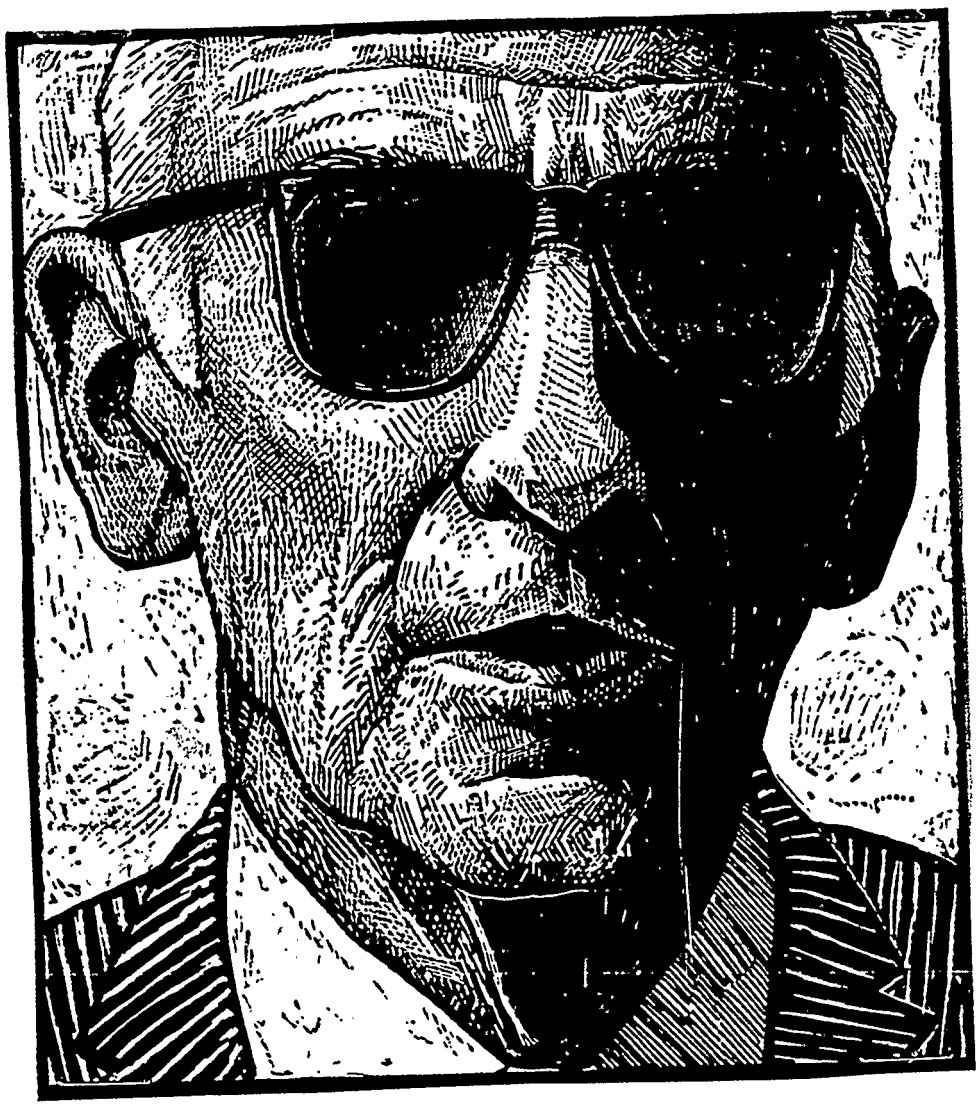
Most politicians, Cranston included, would never trade their vote for personal wealth but many have rationalized their corruption by arguing that taking money from special interests is OK as long as it's "for a good cause."

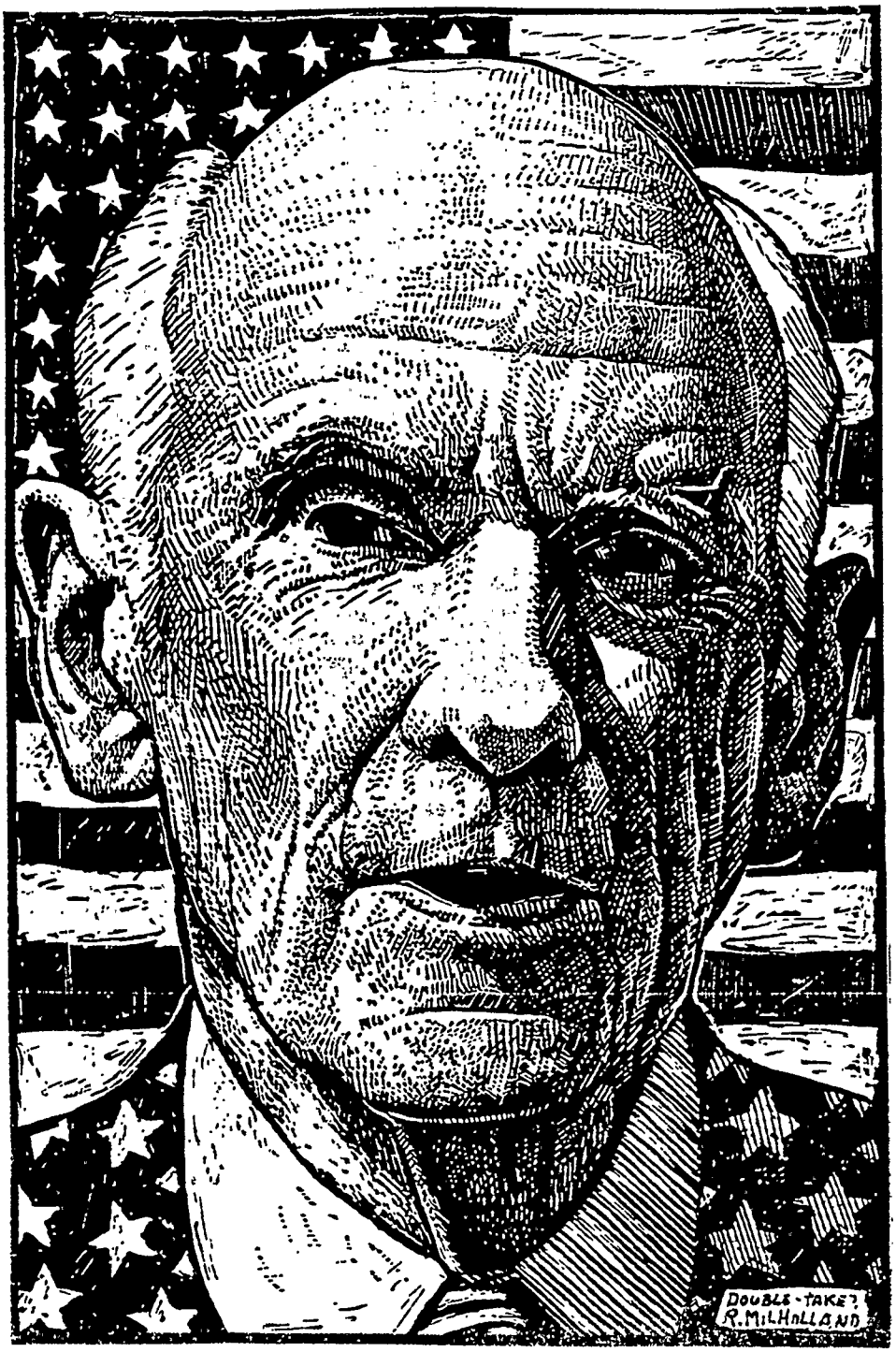
That may be Cranston's rationale for 20 years spent taking contributions from economic interests whose aims don't mesh with his liberal agenda; he wants to protect that agenda in an increasingly hostile political environment and that requires campaign money.

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




DOUBLE-TAKE?
R. MILHOLLAND

(Mount Clipping in Space Below)

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

LOS ANGELES TIMES
LOS ANGELES, CA

Date: THURS., NOV. 30, 1989
Edition: DAILY PGS. A3 & A32

Title: THRIFT OWNER CALLED A 'CON MAN'

Character:
or
Classification: BF&E
Submitting Office: 80-333
LOS ANGELES

Indexing:

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.

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"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.

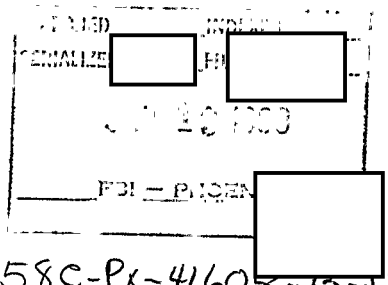
Asked at a press briefing if the White House planned to fire Wall, Fitzwater replied: "No, there's been no consideration of Mr. Wall's tenure. He's serving on the [office of thrift supervision] board, and there's been no change."

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



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(Rev 5-8-81)

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

Date: LOS ANGELES HERALD EXAMINER
Edition: 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.

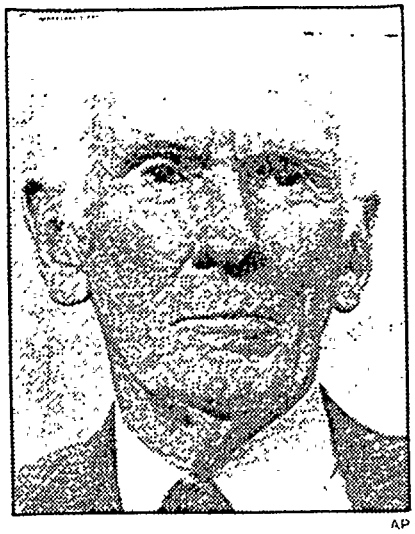
"I estimate that during the 20 years I have been in the Senate, I have helped 300,000 individuals and businesses cut through the red tape and delays of the federal bureaucracy," Cranston said. "After checking the facts as they were known at the time, I concluded that Lincoln had a legitimate complaint."

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

(Mount Clipping in Space Below)

(Indicate page, name of newspaper, city and state.)
THE WALL STREET JOURNAL
LOS ANGELES, PAGE 46 CALIFORNIA
Date 9/18/89
Edition

Title AMERICAN CONTINENTAL CHAIRMAN, OTHERS ARE SUED BY NEW FEDERAL THRIFT AGENCY
Character
or 56C-0101-615
Classification:
Submitting Office: SANTA ANA RA
LA DIVISION
Indexing:

American Continental Chairman, Others Are Sued by New Federal Thrift Agency

By Paulette Thomas
And Roy J. Harris Jr.
Staff Reporters of The Wall Street Journal

Launching a battle in a bitter war, federal regulators filed a civil lawsuit seeking more than $1.1 billion from American Continental Corp. Chairman Charles H. Keating Jr., various members of his family and officers and directors of the parent of California's Lincoln Savings & Loan Association.

The suit, filed Friday in U.S. District Court in American Continental's Phoenix, Ariz., headquarters city, alleges Mr. Keating and his family profited through insider dealing, illegal loans, sham real-estate and tax transactions, and the fraudulent sale of Lincoln stock to employees of the parent company. The suit also named a number of subsidiaries of American Continental, which itself was taken under Chapter 11 federal bankruptcy-law protection the day before Lincoln was seized by regulators last April.

Moreover, Mr. Keating and six of the other defendants Friday were charged with racketeering. Of the damages sought, $250 million stem from charges brought under the Racketeer Influenced and Corrupt Organizations law and could be trebled by the court.



Charles Keating Jr.

Although the suit alleges that Lincoln sustained total damages in excess of $1.1 billion, total damages could exceed $2.5 billion, according to an attorney familiar with the complaint.

In addition to naming Mr. Keating, the 160-page suit alleges wrongdoing by his wife, several of their children and their childrens' spouses, many of whom work for American Continental or its Lincoln unit, based in Irvine, Calif.

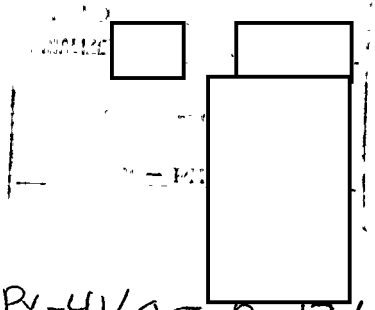
The action also names William Keating, Charles Keating's brother and a former judge and U.S. congressman from Ohio who more recently was publisher of the Cincinnati Enquirer. William Keating, who was an American Continental director for roughly one year, said he received a copy of the suit only yesterday and declined to comment until after reviewing it.

Charles Keating, the 66-year-old real-estate developer and heavy political contributor to candidates of both political parties, has vociferously complained that the government has waged a personal vendetta against him for repudiating its thrift-industry policies. He was said to be traveling and unavailable to comment over the weekend. But A. Melvin McDonald, a former U.S. attorney in Phoenix who represents American Continental and its principals, said the allegations in the suit are "trying to take things that are completely harmless and trying to make something sinister out of them." He said American Continental was "absolutely confident" that a jury would find in its favor.

Mr. McDonald said he was struck by "the mean-spirited nature of the lawsuit, which isn't surprising. It identifies personal members of Mr. Keating's family—wives, husbands—virtually seeking not only to destroy Keating but to destroy members of his family as well." He also charged regulators with leaking to reporters substantial portions of the suit as it was being prepared, saying that "we've now been defending this lawsuit for six weeks" in the press. Charging racketeering, he said, is an attempt "to get sex appeal in their case. These [defendants] aren't racketeers, these are people that are builders, that have been patriots of this country."

Charles Keating has said that American Continental's acquisition of Lincoln more than six years ago was designed to allow it to benefit from liberal California thrift rules that permitted high levels of direct investment in real estate, junk bonds and other activities potentially more lucrative for an S&L than the traditional thrift-industry home-mortgage vehicle.

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But the suit by Resolution Trust Corp.—the first it has filed since being signed into law by President Bush in August to oversee sales or mergers of the nation's insolvent thrifts—charges that Mr. Keating and American Continental acquired Lincoln as a way of using its government-insured deposits as a personal cache for real-estate deals. It says they engaged in circular transactions that benefited the Keating family and parent-company officials at the expense of Lincoln and the savings-and-loan deposit insurance fund.

For example, the suit contends that family members sold personal American Continental stockholdings to American Continental's employee stock ownership plan. Lincoln put up $15 million of its property as collateral for a loan that the ESOP needed to buy the Keating stock. The transaction resulted in a loss to Lincoln of $11 million, the suit says.

The suit also alleges that American Continental fraudulently siphoned funds from Lincoln, supposedly to pay the S&L's share of tax liabilities on certain loans. Regulators say that the loans actually were sham transactions, and that American Continental used the funds for other purposes besides paying taxes. The suit alleges that Lincoln sustained losses in excess of $125 million.

Lincoln also had losses of $76 million, the suit claims, in a series of loans involving Rancho Vistoso, a real-estate project near Tucson, Ariz. The suit says that the loans were granted without appraisals of the real estate, and that American Continental then drained profits from Lincoln through a complex series of transactions. For example, Lincoln sold an equity interest in the project to American Continental, a purchase the parent financed with proceeds of "illusory transactions with Lincoln subsidiaries," according to the suit.

Some specific allegations could provide a window on possible criminal charges that could be the next step in the legal entanglements between Mr. Keating and the federal government. An industry attorney familiar with the case said a grand jury in Los Angeles has been investigating the company for possible criminal charges, although prosecutors there decline to comment.

One case cited in the litigation Friday involved a sale of stock in **Memorex International** in which **Drexel Burnham Lambert** Inc. played a part. American Continental was a major customer of former Drexel junk-bond king Michael Milken.

The suit said Lincoln tried to sell the Memorex stock to its parent for $2.8 million, based on a fairness opinion it had obtained from Drexel, but S&L regulators rejected the sale. So, according to the suit, a Lincoln subsidiary sold the Memorex stock to a third party for $1 million, and then American Continental bought the stock for $2 million from the third party, and later resold it for $13.3 million.

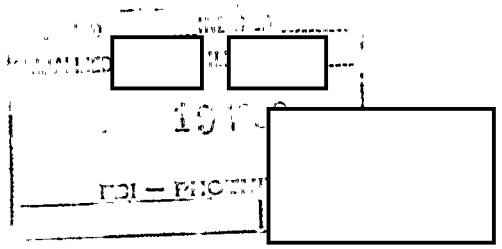
For his part, Charles Keating has filed suit in federal court in Washington, D.C., seeking Resolution Trust's removal as conservator of Lincoln. The RTC subsequently put Lincoln in receivership. His suit terms the April seizure of Lincoln's property unconstitutional. The company also has filed a $150 million suit against the regulators, accusing them of "a pattern of harassment and misrepresentation."

The RTC explained its legal action Friday by noting that "under the assignment given to us by the president and Congress to deal with the thrift industry crisis, we have a clear responsibility to take legal action where appropriate to reduce any losses to American taxpayers growing out of fraudulent financial activity."

Many industry consultants believe that the thrift could cost taxpayers as much as $2 billion by the time it is sold, merged or liquidated.

Mr. Keating, however, lately has been saying that there isn't much that could be recovered from him personally. The executive, who has been most active recently running the Phoenician luxury resort in the Arizona capital, contends that he has been selling off assets and that almost all his family's wealth is in the moribund stock of American Continental.

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58C-PV-41605-B-172

(Mount Clipping in Space Below)

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

Date: DAILY NEWS
Edition: FRONT SECTION, PAGE 1
Fri., Oct. 27, 1989

Title: WIRETAP REVEALED AT S&L

Character: or
Classification: 29A-LA-102007

Submitting Office: LOS ANGELES

Indexing:

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.

FBI/DOJ

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.

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

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

Date: 1/23/90
Edition: ARIZONA REPUBLIC

Title:

Character: 58C-PX-41605 Sub B
or 29A-LA-102009 Sub E
Classification: 80-307A
Submitting Office: PHOENIX

Indexing:

Thrift agency acts to avert Keating repeat

Staff must tell of contacts by public officials

By Sam Stanton
Republic Washington Bureau

WASHINGTON — The new federal agency selling off assets of failed thrifts is taking no chances of a repeat of the "Keating Five" controversy, in which five U.S. senators met with regulators in behalf of Charles H Keating Jr. and his Lincoln Savings and Loan.

The Resolution Trust Corp., mindful of claims that the senators improperly intervened with regulators in behalf of Keating, has drawn up an extensive policy requiring all its employees to report any contacts made by public officials.

Spokeswoman Nancy Schertzing said the agency's director, David Cooke, issued a memo Tuesday detailing the new policy, which she described as "standard operating procedure," to avoid charges of political favoritism.

A five-page draft, released Wednesday at a congressional hearing, says the policy is intended to "avoid political favoritism and undue influence." It requires strict reporting of all such contacts, including:

- The logging of all telephone calls from officials seeking information or action on an S&L under the Resolution Trust Corp.'s control.
- Referral of most inquiries to a special office in the agency.
- Immediate referral to the corporation's new Special Committee on Political Influence, when political interference is suspected.

The new policy comes amid a move, spurred by the Keating affair, toward ethics reform in Congress.

In the Keating case, the five senators, including Democrat Dennis DeConcini and Republican John McCain, both of Arizona, met with regulators to ask why an audit of Phoenix financier Keating's thrift was taking so long.

No official record

The first meeting, involving the two Arizona senators and two others, took place in April 1987 with no staffers present. No official record exists of what took place or even who set up the session in DeConcini's office.

Former Federal Home Loan Bank Board Chairman Edwin Gray, who says he was summoned to the meeting to explain the Lincoln audit, has charged that DeConcini tried to offer him a deal in which the California thrift would change its investment practices if the bank board would ease up on the S&L.

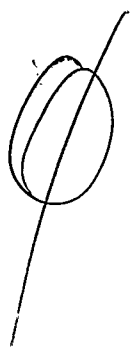
All four senators in the first meeting deny that such a deal was offered.

The second meeting occurred a week later between five senators and the regulators conducting the audit of Lincoln. The only record of that session is an unofficial transcript created from notes one of the regulators took during the meeting.

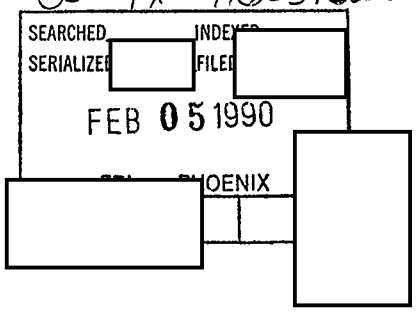
Lincoln was declared insolvent and seized by federal regulators last year.

Variety of probes

Gray and other regulators have said they considered the meetings



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highly unusual, particularly because no staffers for either the senators or the regulators were present at the sessions.

Since then, numerous questions have been raised about whether the senators were improperly interfering in behalf of Keating, a large campaign contributor. The Senate Ethics Committee has launched a preliminary investigation, and the FBI and other federal agencies are pursuing probes.

Until recently, it had been a common practice for members of Congress to contact regulators in behalf of thrift owners to make various inquiries. Such a move led, in part, to last year's resignation of Democratic House Speaker Jim Wright.

To avoid such problems in selling off the assets of hundreds of failed thrifts, the Resolution Trust Corp. now is requiring the presence of at least two agency officials, including at least one senior-level person, in meetings with public officials. It also is mandating that notes be taken at all such meetings.

Agency draws fire

The draft of the new policy was released as the House Banking Committee continued hearings Wednesday on the bailout of the nation's S&L industry.

During the session, Resolution Trust Corp. Chairman L. William Seidman deflected criticism from some members who said the agency is moving too slowly to sell off the assets of failed thrifts.

Rep. Frank Annunzio, D-Ill., complained that the failure to quickly sell off assets will force the agency to ask for even more money to pay off the debts of the failed S&Ls. About $50 billion already is allocated for the thrift bailout.

"I suggest that instead of picking the pockets of the taxpayers, the RTC should develop working capital by selling assets," Annunzio said.

However, other members of Congress, including some from Arizona, have asked Seidman to move cautiously rather than dumping property in a "fire sale" of assets and land that would slash property values in the states where land was unloaded.

Seidman acknowledged that his agents so far have disposed of the assets of only 40 of the 333 thrifts for which it is now conservator and that hundreds more are likely to fail in the coming months.

But he added that he is moving carefully in the disposal of assets and is caught between two factions.

"On the one side are the anti-dumpers, and the other side are the fast sellers, and somewhere between there, we have to sneak through," he said.

Seidman — who also serves as chairman of the Federal Deposit Insurance Corp., a post he assumed after leaving his position as business-administration dean at Arizona State University — hinted that he might not remain in government service much longer.

Responding to a question from a panel member about rumors that he is leaving, Seidman said, "I've already told you that the job is not totally attractive in either pay or working conditions. ... I guess I'll stay as long as I can stand it, and I can't tell you how long that will be."

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State's senators on list of Congress' richest

DeConcini No. 9 with $20 million, McCain is 30th

By Sam Stanton
Republic Washington Bureau

WASHINGTON — Arizona Sens. Dennis DeConcini and John McCain are among the 33 richest members of the House and Senate, a new survey claims.

DeConcini is ranked as the ninth-richest of the 535 members of Congress, with an estimated personal worth of $20 million, according to *Roll Call*, a Capitol Hill newspaper.

McCain is listed as having a personal fortune of $2.9 million, tying him with three others as the 30th-richest.

An aide to DeConcini, a third-term Democratic senator whose wealth stems from his years of real-estate speculation, said DeConcini's wealth actually is about half of that claimed in the survey.

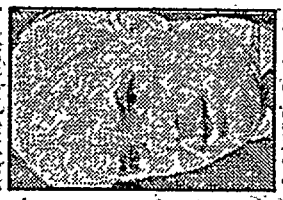
It's bizarre, aide Bob Maynes said. "I'm sure he'd love to have an instantaneous 100 percent increase in his net worth, as would anybody. But printing it in *Roll Call* doesn't make it so."

McCain, a Republican who entered the Senate in 1987 after two House terms, tied with Democratic Reps. Harry Johnston of Florida, Jack Brooks of Texas and Nita Lowey of New York on the list of the 50 richest members of Congress.

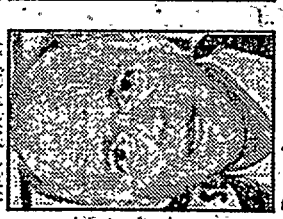
Most of McCain's wealth comes from his marriage to Cindy Hensley, whose father owns a beer distributorship in the Phoenix area.

The newspaper put Sen. John

— See DeCONCINI, *page A8*



John McCain / Is tied with three others as the 30th-richest member of Congress.



Dennis DeConcini / Is ranked as the ninth-richest of the members of Congress.

DeConcini is 9th, McCain 30th on list of Congress' richest

— DeCONCINI, *from page A1*

Heinz, R-Pa., heir to the H.J. Heinz food company, at the top of the list with an estimated personal worth of $460 million.

The survey is based upon financial-disclosure reports all members of Congress must file, as well as from "other sources," said the newspaper, which is read widely on Capitol Hill.

It is difficult, however, to tell from the reporting forms just how much each member is worth because they do not require detailed listings.

DeConcini, who consistently provides the most-detailed financial reports of those filed by Arizona's seven-man delegation, lists his assets at nearly $16 million, with income-tax and other liabilities of more than $6.2 million.

"DeConcini hides nothing and has never hidden anything in a blind trust," Maynes said.

McCain's personal worth is more difficult to ascertain because the senator uses standard reporting forms that require members to list only a range of the value of their assets.

Scott Celley, a spokesman for McCain, said the senator and his staff had not seen the *Roll Call* survey because they were at a meeting in Annapolis, Md., and could not comment on the its accuracy.

Despite the questions, DeConcini generally is considered one of the wealthiest members of the Senate. However, some of that wealth has been depleted by DeConcini's involvement with former Lincoln Savings and Loan owner Charles H Keating Jr. and the subsequent Senate Ethics Committee probe into the affair.

DeConcini returned $81,000 in contributions he had received from Keating and Keating's associates since 1982 and spent $190,000 on a media blitz in Arizona to explain the Keating saga to voters.

McCain also shelled out money because of the Keating affair, repaying Keating more than $13,000 for trips the senator and his family took to Keating's resort home in the Caribbean.

McCain has declined to return

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Cranston would let Lincoln investors sue U.S.

Measure will target bondholders with no other remedy

The Associated Press

LOS ANGELES — Sen. Alan Cranston said Monday that he will introduce legislation to allow investors to sue the government if they fail in other efforts to recover losses from worthless junk bonds sold at Lincoln Savings and Loan Association.

Cranston said his legislation, to be introduced this week, would allow about 23,000 bondholders to file suit against the U.S. government if they are unsuccessful in suits against Lincoln, its parent company, Phoenix-based American Continental Corp., and American Continental Chairman Charles H Keating Jr.

The government usually is immune from such suits, but Cranston said there are precedents allowing suits in cases of government negligence.

"Documents I have received from the Office of Thrift Supervision in Washington and the General Accounting Office are clearly enough evidence on which to bring a case of negligence against the government," the California Democrat said.

He spoke at the latest in a series of news conferences intended to deflect blame that had been aimed at him for investor losses stemming from Lincoln's collapse last year.

Cranston, Senate majority whip, is one five senators under investigation by the Senate Ethics Committee for intervening with regulators in behalf of Keating. The five, who include Sens. Dennis DeConcini, D-Ariz.; John McCain, R-Ariz.; Donald Riegle, D-Mich.; and John Glenn, D-Ohio, received a total of $1.3 million in campaign contributions from Keating and his family.

Three recent polls show Cranston's popularity with California voters has plunged to its lowest level since he came to the Senate in 1969, but he has promised to seek re-election next year.

By focusing on the bondholders, he hopes to disarm one of the most personally damaging allegations against him — bondholders' testimony before a House committee that his intervention for Keating made him partly responsible for their losses.

State and federal officials say the bondholders, mostly Los Angeles-area retirees, were targeted by Lincoln to switch nearly $200 million of federally insured deposits into the uninsured junk bonds, which now are worthless. Cranston said investors were victims of bait-and-switch tactics that regulators should not have allowed.

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Senator introducing reform bill to stop 'fat cats like Keating'

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Republic Washington Bureau

WASHINGTON — Sen. Mitch McConnell, R-Ky., reacting to Phoenix developer Charles H. Keating Jr.'s habit of pumping huge contributions into campaign war chests nationwide, said he will introduce a bill today "to stop the campaign-financing abuses of political fat cats like Keating."

McConnell said Monday that the scandal swirling around the developer and the "Keating Five" senators calls for sweeping changes in the nation's campaign-finance laws.

The bill will include restrictions against the "bundling" of contributions from groups to individual candidates, McConnell said.

Special interests commonly coordinate contributions from their associates to raise as much as possible for certain candidates. Keating and his associates have raised massive amounts for candidates across the nation, including Sens. Dennis DeConcini, D-Ariz., and John McCain, R-Ariz.

In one instance during the 1986 campaign, McCain's office received dozens of checks in one bundle, totaling more than $50,000 in Keating-related contributions.

McConnell said that his bill is "targeted directly at the alleged abuses of the Keating affair" and that "the call for reform never has been more compelling in the wake of these revelations."

DeConcini, McCain and three other senators are embroiled in a Senate Ethics Committee probe of whether they were unduly influenced by contributions from Keating and his associates. The Federal Election Commission also is investigating, at McCain's request, whether any of the contributions were improper. The five senators have denied any wrongdoing.

Numerous campaign-reform bills are expected to be introduced in the new session.

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

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DeConcini media blitz is berated

Demand made that Keating 5 talk to House

By Sam Stanton
Republic Washington Bureau

WASHINGTON — The "Keating Five" senators came under renewed attack Tuesday, with a harsh demand that they be called to testify before Congress on their involvement in the Lincoln Savings and Loan scandal.

A member of the House Banking Committee singled out Democratic Sens. Dennis DeConcini of Arizona and Alan Cranston of California, for specific criticism. Rep. Toby Roth, R-Wis., said DeConcini and Cranston should tell their story to the committee rather than spending time and money on public-relations campaigns.

Roth's request to subpoena the five senators was denied. But his comments were the strongest yet to be leveled against the senators by a fellow member of Congress.



Toby Roth / "I have to ask — I'm compelled to ask — 'Where are the senators?' "

"I see they're spending $190,000 to reframe the issue," Roth said, referring to DeConcini's media blitz in Arizona two weeks ago.

"He ought to come before this committee."

The House Banking Committee is probing the collapse of Charles H Keating Jr.'s former thrift.

Roth said that Cranston should be ashamed for announcing Monday that

— See DeCONCINI, page A9

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DeConcini PR campaign berated by House member

—DeCONCINI, *from page A1*

he would push a bill to allow the 23,000 holders of the Keating-issued bonds eventually to sue the U.S. government to recoup their losses. Cranston last year was assailed by Californians who put their life savings into the now-worthless bonds.

"One senator before this committee was criticized for getting some 23,000 people into trouble, and now he's asking the taxpayers to bail these people out," an exasperated Roth said. "I mean, doesn't the man have no shame?"

Roth, who has fought unsuccessfully for months to have the panel call the senators to testify, also said the committee should call DeConcini to explain his claim that Edwin Gray, the former Federal Home Loan Bank Board chairman, lied to the panel in December.

"I have to ask — I'm compelled to ask — Where are the senators?" Roth said. "When a senator calls a press conference and states point-blank that a witness under oath lied before this committee, that is a challenge to this committee, and the senator ought to either voluntarily come or be subpoenaed."

DeConcini spokesman Bob Maynes said the senator will testify if called by Rep. Henry Gonzalez, D-Texas, chairman of the Banking Committee.

Gonzalez has said for months that he sees no need to call the senators, and he rejected Roth's request.

"I'll leave that up to higher powers," Gonzalez said, pointing out that the Senate Ethics Committee already is probing the activities of the five senators.



Sens. Dennis DeConcini (left) and Alan Cranston have been further criticized for spending time and money on public-relations campaigns.

Cranston spokesman Murray Flander did not respond to a request for comment, but Cranston said in introducing the bill Tuesday that the bondholders were the victims of "negligence by various federal agencies and instrumentalities" that permitted the sale of the bonds by Keating's American Continental Corp.

"As their senator, I consider it as if members of my own family had been stripped of their life savings," Cranston said.

DeConcini, Cranston and the other three senators — Republican John McCain of Arizona and Democrats John Glenn of Ohio and Don Riegle of Michigan — each accepted large Keating-related contributions and intervened with federal regulators in Keating's behalf. Some regulators have said the senators' action delayed the seizure of Lincoln, allowing it to rack up higher losses.

Roth's made his demand at the start of a new round of hearings on the failure of Lincoln, which the federal government seized April 14.

The committee held several hearings last fall on the thrift, which may cost more than $2 billion to bail out, and the panel agreed Tuesday to continue the hearings by issuing subpoenas to three new witnesses.

Those three, indicted junk-bond pioneer Michael Milken and Arizona businessmen Fernando Acosta and Ernie Garcia, had ties to Lincoln.

However, panel members acknowledged that at least two of them — apparently Milken and Garcia — probably would refuse to testify. Garcia invoked his Fifth Amendment rights against self-incrimination earlier this month in a court hearing. Acosta agreed to testify in a suit in which Keating is trying to regain control of Lincoln.

The House panel also heard a request that Keating be asked again to testify. The Phoenix businessman cited his Fifth Amendment rights before the committee late last year and declined to testify. But since then, he has given press interviews on Lincoln and testified in his court suit.

Gonzalez said he did not believe it is necessary to call Keating again, adding that enough information can be gleaned from his associates and from federal regulators.

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Keating chooses TV to tell his story

By Michael Murphy
The Phoenix Gazette

WASHINGTON — Charles H. Keating Jr. is stepping up his national media blitz to "get the word out" about his handling of Lincoln Savings & Loan and his involvement with five senators under fire for their dealings with the Phoenix developer.

Keating, who appeared on CBS-TV's "Meet the Press" last week, will be a guest on CNN's "Crossfire" news talk show tonight and on ABC's "Good Morning America" program Friday (KTVK-TV, Channel 3).

Bradley Boland, American Continental Corp. spokesman and a Keating son-in-law, said the appearances are part of an effort to use "selective opportunities" for Keating to counter allegations that he looted Lincoln for his own enrichment.

"What I really want to accomplish more than anything is to humanize Charlie Keating, and for the American people to understand who he is and why we are where we are," Boland said.

"Charlie really wants to get his word out," he added. "I think the most compelling thing is that this is a $500 billion problem (the savings and loan crisis), and the blame should not be shouldered by Charlie

See Keating, A-14

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Keating

Keating. I don't think the American people understand that."

The CNN half-hour program will air at 5:30 p.m. (Phoenix time).

During his appearance on "Meet the Press," Keating blamed regulators for precipitating the nation's S&L crisis and claimed the problem could have been avoided if regulators had listened to him and five senators for whom he raised more than $1 million.

Boland denied that Keating was on a national campaign but indicated the American Continental chairman is inclined to live TV rather than the print media.

"That just hasn't worked for us," Boland said. "I'm not saying that at some point we won't, but I think we're going to be real selective."

By agreeing to face the TV glare, Keating is joining other subjects of the controversy who have gone on the offensive recently to counter allegations of impropriety in the Lincoln affair.

Sen. Dennis DeConcini, D-Ariz., launched a $190,000 television and newspaper advertising campaign in Arizona to counter allegations that he acted improperly by intervening with regulators on behalf of Keating. Others, including Sen. John McCain, R-Ariz., and Sen. Alan Cranston, D-Calif., also have turned up their public relations efforts.

In a related development, an attorney for Phoenix businessman Ernie Garcia said the real estate investor, who invoked his constitutional right to avoid self-incrimination in federal court, might testify before the House banking committee when it resumes hearings next week on the failure of Lincoln.

In a federal court hearing earlier this month, Garcia refused to testify when called by government attorneys, who had touted him as a key witness in their case against Keating's handling of Lincoln.

Garcia, chairman of the now-defunct WestContinental Mortgage Co., was a key player in several land deals the government claims were "sham" transactions involving Keating and American Continental, which is based in Phoenix.

The House panel, which began its probe of Lincoln in October, voted earlier this week to subpoena Garcia, Tucson real estate dealer Fernando Acosta and indicted junk bond whiz Michael Milken.

Garcia and Acosta are expected to respond to allegations that they were involved in transactions that helped Lincoln post phony profits, while Milken has been called to discuss Keating's investments in junk bonds.

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'I'm broke': Keating blames regulators

Drive heats up for campaign reform

By Sam Stanton
Republic Washington Bureau

WASHINGTON — Charles H. Keating Jr., the multimillionaire Phoenix developer caught in the scandal over the failure of his Lincoln Savings and Loan, said Thursday that he is "flat broke" and blamed the government for most of his problems.

Meanwhile, Common Cause on Thursday stepped up its effort to force Congress to reform federal campaign-finance laws, citing the need to replace the "unlimited appetite for Keating-style special-interest contributions."

Keating, who faces numerous civil and criminal probes of his activities as owner of Lincoln, also said he hopes to do everything he can to help repay the 23,000 individuals who bought bonds in Lincoln offices from American Continental Corp., Keating's Phoenix-based flagship firm.

"They haven't lost it," Keating said. "We're still in the fight. Nothing grieves me worse. When they lost, I lost.

"You know, when people say I'm a millionaire, I'm not. I'm broke. My family and I are flat broke. When the shareholders and bondholders lost their money in American Continental Corporation, so did I."

Keating, who has become the lightning rod for criticism in the failure of the nation's savings and loan industry, made his remarks during CNN's *Crossfire* program as part of his public-relations program to clear his name.

He is scheduled to appear today on ABC's *Good Morning America*.

Keating blamed the Federal Home Loan Bank Board, which once oversaw the thrift's operations and which he called a "big bully," for much of the troubles he faces, including a $1.1 billion federal lawsuit claiming he looted the thrift.

He denied claims that the 23,000 individuals who purchased American Continental bonds were told by Lincoln officials that they were government-insured, branding such talk as a "flat-out lie."

Holders of the now-worthless bonds told the House Banking Committee that they were led to believe the bonds were federally insured and that the failure of Lincoln wiped out their savings, but Keating denied that.

Keating also said that his contributions to politicians, which have sparked a Senate Ethics Committee probe of five senators, including Democrat Dennis DeConcini and Republican John McCain, both of Arizona, were part of an effort to get better regulation of the thrift industry.

Common Cause, which long has advocated campaign reform, turned up the heat on Congress in a blunt letter sent to all lawmakers.

Common Cause President Fred Wertheimer highlighted the controversy surrounding Keating as the central reason that reform is needed.

"The Keating affair dramatically illustrates the importance of replacing the current system and its ... unlimited appetite for Keating-style special-interest contributions," he wrote.

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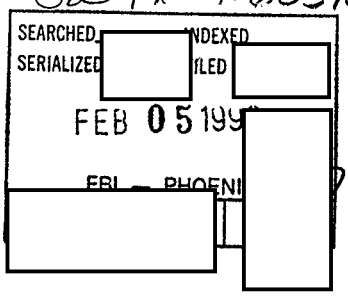
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In the drug czar's shadow

His brother investigates 'Keating 5'

By Anne Q. Hoy
Republic Washington Bureau

WASHINGTON — Attorney Robert Bennett is juggling the political fortunes of five powerful lawmakers with a combined Senate tenure of more than half a century.

The portly and lesser-known brother of drug czar William Bennett was hired by the Senate Ethics Committee in November to conduct the largest single ethics inquiry in Senate history, probing the "Keating Five."

Bennett and numerous others connected with the ethics inquiry will not discuss the case. But it is clear the veteran attorney has been granted extraordinary power. He can subpoena outside witnesses, senators and regulators, and request documents of all kinds.

A stack of one-page subpoenas already has been issued and boxes of documents are being gathered. Those Bennett intends to call to testify, sources said, include top thrift regulators, Phoenix financier Charles H. Keating Jr. and the Keating Five: Sens. Dennis DeConcini, D-Ariz.; John McCain, R-Ariz.; Alan Cranston, D-Calif.; Don Riegle, D-Mich.; and John Glenn, D-Ohio.

At issue is whether the senators improperly intervened with federal thrift regulators in behalf of Keating, who raised more than $1.3 million for their political campaigns.

A tough 'lawyer's lawyer'

Bennett, a partner in a prestigious Washington law firm, specializes in defending white-collar criminals. He is praised as a "lawyer's lawyer" — "scrupulously fair," but tough.

"It almost sounds oxymoronic to talk about a smart, aggressive lawyer who's decent," said Leonard Garment, a prominent Washington lawyer who defended Richard Nixon at the time of the Watergate scandal.

Bennett, 50, is no newcomer to Senate ethics probes. He has been at the center of the Senate's major ethics cases for almost a decade.

In 1981, he first made his mark with a case against then-Sen. Harrison Williams, D-N.J., whose conviction in the Abscam influence-peddling scandal led to a committee recommendation that he be expelled from the Senate. Williams resigned just hours before a Senate vote.

Bennett also is heading up an investigation into whether Minnesota Sen. David Durenberger, R-Minn., attempted to circumvent Senate limits on outside income in a book-publishing deal and improperly accepted reimbursement for staying in a Minnesota condominium that he owns.

Reed Weingarten, a former U.S. Justice Department prosecutor, called Bennett "a rare combination of an exceptional courtroom lawyer and someone who is scrupulously fair and honorable."

Kenneth Feinberg, who defended Williams in the Abscam case, called Bennett a "hard-nosed" but "eminently fair opponent."

Garment said Bennett likely will treat each senator in the Keating probe individually.

"He will not cater to a pre-existing preconception of what is involved. ... They are five different people who, like passengers on the same plane, happened to be on board when the plane blew up," Garment said.

Tactics 'sleazy,' some say

Bennett is widely viewed as a lawyer who aggressively protects his clients' rights. He twice has accused prosecutors of misconduct.

For that, he apparently has not won friends in some quarters.

"My mother told me, 'If you have nothing nice to say about someone, don't say anything,'" said a prosecutor who has been up against Bennett.

The prosecutor said privately that Bennett is not above "sleazy tactics," but he conceded that Bennett is a tough, witty and talented litigator.

The Washingtonian magazine last summer listed Bennett among the

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ROBERT STEPHEN BENNETT

PERSONAL: Born Aug. 2, 1939, in Brooklyn, N.Y. Married, with three daughters. Lives in McLean, Va.

EDUCATION: Harvard Law School, 1965. Georgetown Law Center, 1964. University of Virginia Law School, 1961-62. Georgetown University, bachelor's degree, 1961.

PROFESSIONAL EXPERIENCE: Partner, Washington firm of Dunnells, Duvall, Bennett & Porter, since 1975. Associate, Washington firm of Hogan & Hartson, 1970-75. Assistant U.S. attorney for District of Columbia, 1967-70. Law clerk to U.S. District Judge Howard Corcoran, 1965-67.

HOBBY: Fly-fishing near vacation home in Livingston, Mont.

city's top white-collar-crime lawyers, calling him a "top-flight criminal litigator" and "skilled at both deal making and trial work."

Bennett also defended Howard Teicher, a former National Security Council official, during the Iranian-contra scandal; defended Boeing Co. against charges it had improperly obtained classified documents; and defended former Navy Secretary John Lehman in a civil case brought against him by a former Washington lobbyist for Raytheon Co.

In 1980, he worked for the Senate Foreign Relations Committee on the nomination of Alexander Haig as secretary of state.

Mediocre student

Born in Brooklyn, N.Y., on Aug. 2, 1939, Bennett attended a Jesuit high school, where he was a mediocre student with a gift for debating. The Bennett brothers moved with their mother to Washington in 1957 when their parents divorced.

Bennett began college at Georgetown University as a medical student, but abandoned the pursuit when he discovered that he loathed chemistry and cut classes to watch cases being tried in area courts.

In the 1970s, he sat on a county Democratic Party committee in a Virginia suburb of Washington but increasingly moved toward the Republican Party after his brother joined the Reagan administration as education secretary.

William Bennett said a standing joke revolves around his having eclipsed the notoriety of his older brother because of his posts with the Reagan and Bush administrations.

"For almost 20 years, I was the brother of Bob Bennett; now he's the brother of Bill," William Bennett said.

But the change has not stopped Robert Bennett from giving his brother advice.

The elder Bennett summoned his brother to his office after William was appointed to Reagan's Cabinet. He pointed to a fish mounted on the wall.

"You know how he got there?" Robert Bennett said.

"He opened his mouth."

ETHICS PROBE WIDER THAN 1ST THOUGHT

The Arizona Republic has learned the following about the Senate ethics probe of the "Keating Five":

- Although it has been characterized as a preliminary step, Robert Bennett, the investigator, has launched a "thorough" probe and likely will seek a time extension when the clock runs out in late February.
- The role of each of the five senators in the affair is being reviewed separately. That could help Sens. John McCain, R-Ariz., and John Glenn, D-Ohio, who have contended that they played lesser roles in the affair. Under scrutiny are the reasons the senators attended two controversial April 1987 meetings with federal thrift regulators regarding Charles H. Keating Jr.'s Lincoln Savings and Loan Association.
- Bennett is not limiting the review to the senators' roles in the meetings, a point that could further damage all five senators, who had various other connections to Keating. Bennett is gathering information about each senator's personal, political and financial ties to Keating.
- The core of the case is viewed as where one draws the line between influence peddling and a lawmaker's simply helping a major employer in his state.
- Bennett reportedly is troubled that congressional ethics standards lag behind the rest of the country, a point that could play favorably for the senators, who have contended they have broken no rules. Senators legally can accept large campaign contributions from people with business before the Senate and the committees on which they serve.



Photopress International

Attorney Robert Bennett was hired by the Senate Ethics Committee to conduct the largest single ethics inquiry in Senate history, probing the "Keating Five."

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

(Mount Clipping in Space Below)

McCain's popularity suffers new losses, second poll indicates

By Steve Yozwiak
The Arizona Republic

A new poll suggests that Republican Sen. John McCain's popularity has slipped nearly as much as that of Democratic Sen. Dennis DeConcini because of their involvement in the Lincoln Savings and Loan scandal.

The Rocky Mountain Poll, taken the first week of January by the Behavior Research Center of Arizona, differs from an Arizona Republic Poll conducted at the same time that showed McCain being hurt far less than DeConcini by the senators' ties to Phoenix financier Charles H Keating Jr., Lincoln's former owner.

In addition, the Rocky Mountain Poll showed that McCain's approval ratings have slipped more than DeConcini's since October and that McCain's most recent ratings were worse among Republicans than Democrats.

"Unless McCain can patch up his image in the GOP, the findings suggest he could even be vulnerable to a primary challenge in 1992," Earl de Berge, research director for the Phoenix-based research center said in an analysis of the poll results.

The Rocky Mountain Poll showed McCain's excellent-to-good rating dropped in the past three months to 33 percent, from 44 percent, and his poor-to-very-poor rating doubled to 18 percent, from 9 percent.

DeConcini's excellent-to-good rating dropped to 34 percent, from 42 percent, and his poor-to-very-poor rating increased to 26 percent, from 20 percent.

"As of today, it appears that the senators are viewed as two peas in the same pod," de Berge said.

In contrast, the Republic Poll published Monday showed that those satisfied with McCain increased slightly — to 49 percent, from 48 percent — from November to January. But DeConcini had a much greater dissatisfaction rating — 41 percent to McCain's 29 percent.

DeConcini, McCain and three other senators came under fire last year for intervening in 1987 with federal regulators in behalf of Keating, who, along with his associates and their wives, contributed a total of $1.3 million to the five men. DeConcini has drawn stronger criticism in some circles because he is believed to be the ringleader of the so-called Keating Five.

De Berge declined to comment about the differences in the two polls.

However, de Berge said he was surprised by McCain's sudden drop in his poll because it followed a major press conferences in October in which McCain attempted to explain his conduct in behalf of Keating.

Wes Gullett, a McCain spokesman, declined comment on the Rocky Mountain Poll, which interviewed 700 Arizona residents, other than to say that its margin of error of 4 percentage points could partially account for the differences between the two polls. The margin of error in the Republic Poll was 3 percentage points.

But McCain confidant Jay Smith, a Washington political consultant, said he believes that the Republic Poll showed that "the damage has been staunched."

Ed Buck, a Republican political activist who is considering a recall campaign against both senators, said he "absolutely" agrees with the notion that McCain's popularity is dropping among Republicans.

DeConcini spokesman Bob Maynes said he believes DeConcini's negative ratings bottomed out in December before a recent $190,000 advertising campaign.

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DeConcini: $81,000 returned

2nd refund to Keating now unveiled

By Sam Stanton
Republic Washington Bureau

WASHINGTON — Sen. Dennis DeConcini, D-Ariz., apparently fed up with inquiries over his ties to Charles H Keating Jr., revealed Wednesday that he has returned a total of $81,000 in Keating-related campaign contributions.

DeConcini last fall said he had given back $48,000, money he had received for his 1988 campaign. On Wednesday, he disclosed that he also had returned $33,000 received for his 1982 campaign.

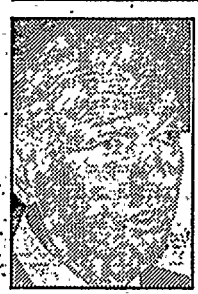
DeConcini, whose popularity has been savaged by continued disclosures about his ties to Keating, also stepped up his drive Wednesday to convince voters he has done nothing wrong.

The third-term senator said he was scouring his campaign contributions to see whether he had received money from anyone who may have benefitted from actions he took in their behalf as a senator.

The moves, disclosed in a press release and in a speech in Mesa, were in response to inquiries by *The Arizona Republic* over an amendment he once pushed that would have helped Keating's former thrift.

In his statement, DeConcini noted that he has responded to requests for legislative help from other groups and individuals, including Pat Murphy, the then-publisher of *The Arizona Republic* and *The Phoenix Gazette*.

DeConcini said he was releasing the information "because of continuous interest in my actions as a senator by investigative reporters."



Dennis DeConcini / Says there is "nothing illegal or improper about the contributions."



Charles H Keating Jr. / Controversy over his contributions spurred damage-control effort by DeConcini.

DeConcini said he had returned $33,000 to Keating and his associates that he had received for his 1982 Senate campaign.

"I returned it. I did it back in October," DeConcini told the Mesa Rotary Club on Wednesday. "People were asking, 'Is there something wrong with that?' And I returned it because I knew a reporter would ask, or might ask, might pose the question, that there's something wrong that you took campaign contributions in 1982 from Keating and his associates.

"This was before he owned a savings and loan, and I returned the money last October."

DeConcini said there was "nothing illegal or improper about the contributions."

DeConcini spokesman Bob Maynes said DeConcini had not mentioned the $33,000 before Wednesday "because no one asked."

The returned money came out of DeConcini's personal funds, as did the $190,000 that he spent on a media blitz of Arizona last week to convince

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$33,000 refund to Keating in fall revealed by DeConcini

$33,000, *from page B1*

voters he has done nothing wrong in his dealings with Keating.

The Senate Ethics Committee is investigating DeConcini, Arizona's other senator, Republican John McCain, and three other senators for their dealings with Keating.

The Keating affair also is the subject of a number of lawsuits and federal criminal probes.

McCain, a freshman senator, has declined to return the $112,000 he received from Keating sources, but DeConcini has taken the brunt of the beating over the ties to Keating.

A key aspect of the controversy over the senators' involvement with Keating is that DeConcini and the others met with regulators who were probing Keating and Lincoln.

DeConcini has said repeatedly that he held the meetings to see whether he could help a major Arizona employer, not because of the contributions.

In his three-page statement Wednesday, DeConcini described helping various other interests that also may have given him campaign contributions.

One involved the Arizona Newspaper Publishers Association and the publisher of *The Republic* and *The Gazette*. DeConcini said he was approached in 1988 by Murphy and introduced a bill at Murphy's request that would have aided newspapers in the state. He added that he is reviewing campaign records to see whether association members, lobbyists or lawyers contributed to him.

"If they did, it had nothing to do with my actions, notwithstanding any forthcoming allegations," he said.

He also said he had met in 1987 with Interior Secretary Donald Hodel to fight regulations that water interests and farmers in Arizona opposed and that he was checking to see whether he received money from those groups.

Maynes said DeConcini has no plans to return those contributions.

DeConcini also noted that he had entered into a voluntary agreement with the Federal Election Commission to admit an unintentional violation after his campaign sent out a mailer without the commission's requisite disclaimer.

The various disclosures appeared to be an attempt by DeConcini at damage control over further stories about his actions.

Contributing to this report was Don Harris of *The Arizona Republic*.

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(Mount Clipping in Space Below)

Keating charges vendetta, adds ex-regulator to suit

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By Anne Q. Hoy
Republic Washington Bureau

WASHINGTON — Charles H Keating Jr. on Thursday added former chief federal thrift regulator Edwin Gray as a federal-lawsuit defendant, accusing him of leaking confidential information that led to the demise of Lincoln Savings and Loan Association.

The suit, brought by Keating, alleges that federal regulators waged a vendetta against Keating's Irvine, Calif.-based thrift and leaked sensitive information about it to the press. Keating said regulators were opposed to 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, former head of the Federal Home Loan Bank Board, is vacationing in Europe and could not be reached for comment.

Gray is the chief accuser of the "Keating Five" senators, whose intervention with federal regulators in behalf of Keating in 1987 has come under Senate ethics scrutiny. Gray has come under increasing attack by two of the senators — Democrats Dennis DeConcini of Arizona and Alan Cranston of California.

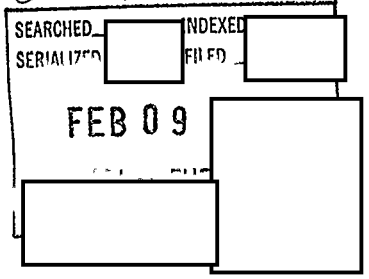
Cranston, in a series of appearances in California this week, branded Gray a "liar" and said he is "perpetuating an outrageous scam and getting away with it" in making false statements about the role of the five senators in behalf of Keating. DeConcini earlier this month also lashed out at Gray during a series of public appearances in Arizona designed to blunt the political damage of the Lincoln affair.

In testimony last fall before the House Banking Committee, which is probing Lincoln's collapse, Gray described the first of two unusual 1987 meetings in DeConcini's office among the senators and regulators. During the first meeting, he said DeConcini — accompanied by Cranston, Arizona Republican John McCain and Ohio Democrat John Glenn — pressed him to drop a federal investment rule that Keating vigorously opposed.

Keating said he was adding Gray to the list of five current and former federal regulators who are defendants in the suit based on the sworn testimony of Rosemary Stewart, a regulator with the Office of Thrift Supervision, before the House committee last fall.

Stewart testified that Gray and William Black, a San Francisco-based thrift regulator who already is a defendant in the suit, appeared to have a "hidden agenda" against Lincoln.

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FBI/DOJ

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(Mount Clipping in Space Below)

DeConcini won't seek probe on donation

By Jerry Kammer
The Arizona Republic

Despite indications that a campaign contribution to Sen. Dennis DeConcini may have been illegal, the Federal Election Commission is not investigating the matter, because DeConcini won't file a formal complaint.

Although DeConcini press secretary Bob Maynes acknowledged in November that a $600 contribution in 1987 from an executive of Phoenix-based Emerald Homes "raises the question of whether or not the law was broken," Maynes says that no complaint has been filed.

"It did not appear at all clear that we could resolve who had done what or that anyone else could," Maynes said earlier this week.

Maynes said the money had been returned to William P. Junge, a former vice president of Emerald Homes, who last year wrote to DeConcini that Emerald "actually made this contribution."

Under federal election laws, it is illegal for a corporation to make political contributions or to reimburse a contributor to, in effect, hide the true source of the funds.

"We thought the simplest resolution was to return it," Maynes said.

In response to an inquiry from *The Arizona Republic* in November about the contribution, DeConcini's office notified the FEC of the note from Junge. The FEC is charged with investigating alleged violations of federal campaign laws.

But, FEC spokesman Fred Eiland said, the agency informed DeConcini that federal regulations say an investigation can be launched only on the basis of a sworn, formal complaint alleging a violation of federal campaign laws.

DeConcini's notification about the Junge letter was "simply correspondence," Eiland said.

Maynes said a spokesman for Emerald has denied any impropriety in connection with the contribution.

"We did not feel we were going to get a resolution of the disputed facts with Junge saying one thing and Emerald saying something different," Maynes said.

See DeCONCINI, *page A14*

— DeCONCINI, *from page A1*

Repeated efforts to contact Junge for comment were unsuccessful.

Eugene L. Baker, Emerald vice president and chief financial officer, said in November that although the company "on a regular basis" requests that executives make contributions to politicians, "those are not required contributions, and they are not tied to reimbursements in any way."

On May 7, 1987, the same day that Junge and four other executives at Emerald's northern California offices wrote $600 checks to DeConcini, Baker himself donated $1,000 to the Arizona Democrat.

Maynes said the $600 was returned to Junge on the advice of FEC general counsel Larry Noble.

"The FEC did not appear to be able to resolve (the question of the contribution's legality) and informally suggested to us that the simplest solution was to return it if we had questions about it," Maynes said.

Noble said he told DeConcini's chief of staff, Gene Karp, that FEC regulations require that people who suspect an illegal contribution has been made should "check up on it" prior to filing a complaint.

He said he told Karp that if DeConcini's office did not want to file a complaint, the "the cautious road" to follow would be to return the contribution to remove any suspicion that DeConcini kept money that was possibly tainted.

Noble said that although the FEC can launch an investigation based on

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FBI/DOJ



Dennis DeConcini / Received a $600 contribution in 1987 from an executive of Phoenix-based Emerald Homes.

information obtained independently of a formal complaint, it was unlikely to do so in this case.

Referring to *The Republic's* November article reporting on the Junge note and the donations to DeConcini from other Emerald employees, he said, "We don't generate something internally based on every newspaper article we read."

Emerald, a master limited partnership, was founded in Phoenix about 30 years ago as Dietz-Crane Homes. The company builds homes in the Phoenix, Houston, San Diego and San Francisco areas.

Last month, Verit Industries of Sun Valley, Calif., agreed to purchase 47 percent of Emerald Homes in a stock swap.

Emerald was accused in a $1.1 billion federal racketeering lawsuit of participating with Charles H. Keating Jr. and others in fraudulent real-estate transactions involving Keating's failed Lincoln Savings and Loan. The lawsuit was filed in September against Keating and other Lincoln insiders.

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

(Mount Clipping in Space Below)



Sen. Dennis DeConcini, before the Senate Judiciary Committee, defends his bill to reform the nation's civil racketeering laws. The sign says the bill "does NOT apply to the lawsuit against Lincoln Savings."

Photopress

Fellow senators rush to defend DeConcini

By Sam Stanton
Republic Washington Bureau

WASHINGTON — Sen. Dennis DeConcini, D-Ariz., blasted Wednesday for refusing to meet with three victims of the Lincoln Savings and Loan Association collapse, on Thursday won impassioned defenses from his colleagues, who said criticism of him is unwarranted.

But his junior colleague from Arizona, Republican John McCain, upstaged the outpouring of support by doing exactly what DeConcini had refused to do: meeting with the S&L victims to discuss their concerns about Lincoln and future S&L failures.

The session Thursday with McCain came three hours after the Senate Judiciary Committee closed ranks to support DeConcini and advance his bill reforming the nation's civil racketeering laws by an 11-2 vote.

Even Sen. Howard Metzenbaum, D-Ohio, who opposed the bill, praised DeConcini as a "man of the highest integrity."

His comments were echoed by Republicans and Democrats alike, with Sen. Joseph Biden, D-Del., describing as "bizarre" the notion that DeConcini introduced his bill solely to benefit former Lincoln Savings owner Charles H Keating Jr.

Sen. Orrin Hatch, R-Utah, said the criticism of DeConcini is "reprehensible."

"It's not only pathetic, it's criminal," he added.

DeConcini, meanwhile, angrily denounced the "outrageous" attacks

—See SENATE, page A6

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

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FBI/DOJ

Senate colleagues back DeConcini over new criticism

SENATE, from page A1

against him.

"I have been subjected to attacks that I have been doing this for reasons of a savings and loan in Arizona," DeConcini said.

"There is no truth to that. . . . The campaign against this bill has used lies, distortions, coercion and personal attacks, and I abhor this type of effort."

DeConcini bolstered his statements with handwritten signs explaining that his bill has nothing to do with Lincoln Savings, signs that he held up as cameras clicked and whirred.

DeConcini said his bill, which he has supported in various forms for at least six years, would stop frivolous lawsuits that abuse the power of the Racketeer Influenced, Corrupt Organization laws. He emphasized that it would not affect a lawsuit filed by bondholders who lost money when Lincoln collapsed nor affect any other existing cases.

Not 'forum' for all quarrels

"Congress simply did not intend to create a federal forum for every argument between businessmen," DeConcini said.

"It did not intend for federal judges to be using treble-damages awards in deciding divorce cases and landlord-tenant disputes."

As DeConcini spoke, the three S&L victims and their attorneys sat in the back row of a packed hearing room in the Senate Dirksen Office Building.

The victims, all women, who lost a total of $86,000 after buying bonds from Lincoln's parent company, American Continental Corp., on Wednesday called DeConcini "gutless" and a "coward" because he refused to meet with them to discuss his bill.

The three, including a 92-year-old, legally blind woman in a wheelchair, are among 23,000 bondholders who are suing to recoup millions lost when Lincoln was seized by the government and American Continental filed for Chapter 11 protection. American Continental is headed by Keating, a Phoenix developer and large campaign contributor to both senators.

The women say they fear DeConcini's bill will reduce the ability of victims of future S&L failures to sue.

DeConcini acknowledged Wednesday that the women's attorney, William Lerach of San Diego, had called his office on their behalf.

But DeConcini said he would not speak to Lerach until the attorney apologized for what DeConcini said were lies and threats about him.

The women had vowed Wednesday to confront DeConcini at the session, but the senator entered and left the hearing room through a back door commonly used by senators.

No money to 'buy interest'

After the hearing, the women renewed their attack on DeConcini at a press conference in a hallway.

Ramona Miller Jacobs repeated her belief that DeConcini is "gutless" and only has time to meet with large contributors such as Keating.

"I guess I don't have enough power and money to buy his interest," Jacobs said.

The comments were a stark contrast to the women's praise for McCain.

"All I can tell you is I admire him," Jacobs said after she and the two other women spent 45 minutes with McCain.

"He's a very compassionate man, very sympathetic," said Leah Kane, another Lincoln victim, who is spokeswoman for 150 others in Leisure World in Orange County, Calif.

McCain opposes peer's bill

McCain, whose relationship with DeConcini never has been warm, said he met with the women at their request.

McCain said he opposes DeConcini's bill, but would not talk about DeConcini's refusal to meet with the women.

On Wednesday, the women also met with Democratic Sen. Alan Cranston of California, who along with DeConcini and McCain is one of the so-called Keating Five, whose links to Keating are under investigation by the Senate Ethics Committee.

They also met with the chief of staff to Sen. Donald Riegle, D-Mich., another Keating Five member.

The women's attorney said they had not had time to try and meet with the fifth senator, John Glenn, D-Ohio.

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(Mount Clipping in Space Below)

Thrift failure tangles Riegle in ethics review

BY DAVID EVERETT
Free Press Washington Staff

WASHINGTON — Donald Riegle Jr., Michigan's senior senator, probably would have enjoyed basking for a while in the compliments he received earlier this year for helping orchestrate the federal bailout of the nation's troubled savings and loan industry.

But even as Riegle's stature was rising on Capitol Hill, the very savings and loan turmoil that was the vehicle for his new respect struck back with a festering problem that has replaced the compliments with questions.

The problem is called Lincoln Savings & Loan, and Riegle soon may wish he had never heard the name.

Riegle, chairman of the Senate Banking Committee, is caught in the confluence of a headline-spawning congressional investigation and a touchy ethics review relating to Lincoln, an insolvent S&L in Irvine, Calif., now controlled by federal regulators.

Both inquiries are focusing attention on any role Riegle and four other senators may have had in relation to Lincoln, whose collapse is expected to cost taxpayers $2 billion.

What Riegle did was join with four Senate colleagues on April 9, 1987, to

See RIEGLE, Page 15A

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FBI/DOJ

In wake of thrift failure, an ethics review

RIEGLE, from Page 1A
meet with federal financial regulators whom Lincoln officials had accused of harassment.

The unprecedented Washington meeting between elected officials and supposedly independent bureaucrats came only 17 days after people associated with Lincoln and Charles Keating Jr., the Arizona businessman whose companies controlled the thrift, had pledged thousands of dollars in campaign contributions to Riegle.

The other senators — Democrats Alan Cranston of California, John Glenn of Ohio, Dennis DeConcini of Arizona and Republican John McCain of Arizona — and campaign organizations they controlled also received money from the Keating empire.

The Lincoln failure is being spotlighted as the worst example of the S&L crisis. The House Banking Committee is holding hearings to find out who is to blame.

Federal regulators and congressional investigators blame the failure on Keating. A federal lawsuit, filed Sept. 15, accuses Keating and those who helped run his empire under the American Continental Corp. of racketeering, fraud, falsifying files and evading regulation. The suit alleges they engaged in sham transactions and conflict of interest while draining Lincoln of its assets.

A 'mini-Watergate'

More important for Riegle, attention has turned toward why federal regulators did not stop Lincoln's alleged abuses until April 14 this year — despite suspicions of wrongdoing in 1987. Some members of Congress say the delay doubled the taxpayer losses.

The House probe, led Henry Gonzalez, a Texas Democrat who chairs the Banking Committee, has found that top financial regulators in Washington blocked regional regulators' efforts to shut down Lincoln from mid-1987 until earlier this year — an act Gonzalez calls a "mini-Watergate."

The central question: Did regulators back off because Riegle and the other senators intervened on behalf of campaign contributors?

No way, says Riegle. He has declined interviews, but in an Oct. 18 letter to the Senate Ethics Committee, which the public interest group Common Cause asked to investigate the senators, Riegle said his attendance at the April 1987 meeting was unrelated to the campaign money.

"I suggested no course of regulatory action to the regulators concerning Lincoln," Riegle wrote, adding that after the meeting he realized how

CHRONOLOGY

The Lincoln savings and loan controversy

1984

■ **February:** American Continental Corp., led by Charles Keating Jr., buys Lincoln Savings and Loan.

1986

■ **March 1:** At urging of Sen. John Glenn, D-Ohio, Michigan Sen. Donald Riegle is introduced to Keating at Detroit's Hotel Pontchartrain.

1987

■ **March 23:** Keating and associates sponsor fund-raiser for Riegle at Pontchartrain.

■ **April 9:** Riegle, four other senators meet with federal regulators in Washington. They are told Lincoln, American Continental face criminal investigation.

■ **May 1:** Federal regulators in San Francisco recommend government takeover of Lincoln.

■ **July 1:** M. Danny Wall becomes government's top thrift regulator. Battle begins between San Francisco regulators and Washington headquarters over proposed Lincoln takeover.

1989

■ **April 13:** American Continental Corp. files for bankruptcy.

■ **April 14:** Federal regulators take control of Lincoln.

■ **Sept. 15:** Government files $1.1 billion fraud and racketeering civil suit against Keating and associates.

■ **Oct. 12:** Regional regulators testify before House Banking Committee that Washington blocked takeover of Lincoln.

■ **Tuesday:** Keating scheduled to testify before House committee.

Riegle was not at the first meeting, on April 2, at which the other four senators met with Edwin Gray, then bank board chairman.

In his letter to the Ethics Committee, Riegle said he went to the second meeting, on April 9, because DeConcini invited him as a banking expert.

According to notes of that meeting by William Black, deputy director of the Federal Savings and Loan Insurance Corp., DeConcini began by speaking about the need to be fair to Lincoln.

Riegle joined in: "There are things happening that may indicate a pattern that do raise questions," he said, according to Black's notes.

Later in the meeting, Riegle said, "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."

Black's notes indicated Riegle said stopping Keating.

"It was Congress, not the administration," said Roth, referring to the senators.

Gonzalez has put most of the blame for the Lincoln mess on M. Danny Wall, who led the federal government's thrift regulation effort when the Lincoln takeover was first blocked in 1987.

Wall "willingly cut the legs out from under his regulatory troops in the middle of the battle," Gonzalez said.

The Detroit connection

Gonzalez has so far resisted inviting Riegle and the others to testify. He might find it especially hard if his fellow chairman on the Senate side was called.

It was Gonzalez and Riegle, both new chairmen of their banking committees this year, who were largely credited with spearheading the complicated and costly S&L bailout.

"It's a delicate matter, to say the least," opined one official close to the committee's investigation. "We do not want these hearings politicized, but we want to find out what happened."

The Lincoln controversy also has touched Detroit.

A Keating-controlled partnership, with financing from Lincoln, bought the well-known Hotel Pontchartrain downtown in 1984. In fact, Keating's group held a March 1987 fund-raiser for Riegle at the Pontch.

The suit against Keating names the Pontchartrain purchase in 1984 as one of many allegedly fraudulent loans made through Lincoln. The hotel may be sold to cover losses to taxpayers.

Charles Keating is the brother of William Keating, the former Ohio congressman who would run the proposed joint business operations of the Free Press and Detroit News if court approval is granted.

William Keating was named in the suit because he had been a director of American Continental in 1986-87. William Keating is charged only with negligence in his role as a director.

Of the five senators caught in the Lincoln mire, Riegle appears to be the least vulnerable, say some investigators and industry officials.

He was the first of two of them to return the contributions from Keating and his group. DeConcini was the other.

In his letter to the Ethics Committee, Riegle said he said he had nothing to do with instigating the 1987 meeting and that he assumed it was proper.

'Appearance of conflict'

But congressional staffers and others still question Riegle's involvement

serious the problems were at the thrift.

"I had no further contact with the regulators on the Lincoln Savings matter," Riegle told the ethics panel.

He also pointed out that he returned a total of $76,100 in contributions from Keating and his group.

According to reports, Keating, his company, or his associates gave $47,000 to Cranston's campaign; $34,000 to Glenn's; $55,000 to DeConcini's, and $112,000 to McCain's. In addition, Keating's groups gave $850,000 to political groups associated with Cranston and $200,000 to a political committee associated with Glenn.

Keating denies any wrongdoing, saying regulators were unfair to him and helped kill his empire. But the developer has not helped the senators by bragging about his political influence. In congressional testimony, federal regulators said they felt pressured by his comments about political clout.

After federal officials seized control of Lincoln in April, an angry Keating told reporters: "One question, among the many raised in recent weeks, had to 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."

A 'serious matter'

The San Francisco office of the Federal Home Loan Bank Board began an examination of Lincoln in late 1986.

The senators relayed Keating's complaints of harassment to regulators in two meetings in April 1987.

Black's notes indicated Riegle said American Continental, the holding company that controlled Lincoln, had "saved a failing thrift" and "is reputed to be highly competent."

As the meeting proceeded, the regulators said they had evidence suggesting violations of law.

"We're sending a criminal referral to the Department of Justice — not maybe, we're sending one. This is an extraordinarily serious matter," said Michael Patriarca, an official of the San Francisco office.

Later in the meeting, Patriarca described Lincoln's practices: "It's like these guys put it all on 16 black in roulette. Maybe they'll win, but I can can guarantee you that if an institution continues such behavior, it will eventually go bankrupt."

According to Black's notes, Riegle replied: "Well, I guess that's pretty definitive."

'Improper pressure'

For Gonzalez, the involvement of the senators is a political minefield.

In the committee room, Gonzalez is flanked on his left by Republicans. Four of the five senators, including Riegle, are Democrats.

Toby Roth, a Wisconsin Republican on the House committee, believes Gonzalez can't find out what happened at Lincoln without investigating Riegle and the others.

At one recent hearing, Roth rejected a colleague's idea that the anti-regulatory philosophy of the Reagan administration caused the delay in

ers still question Riegle's involvement.

For instance, Riegle said he stopped questioning regulators about Lincoln after they told him in the 1987 meeting that they were convinced the S&L's officials had committed criminal wrongdoing.

But Riegle did not return the contributions until over a year later, when the Detroit News ran a front-page, election-year story about the money and meeting with regulators.

At the time, Riegle had known about possible criminal activity relating to major contributors for more than a year.

In his letter to the Ethics Committee, Riegle said he was unaware of the concentration of contributions from the Keating group until the Feb. 28, 1988, News story. His letter said it was only then that he decided "such contributions, while legal and having no connection whatsoever with the April 9th, 1987, meeting with regulators, could nevertheless create the appearance of a conflict of interest."

No other group of people associated with a single company gave more than the Keating group to Riegle's 1988 campaign.

The campaign contributions, even though returned, may turn out to be more serious than an apparent conflict of interest.

Keating denies a charge in the racketeering suit that some of his group's political contributions may have illegally come from Lincoln.

And so Don Riegle continues to sit on the edges of Lincoln's maelstrom.



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

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Title: CRANSTON PRESSURED HIM, EX-OFFICIAL SAYS

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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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half.

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."

(Mount Clipping in Space Below)

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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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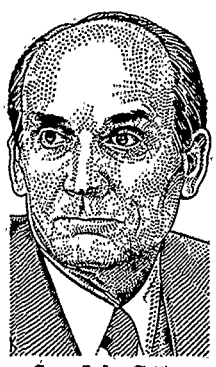
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At Garn Institute, S&L Executives Get To Rub Shoulders With U.S. Regulators

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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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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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*

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

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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.

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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.

FBI/DOJ

58C-PX-41605-Sub B-191

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 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, 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 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.

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State's senators on list of Congress' richest

DeConcini No. 9 with $20 million, McCain is 30th

By Sam Stanton
Republic Washington Bureau

WASHINGTON — Arizona Sens. Dennis DeConcini and John McCain are among the 33 richest members of the House and Senate, a new survey claims.

DeConcini is ranked as the ninth-richest of the 535 members of Congress, with an estimated personal net worth of $20 million, according to *Roll Call*, a Capitol Hill newspaper.

McCain is listed as having a personal fortune of $2.9 million, tying him with three others as the 30th-richest.

A aide to DeConcini, a third-term Democratic senator whose wealth stems from his years of real-estate speculation, said DeConcini's wealth actually is about half of that claimed in the survey.

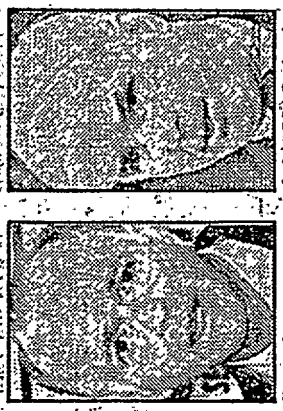
"It's bizarre," aide Bob Maynes said. "I'm sure he'd love to have an instantaneous 100 percent increase in his net worth, as would anybody. But printing it in *Roll Call* doesn't make it so."

McCain, a Republican who entered the Senate in 1987 after two House terms, tied with Democratic Reps. Harry Johnston of Florida, Jack Brooks of Texas and Nita Lowey of New York on the list of the 50 richest members of Congress.

Most of McCain's wealth comes from his marriage to Cindy Hensley, whose father owns a beer distributorship in the Phoenix area.

The newspaper put Sen. John

— *See* DeCONCINI, *page A8*



Dennis DeConcini / Is ranked as the ninth-richest of the members of Congress.

John McCain / Is tied with three others as the 30th-richest member of Congress.

DeConcini is 9th, McCain 30th on list of Congress' richest

— DeCONCINI, *from page A1*

Heinz, R-Pa., heir to the H.J. Heinz food company, at the top of the list with an estimated personal worth of $460 million.

The survey is based upon financial-disclosure reports all members of Congress must file, as well as from "other sources," said the newspaper, which is read widely on Capitol Hill.

It is difficult, however, to tell from the reporting forms just how much each member is worth because they do not require detailed listings.

DeConcini, who consistently provides the most-detailed financial reports of those filed by Arizona's seven-man delegation, lists his assets at nearly $16 million, with income-tax and other liabilities of more than $6.2 million.

"DeConcini hides nothing and has never hidden anything in a blind trust," Maynes said.

McCain's personal worth is more difficult to ascertain because the senator uses standard reporting forms that require members to list only a range of the value of their assets.

Scott Celley, a spokesman for McCain, said the senator and his staff had not seen the *Roll Call* survey because they were at a meeting in Annapolis, Md., and could not comment on the its accuracy.

Despite the questions, DeConcini generally is considered one of the wealthiest members of the Senate. However, some of that wealth has been depleted by DeConcini's involvement with former Lincoln Savings and Loan owner Charles H Keating Jr. and the subsequent Senate Ethics Committee probe into the affair.

DeConcini returned $81,000 in contributions he had received from Keating and Keating's associates since 1982 and spent $190,000 on a media blitz in Arizona to explain the Keating saga to voters.

McCain also shelled out money because of the Keating affair, repaying Keating more than $13,000 for trips the senator and his family took to Keating's resort home in the Caribbean.

McCain has declined to return

FBI/DOJ

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Cranston would let Lincoln investors sue U.S.

Measure will target bondholders with no other remedy

The Associated Press

LOS ANGELES — Sen. Alan Cranston said Monday that he will introduce legislation to allow investors to sue the government if they fail in other efforts to recover losses from worthless junk bonds sold at Lincoln Savings and Loan Association.

Cranston said his legislation, to be introduced this week, would allow about 23,000 bondholders to file suit against the U.S. government if they are unsuccessful in suits against Lincoln, its parent company, Phoenix-based American Continental Corp., and American Continental Chairman Charles H Keating Jr.

The government usually is immune from such suits, but Cranston said there are precedents allowing suits in cases of government negligence.

"Documents I have received from the Office of Thrift Supervision in Washington and the General Accounting Office are clearly enough evidence on which to bring a case of negligence against the government," the California Democrat said.

He spoke at the latest in a series of news conferences intended to deflect blame that had been aimed at him for investor losses stemming from Lincoln's collapse last year.

Cranston, Senate majority whip, is one five senators under investigation by the Senate Ethics Committee for intervening with regulators in behalf of Keating. The five, who include Sens. Dennis DeConcini, D-Ariz., John McCain, R-Ariz., Donald Riegle, D-Mich., and John Glenn, D-Ohio, received a total of $1.3 million in campaign contributions from Keating and his family.

Three recent polls show Cranston's popularity with California voters has plunged to its lowest level since he came to the Senate in 1969, but he has promised to seek re-election next year.

By focusing on the bondholders, he hopes to disarm one of the most personally damaging allegations against him — bondholders' testimony before a House committee that his intervention for Keating made him partly responsible for their losses.

State and federal officials say the bondholders, mostly Los Angeles-area retirees, were targeted by Lincoln to switch nearly $200 million of federally insured deposits into the uninsured junk bonds, which now are worthless. Cranston said investors were victims of bait-and-switch tactics that regulators should not have allowed.

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Senator introducing reform bill to stop 'fat cats like Keating'

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Republic Washington Bureau

WASHINGTON — Sen. Mitch McConnell, R-Ky., reacting to Phoenix developer Charles H. Keating Jr.'s habit of pumping huge contributions into campaign war chests nationwide, said he will introduce a bill today "to stop the campaign-financing abuses of political fat cats like Keating."

McConnell said Monday that the scandal swirling around the developer and the "Keating Five" senators calls for sweeping changes in the nation's campaign-finance laws.

The bill will include restrictions against the "bundling" of contributions from groups to individual candidates, McConnell said.

Special interests commonly coordinate contributions from their associates to raise as much as possible for certain candidates. Keating and his associates have raised massive amounts for candidates across the nation, including Sens. Dennis DeConcini, D-Ariz., and John McCain, R-Ariz.

In one instance during the 1986 campaign, McCain's office received dozens of checks in one bundle, totaling more than $50,000 in Keating-related contributions.

McConnell said that his bill is "targeted directly at the alleged abuses of the Keating affair" and that "the call for reform never has been more compelling in the wake of these revelations."

DeConcini, McCain and three other senators are embroiled in a Senate Ethics Committee probe of whether they were unduly influenced by contributions from Keating and his associates. The Federal Election Commission also is investigating, at McCain's request, whether any of the contributions were improper.

The five senators have denied any wrongdoing.

Numerous campaign-reform bills are expected to be introduced in the new session.

FBI/DOJ

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(Mount Clipping in Space Below)

Keating chooses TV to tell his story

By Michael Murphy
The Phoenix Gazette

WASHINGTON — Charles H. Keating Jr. is stepping up his national media blitz to "get the word out" about his handling of Lincoln Savings & Loan and his involvement with five senators under fire for their dealings with the Phoenix developer.

Keating, who appeared on CBS-TV's "Meet the Press" last week, will be a guest on CNN's "Crossfire" news talk show tonight and on ABC's "Good Morning America" program Friday (KTVK-TV, Channel 3).

Bradley Boland, American Continental Corp. spokesman and a Keating son-in-law, said the appearances are part of an effort to use "selective opportunities" for Keating to counter allegations that he looted Lincoln for his own enrichment.

"What I really want to accomplish more than anything is to humanize Charlie Keating, and for the American people to understand who he is and why we are where we are," Boland said.

"Charlie really wants to get his word out," he added. "I think the most compelling thing is that this is a $500 billion problem (the savings and loan crisis), and the blame should not be shouldered by Charlie

See ■ Keating, A-14

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Keating

Keating. I don't think the American people understand that."

The CNN half-hour program will air at 5:30 p.m. (Phoenix time).

During his appearance on "Meet the Press," Keating blamed regulators for precipitating the nation's S&L crisis and claimed the problem could have been avoided if regulators had listened to him and five senators for whom he raised more than $1 million.

Boland denied that Keating was on a national campaign but indicated the American Continental chairman is inclined to live TV rather than the print media.

"That just hasn't worked for us," Boland said. "I'm not saying that at some point we won't, but I think we're going to be real selective."

By agreeing to face the TV glare, Keating is joining other subjects of the controversy who have gone on the offensive recently to counter allegations of impropriety in the Lincoln affair.

Sen. Dennis DeConcini, D-Ariz., launched a $190,000 television and newspaper advertising campaign in Arizona to counter allegations that he acted improperly by intervening with regulators on behalf of Keating. Others, including Sen. John McCain, R-Ariz., and Sen. Alan Cranston, D-Calif., also have turned up their public relations efforts.

In a related development, an attorney for Phoenix businessman Ernie Garcia said the real estate investor, who invoked his constitutional right to avoid self-incrimination in federal court, might testify before the House banking committee when it resumes hearings next week on the failure of Lincoln.

In a federal court hearing earlier this month, Garcia refused to testify when called by government attorneys, who had touted him as a key witness in their case against Keating's handling of Lincoln.

Garcia, chairman of the now-defunct WestContinental Mortgage Co., was a key player in several land deals the government claims were "sham" transactions involving Keating and American Continental, which is based in Phoenix.

The House panel, which began its probe of Lincoln in October, voted earlier this week to subpoena Garcia, Tucson real estate dealer Fernando Acosta and indicted junk bond whiz Michael Milken.

Garcia and Acosta are expected to respond to allegations that they were involved in transactions that helped Lincoln post phony profits, while Milken has been called to discuss Keating's investments in junk bonds.

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(Mount Clipping in Space Below)

DeConcini media blitz is berated

Demand made that Keating 5 talk to House



Toby Roth / "I have to ask — I'm compelled to ask — 'Where are the senators?'"

By Sam Stanton
Republic Washington Bureau

WASHINGTON — The "Keating Five" senators came under renewed attack Tuesday, with a harsh demand that they be called to testify before Congress on their involvement in the Lincoln Savings and Loan scandal.

A member of the House Banking Committee singled out Democratic Sens. Dennis DeConcini of Arizona and Alan Cranston of California, for specific criticism. Rep. Toby Roth, R-Wis., said DeConcini and Cranston should tell their story to the committee rather than spending time and money on public-relations campaigns.

Roth's request to subpoena the five senators was denied. But his comments were the strongest yet to be leveled against the senators by a fellow member of Congress.

"I see they're spending $190,000 to reframe the issue," Roth said, referring to DeConcini's media blitz in Arizona two weeks ago.

"He ought to come before this committee."

The House Banking Committee is probing the collapse of Charles H Keating Jr.'s former thrift.

Roth said that Cranston should be ashamed for announcing Monday that

— See DeCONCINI, page A9

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DeConcini PR campaign berated by House member

—DeCONCINI, *from page A1*

he would push a bill to allow the 23,000 holders of the Keating-issued bonds eventually to sue the U.S. government to recoup their losses. Cranston last year was assailed by Californians who put their life savings into the now-worthless bonds.

"One senator before this committee was criticized for getting some 23,000 people into trouble, and now he's asking the taxpayers to bail these people out," an exasperated Roth said. "I mean, doesn't the man have no shame?"

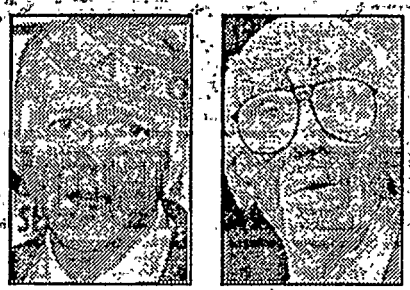
Roth, who has fought unsuccessfully for months to have the panel call the senators to testify, also said the committee should call DeConcini to explain his claim that Edwin Gray, the former Federal Home Loan Bank Board chairman, lied to the panel in December.

"I have to ask — I'm compelled to ask — 'Where are the senators?'" Roth said. "When a senator calls a press conference and states point-blank that a witness under oath lied before this committee, that is a challenge to this committee, and the senator ought to either voluntarily come or be subpoenaed."

DeConcini spokesman Bob Maynes said the senator will testify if called by Rep. Henry Gonzalez, D-Texas, chairman of the Banking Committee.

Gonzalez has said for months that he sees no need to call the senators, and he rejected Roth's request.

"I'll leave that up to higher powers," Gonzalez said, pointing out that the Senate Ethics Committee already is probing the activities of the five senators.



Sens. Dennis DeConcini (left) and Alan Cranston have been further criticized for spending time and money on public-relations campaigns.

Cranston spokesman Murray Flander did not respond to a request for comment, but Cranston said in introducing the bill Tuesday that the bondholders were the victims of "negligence by various federal agencies and instrumentalities" that permitted the sale of the bonds by Keating's American Continental Corp.

"As their senator, I consider it as if members of my own family had been stripped of their life savings," Cranston said.

DeConcini, Cranston and the other three senators — Republican John McCain of Arizona and Democrats John Glenn of Ohio and Don Riegle of Michigan — each accepted large Keating-related contributions and intervened with federal regulators in Keating's behalf. Some regulators have said the senators' action delayed the seizure of Lincoln, allowing it to rack up higher losses.

Roth's made his demand at the start of a new round of hearings on the failure of Lincoln, which the federal government seized April 14.

The committee held several hearings last fall on the thrift, which may cost more than $2 billion to bail out, and the panel agreed Tuesday to continue the hearings by issuing subpoenas to three new witnesses.

Those three, indicted junk-bond pioneer Michael Milken and Arizona businessmen Fernando Acosta and Ernie Garcia, had ties to Lincoln.

However, panel members acknowledged that at least two of them — apparently Milken and Garcia — probably would refuse to testify. Garcia invoked his Fifth Amendment rights against self-incrimination earlier this month in a court hearing. Acosta agreed to testify in a suit in which Keating is trying to regain control of Lincoln.

The House panel also heard a request that Keating be asked again to testify. The Phoenix businessman cited his Fifth Amendment rights before the committee late last year and declined to testify. But since then, he has given press interviews on Lincoln and testified in his court suit.

Gonzalez said he did not believe it is necessary to call Keating again, adding that enough information can be gleaned from his associates and from federal regulators.

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(Mount Clipping in Space Below)

Regulator testifies in Keating suit

Outlines details of questionable land, stock deals

By Anne Q. Hoy
Republic Washington Bureau

WASHINGTON — A key federal thrift regulator detailed Wednesday a questionable 1987 land deal and a complex stock transaction involving Lincoln Savings and Loan Association to bolster the government's claim that the California thrift was recklessly operated.

Kevin O'Connell, now with the Treasury Department's Office of Thrift Supervision, testified for more than six hours about the sale of 1,000 acres of raw land by Lincoln to Tucson financier Ernie Garcia in March 1987, and a complex sale of Memorex stock that he said cost the Irvine, Calif.-based thrift $12 million in lost profits.

O'Connell painted a portrait of a high-flying thrift that engaged in unsound business practices and put its federally insured deposits at serious risk, forcing regulators to clamp down.

The testimony came on the fourth day of a hearing in U.S District Court into a suit brought by Charles H Keating Jr., who is seeking to regain control of the thrift. Keating contends the government had no grounds to seize Lincoln last April.

In another development, government lawyers released copies of memos written by a New York law firm hired by Lincoln to flag potential problems in advance of reviews by regulators.

The memos, authored by lawyer Lois Gordon, cited several problems with Lincoln's loan files, including shoddy documentation and scant financial information on borrowers. The memos even branded a $50 million loan to Garcia as "suspicious."

Government lawyers plan to call Keating and his son, Charles H Keating III, to testify Thursday. Keating invoked his Fifth Amendment right against self-incrimination and declined to testify last November when called before a House panel probing Lincoln's record collapse — the nation's costliest S&L failure.

The government has termed the 1987 land deal at issue Wednesday a "sham" transaction, contending Lincoln provided Garcia $3.5 million to make a down payment on land the thrift was selling.

The complex stock deal began in 1986 when a Lincoln subsidiary paid $79,275 for Memorex stock and later tried unsuccessfully to sell it to American Continental Corp., Lincoln's parent.

Stymied by federal regulators who blocked the sale to American Continental, the Lincoln subsidiary sold the stock instead to Garcia for $1 million. The subsidiary, AMCOR, retained an option to repurchase the stock for $4.25 million.

But AMCOR later waived its option to repurchase the stock, and it finally was sold by Garcia to American Continental for $2 million. American Continential in turn sold the stock for more than $13 million.

The government has claimed that the transaction eventually cost Lincoln about $12 million in potential profits and was another example of "dissipation of assets."

But Keating lawyer Michael Kennedy laid the blame on the regulators, saying that they refused to allow AMCOR to buy back the stock and that they forced AMCOR to pass up a chance to make a hefty profit.

Earlier in the day, O'Connell defended the government's claim that Lincoln provided the down payment for the March 1987 land deal in which the thrift sold 1,000 acres of land it owned to Garcia.

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O'Connell said Garcia put $3.5 million down on the $14 million land deal and that there was no way of tracing the source of the down payment.

But in sometimes testy exchanges with Keating lawyer John Lundin, O'Connell linked the down payment to a $20.2 million loan that Garcia secured from Lincoln on March 30, 1987 — the same day as the land deal.

The $20.2 million loan was secured by Garcia to repurchase 80 percent of the stock of his real-estate financing firm, which he had sold two years earlier to Tucson Electric Power Co.

In essence, O'Connell suggested that since Garcia got the hefty stock loan from Lincoln on the same day he bought the land from the thrift, the funds from one deal were mixed up with the other and interchangeable.

But Keating's lawyers produced a copy of a wire transfer showing that Lincoln had shipped $19.6 million of Garcia's loan directly to Tucson Electric to pay for the stock repurchase, showing that the bulk of the loan was used for exactly for what it was intended.

The document was intended to dampen the government's claim that Lincoln was illegally providing the down payment [redacted] an "unsound" practice that [redacted] government to seize the insti[redacted]

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Thrift agency acts to avert Keating repeat

Staff must tell of contacts by public officials

By Sam Stanton
Republic Washington Bureau

WASHINGTON — The new federal agency selling off assets of failed thrifts is taking no chances of a repeat of the "Keating Five" controversy, in which five U.S. senators met with regulators in behalf of Charles H Keating Jr. and his Lincoln Savings and Loan.

The Resolution Trust Corp., mindful of claims that the senators improperly intervened with regulators in behalf of Keating, has drawn up an extensive policy requiring all its employees to report any contacts made by public officials.

Spokeswoman Nancy Schertzing said the agency's director, David Cooke, issued a memo Tuesday detailing the new policy, which she described as "standard operating procedure," to avoid charges of political favoritism.

A five-page draft, released Wednesday at a congressional hearing, says the policy is intended to "avoid political favoritism and undue influence." It requires strict reporting of all such contacts, including:

- The logging of all telephone calls from officials seeking information or action on an S&L under the Resolution Trust Corp.'s control.
- Referral of most inquiries to a special office in the agency.
- Immediate referral to the corporation's new Special Committee on Political Influence, when political interference is suspected.

The new policy comes amid a move, spurred by the Keating affair, toward ethics reform in Congress.

In the Keating case, the five senators, including Democrat Dennis DeConcini and Republican John McCain, both of Arizona, met with regulators to ask why an audit of Phoenix financier Keating's thrift was taking so long.

No official record

The first meeting, involving the two Arizona senators and two others, took place in April 1987 with no staffers present. No official record exists of what took place or even who set up the session in DeConcini's office.

Former Federal Home Loan Bank Board Chairman Edwin Gray, who says he was summoned to the meeting to explain the Lincoln audit, has charged that DeConcini tried to offer him a deal in which the California thrift would change its investment practices if the bank board would ease up on the S&L.

All four senators in the first meeting deny that such a deal was offered.

The second meeting occurred a week later between five senators and the regulators conducting the audit of Lincoln. The only record of that session is an unofficial transcript created from notes one of the regulators took during the meeting.

Lincoln was declared insolvent and seized by federal regulators last year.

Variety of probes

Gray and other regulators have said they considered the meetings

FBI/DOJ

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highly unusual, particularly because no staffers for either the senators or the regulators were present at the sessions.

Since then, numerous questions have been raised about whether the senators were improperly interfering in behalf of Keating, a large campaign contributor. The Senate Ethics Committee has launched a preliminary investigation, and the FBI and other federal agencies are pursuing probes.

Until recently, it had been a common practice for members of Congress to contact regulators in behalf of thrift owners to make various inquiries. Such a move led, in part, to last year's resignation of Democratic House Speaker Jim Wright.

To avoid such problems in selling off the assets of hundreds of failed thrifts, the Resolution Trust Corp. now is requiring the presence of at least two agency officials, including at least one senior-level person, in meetings with public officials. It also is mandating that notes be taken at all such meetings.

Agency draws fire

The draft of the new policy was released as the House Banking Committee continued hearings Wednesday on the bailout of the nation's S&L industry.

During the session, Resolution Trust Corp. Chairman L. William Seidman deflected criticism from some members who said the agency is moving too slowly to sell off the assets of failed thrifts.

Rep. Frank Annunzio, D-Ill., complained that the failure to quickly sell off assets will force the agency to ask for even more money to pay off the debts of the failed S&Ls. About $50 billion already is allocated for the thrift bailout.

"I suggest that instead of picking the pockets of the taxpayers, the RTC should develop working capital by selling assets," Annunzio said.

However, other members of Congress, including some from Arizona, have asked Seidman to move cautiously rather than dumping property in a "fire sale" of assets and land that would slash property values in the states where land was unloaded.

Seidman acknowledged that his agents so far have disposed of the assets of only 40 of the 333 thrifts for which it is now conservator and that hundreds more are likely to fail in the coming months.

But he added that he is moving carefully in the disposal of assets and is caught between two factions.

"On the one side are the anti-dumpers, and the other side are the fast sellers, and somewhere between there, we have to sneak through," he said.

Seidman — who also serves as chairman of the Federal Deposit Insurance Corp., a post he assumed after leaving his position as business-administration dean at Arizona State University — hinted that he might not remain in government service much longer.

Responding to a question from a panel member about rumors that he is leaving, Seidman said, "I've already told you that the job is not totally attractive in either pay or working conditions. . . . I guess I'll stay as long as I can stand it, and I can't tell you how long that will be."

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

'With all my heart and soul'

Keating denies using Lincoln as 'piggybank'

WASHINGTON (AP) — Phoenix millionaire Charles H. Keating Jr. on Friday denied "with all my heart and soul" that he used a tax-sharing arrangement at his Lincoln Savings and Loan Association to siphon off $94 million.

The arrangement between the now-collapsed Irvine, Calif., thrift and its holding company, American Continental Corp., is a centerpiece of regulators' contention that Keating was illegally using Lincoln as a "piggybank" for his massive real estate ventures.

He also is at the center of a Senate ethics investigation after raising $1.3 million for the political causes of five senators who intervened with regulators on Lincon's behalf in 1987 when examiners then were trying to curtail its risky loans and land and junk bond investments.

In response to skeptical questions from Sporkin, Keating acknowledged that that he usd part of the deferred taxes American Continental was holding on behalf of the thrift to make payments on the holding company's debt.

But when the judge asked if that was the purpose of the arrangement — to use Lincoln "as a piggybank for you and American Continental" — Keating said no.

"With all my heart and soul, I want you to know that I categorically deny that I had any concept remotely related to that," he said.

The tax agreement is one of several arrangements in which the government contends savers' government-insured deposits in Lincoln disappeared.

The Associated Press

CHARLES KEATING — Said in court Friday he didn't use a tax-sharing arrangement.

(Mount Clipping in Space Below)

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FBI/DOJ

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.

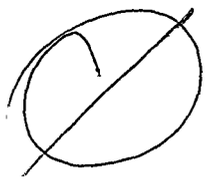
Keating insisted the board's sole mission was to seize Lincoln.

"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)

DeConcini blitzing state to defend role

By Don Harris
The Arizona Republic

Arizona Sen. Dennis DeConcini launched a $190,000 public-relations campaign Friday in an attempt to put a positive spin on what he called "serious and troubling" allegations against him in the Charles H Keating Jr. affair.

Using personal funds, DeConcini will conduct two weeks of forums around the state to answer Keating-related questions. And he plans a series of two- and five-minute television commercials plus newspaper advertisements.

In addition, DeConcini intends to meet next week with Ed Buck, who has threatened to attempt recalls of DeConcini and Sen. John McCain, R-Ariz., if they fail to agree to a broad range of campaign-finance reforms. Buck led a successful recall petition drive against then-Gov. Evan Mecham, who was ousted by the Legislature before a recall election could be held.

DeConcini, a senator for 12 years, held an hourlong

—See DECONCINI, page A12

Tom Story/The Arizona Republic

Sen. Dennis DeConcini answers reporters' questions in Phoenix during his first full-blown press conference in Arizona on the Charles H Keating Jr. affair.

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DeConcini launches media blitz

DECONCINI, *from page A1*

press conference Friday morning during which he somewhat nervously read a prepared statement and then took questions from reporters. The press conference was broadcast live by two Phoenix talk-radio stations, KTAR and KFYI. Afterward, DeConcini answered questions from KTAR listeners.

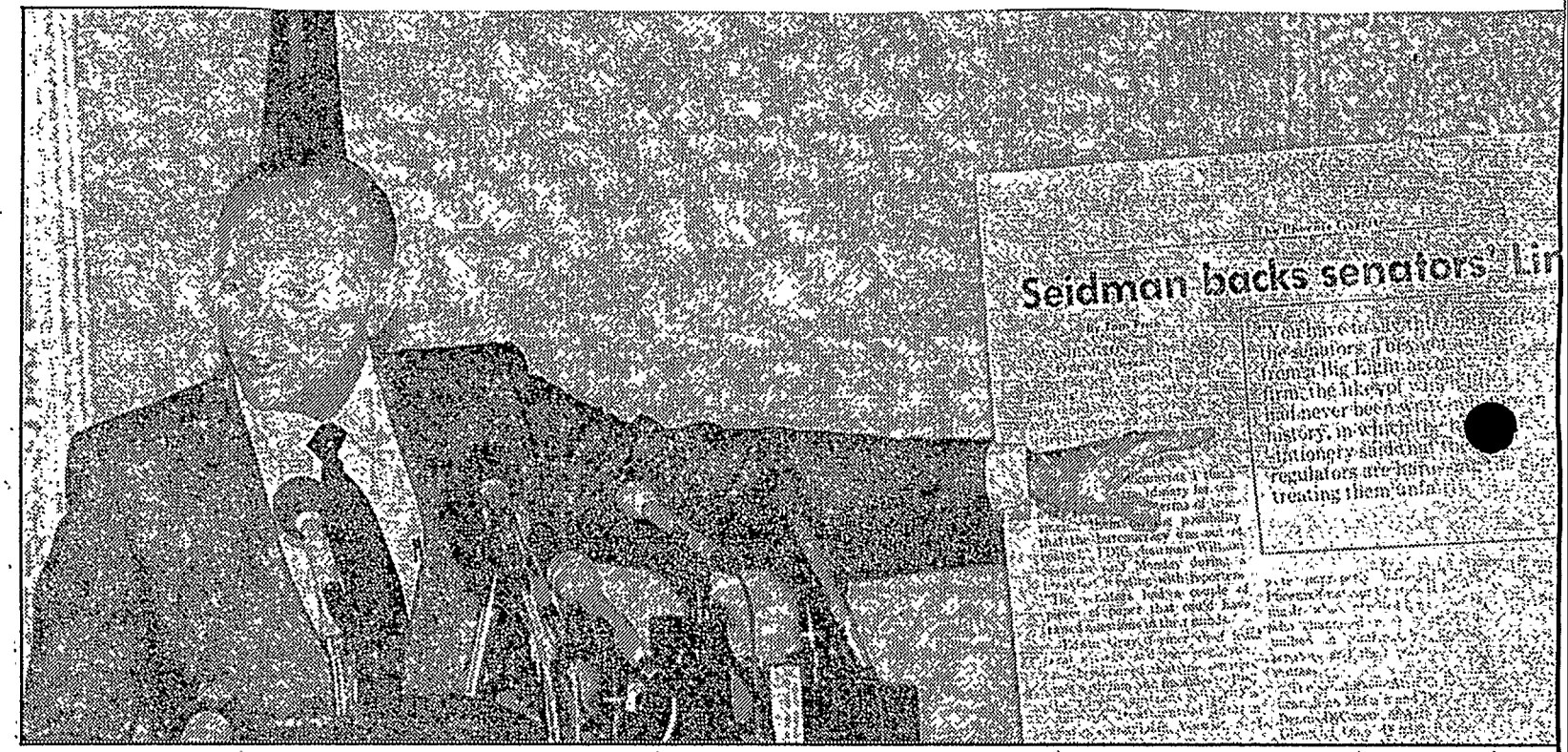
Though DeConcini previously met with individual reporters and newspaper editors around the state regarding the Keating controversy, this was his first full-blown press conference in Arizona on the subject.

McCain, also involved in the scandal, held a similar press conference in October to deny any misconduct.

Like McCain, DeConcini said that if he had known nearly three years ago what he knows now, he never would have intervened with federal regulators who seized control of Keating's failing Lincoln Savings and Loan Association in April 1989.

DeConcini also said he did not know until December 1988 that two of his key campaign aides were in business with Keating, long after a meeting he, McCain and three other senators held in April 1987 with federal banking regulators. DeConcini said he didn't know the two had received at least $50 million in loans from Keating until July, when he was told by *Arizona Republic* reporters.

He said he wishes now that his aides, Ron Ober and Earl Katz, had told him of their involvement with Keating.



Tom Story/The Arizona Rep

Sen. Dennis DeConcini gestures toward a blow-up of a newspaper story Friday while defending his role in the Lincoln Savings and Loan Association affair.

As for Keating, DeConcini said, "I feel abused," adding that in his job, he expects to get "used."

Keating, who, along with his associates, had contributed $48,100 to DeConcini's 1988 campaign, stated in April in a press conference that he hoped his contributions to politicians bought influence.

It is "unfair and inaccurate" to suggest that Keating bought influence over him, DeConcini said. He added that he has returned the contributions to Keating.

Deconcini said he and the four other senators, who have been dubbed the "Keating Five," wanted to make sure that Keating was being treated fairly by the federal government.

"My experience is that federal regulators do get out of control," DeConcini said. "I think the federal government often is out of control."

But he said he primarily wants to correct what he called "the false perception that I and the other senators were responsible for the delay in closing Lincoln and, therefore, were responsible for the huge cost of Lincoln to the United States Treasury."

The cost to taxpayers to bail out Lincoln's lost federally insured deposits has been estimated at $2 billion.

DeConcini referred to sworn testimony by Edwin Gray, former chairman of the Federal Home Loan Bank Board, before the House Banking Committee in November. In response to a question, Gray said the senators' intervention had not affected the board's actions.

"I was seeking to expedite the audit (of Lincoln)," DeConcini said, "and at no time did I seek a delay."

He blamed the two-year delay on the bank board.

But even after he and the other senators had been told a criminal probe was under way involving Lincoln, DeConcini said, he intervened in early 1989 to see if a possible sale of Lincoln could be worked out.

"I was acting to prevent a costly government takeover of Lincoln and to preserve Arizona jobs," he said.

DeConcini denied that he off federal regulators a deal on beha Keating, saying he had no auth to do so and that as a [redacted]or, conduct is prohibited.

But DeConcini said the Supreme Court has determined members of Congress are oblige "cajole" federal bureaucrats.

"That's what I was doing," he s

DeConcini, whose term through 1994, would not speculat whether he will run again.

If his media blitz failed a Senate ethics probe found him g of wrongdoing, would he con resigning? DeConcini was asked.

"I have no idea what I would all that happened," he said.

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In Keating, DeConcini backed 'a constituent'

By Andy Hall
The Arizona Republic

Small, friendly crowds greeted Sen. Dennis DeConcini in Sun City and Tempe on Monday as he opened his weeklong series of meetings to explain to voters his relationship with failed-thrift owner Charles H Keating Jr.

DeConcini, D-Ariz., repeated the theme of his Friday news conference to 10 people in Sun City and the same number of people in Tempe. Each meeting lasted 45 minutes.

The state's senior senator told the groups that he acted properly in intervening with federal thrift regulators in behalf of Keating, a major campaign contributor and fund-raiser.

"I stuck up for an Arizona constituent as I have done time and time again," DeConcini told the Sun City meeting. "That's what I do as your senator."

Some regulators who attended two April 1987 meetings with DeConcini and four other U.S. senators, including Arizona Republican John McCain, have criticized the meetings as improper attempts at political intimidation. The senators' actions are under investigation by the Senate Ethics Committee.

DeConcini said after the Sun City meeting that he expected about 40 to people attend and he did not know how to interpret the small turnout and response. He said that focus-group studies conducted by his staff in December had found widespread dissatisfaction and misimpressions over his handling of the Keating controversy, but it was not clear how intense those feelings are.

"Based on the mail (and the turnout), this is not a burning issue," said DeConcini, who, along with McCain, faces a possible recall effort.

DeConcini said he is particularly interested in the reactions among conservative rural voters in Prescott, Flagstaff and Yuma, where he will be today.

Ironically, the Prescott meeting will be at the Hassayampa Inn, which is among the 30,000 properties in the country that once were controlled by savings and loans that have failed and are now being sold by the federal Resolution Trust Corp.

DeConcini heard no criticism from either Monday audience. Instead, he

— *See* **DeCONCINI,** *page B2*

DeConcini says he stuck up for Keating, 'a constituent'

—**DeCONCINI,** *from page B1*

was praised for defending his efforts in behalf of Keating's Lincoln Savings and Loan Association.

Last year's collapse of Lincoln is expected to cost taxpayers $2 billion, and mostly elderly investors are holding an additional $230 million in now-worthless junk bonds from Phoenix-based American Continental Corp., Lincoln's former parent firm.

Earl Bowers, 63, of Glendale, thanked DeConcini for aiding his efforts last year to recover $120 from a military medical-benefits plan.

Bowers then asked DeConcini out of "which side of the mouth" Edwin Gray has been speaking. Gray, the former chairman of the Federal Home Loan Bank Board, has been sharply critical of DeConcini.

DeConcini acknowledged that Gray had been "under pressure from five senators" and former White House chief of staff Donald Regan.

But the senator said Gray has unfairly attempted to make DeConcini a "scapegoat" to cover up his own failure to prevent the collapse of the nation's thrift industry.

DeConcini appeared more relaxed than he had Friday, when he faced tougher questions at an hourlong news conference to kick off his $190,000 public-relations campaign to repair damage from publicity over his ties to Keating.

Although he will not face re-election until 1994, today he begins a statewide television-advertising campaign. Newspaper advertisements are scheduled to run this weekend.

Beth Stuart Neumann, attending the Sun City meeting, said DeConcini merely "did what every senator is asked to do by a constituent."

"I think it's unfair of the press to single him out," she said.

DeConcini will have [redacted] nix-area meetings on Wednesday and then in Tucson on Friday. Information on locations and times are available from the senator's offices at 379-6756 in Phoenix, 379-4998 in the east Valley, and 670-6831 in Tucson.

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Mike Smith/The Arizona Republic

Sen. Dennis DeConcini addresses a group of Sun City residents about his relationship with failed thrift owner Charles H Keating Jr. DeConcini has scheduled meetings with voters in Yuma, Prescott, Flagstaff, Phoenix and Tucson this week.

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(Mount Clipping in Space Below)

DeConcini, Buck clash over 'deal'

Drop 1994 bid to avoid recall, activist warns

By Don Harris
The Arizona Republic

Sen. Dennis DeConcini and political activist Ed Buck met privately for nearly an hour Wednesday to discuss campaign-finance reform, but the session ended abruptly when Buck offered to call off recall plans if the senator would promise not to run again.

"I don't do business that way," snapped DeConcini, an Arizona Democrat. "I'm not going to work under deals or threats or intimidation. He offered me a deal."

Buck, who succeeded two years ago in getting a recall of then-Gov. Evan Mecham placed on the ballot, said he is closer than ever to launching simultaneous campaigns to oust DeConcini and Sen. John McCain, R-Ariz. The Mecham recall was canceled by the state Supreme Court after the Legislature ousted him.

DeConcini, McCain and three other U.S. senators are under a Senate ethics investigation for their efforts in behalf of millionaire developer Charles H. Keating Jr.

— See DeCONCINI, page B5



Dennis DeConcini / "I'm not going to work under deals or threats or intimidation."



Ed Buck / Says embattled Sen. Dennis DeConcini should come "totally clean."

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DeConcini, Buck clash over 'deal'

— DeCONCINI, *from page B1*

The senators intervened with federal regulators in 1987 during the regulators' investigation of Keating's Lincoln Savings and Loan Association. The thrift was taken over by the federal government last year.

At a press conference Wednesday outside DeConcini's Phoenix office, Buck said DeConcini should take steps to restore public confidence in his office by "coming totally clean."

Buck said a statement by DeConcini that he definitely will not seek a fourth six-year term in 1994 would help rebuild public trust.

DeConcini said he has not thought about whether he will run in 1994.

Buck said he doubts that most people believe DeConcini's contention that at the time of the April 1987 meetings he did not know that two key campaign aides had obtained $50 million in loans from Keating.

DeConcini has said he first learned of the loans to Ron Ober and Earl Katz in December 1988.

Buck has proposed that the senators abide by strict campaign laws imposed on state candidates and that they accept no contributions from political-action committees or from out of state. He had set a deadline of last Monday for DeConcini and McCain to agree to his terms, and said Friday he is "getting closer to a recall daily."

Buck, who met with McCain last month on campaign-reform issues, delivered a letter to McCain on Tuesday calling on the Republican to give back $112,000 in campaign contributions from Keating and Keating associates. DeConcini has returned $42,000 he received from Keating contributors.

Scott Celley, a McCain spokesman, said McCain in October asked the Federal Election Commission to determine whether Keating contributions were illegal. An investigation is under way, Celley said, adding that if the FEC decides they were illegal, McCain wants to know to whom he should return the money — Keating or federal authorities who have seized control of Lincoln.

DeConcini, meanwhile, has begun a $190,000 campaign to tell his side of the story. In television commercials, paid for by DeConcini with personal funds, he states that he is distressed because his integrity has been questioned and that "I have never violated my public trust."

DeConcini defense is assailed

Remarks called misleading by 2 in Keating case

By Jerry Kammer and Andy Hall
The Arizona Republic

Sen. Dennis DeConcini, D-Ariz., is making misleading statements in his public-relations campaign to explain his relationship with failed-thrift owner Charles H Keating Jr., according to two men who played key roles in the Keating controversy.

Edwin Gray, former chairman of the Federal Home Loan Bank Board, and William Black, general counsel for the Office of Thrift Supervision in San Francisco, say DeConcini has given incomplete and erroneous accounts of the intervention of five U.S. senators who met with regulators in Keating's behalf in 1987.

Keating was a major fund-raiser and contributor for the senators, whose actions are under investigation by the Senate Ethics Committee.

Additionally, L. William Seidman, Federal Deposit Insurance Corp. chairman, indicated Thursday that he was displeased with DeConcini's use of a statement Seidman made in December on the senators' efforts in Keating's behalf.

DeConcini is completing the first week of a $190,000 public-relations campaign featuring paid television and newspaper advertising, a news conference and meetings with voters around the state.

Polls have indicated that the senator's popularity is sagging in the wake of disclosures regarding his relationship with American Continental Corp. Chairman Keating, whose failed Lincoln Savings and Loan is expected to cost taxpayers $2 billion.

DeConcini launched the campaign at a Phoenix news conference last Friday.

On Thursday, Bob Maynes, a spokesman for DeConcini, complained that "Gray and Black are basically repeating the same litany that we've heard before.

"It would appear (Gray) is still trying to point as many fingers away from his own performance as a regulator as he possibly can."

Maynes said Gray lacks credibility because his version of an April 2, 1987, meeting conflicts with the senators' recollections.

In a five-page letter to DeConcini, Gray on Thursday claimed that the senator

— See DeCONCINI'S, page B5

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DeConcini's Keating-case defense assailed

— DeCONCINI'S, *from page B1*

misstated some facts and omitted others on virtually every issue DeConcini discussed in his Friday news conference.

Gray contended DeConcini suggested that Gray withdraw a regulation, opposed by Keating, which limited thrifts' investments in risky ventures such as real estate. In return, Gray said, Keating pledged to make more loans for homes.

DeConcini denies the allegation, although a March 1987 memo written by his staff and revealed by *The Arizona Republic* discusses those issues under the headings, "What American Contintental wants from Gray for concessions" and "What American Continental is willing to do."

Gray and Black said DeConcini misused their earlier statements that they did not bow to pressure from the five senators.

Black said that while he and Gray had not been intimidated, "the real question" is the meetings' influence on M. Danny Wall, who succeeded Gray on the bank board in July 1987.

Wall has denied he was intimidated.

"Under Wall, the bank board took a whole series of unprecedented actions" that benefited Lincoln, Black said. Principal among those actions were transfer of regulatory jurisdiction over Lincoln to Washington from San Francisco and a "memorandum of understanding" that allowed Lincoln to continue high-risk use of its deposits, Black said.

Black noted that a confrontation between Gray and then-House Speaker James Wright, D-Texas, was peaking in March 1987 over Gray's attempts to rein in high-flying Texas thrifts.

Black said the regulators' meetings the next month with the senators "have to be seen in light of what the speaker was trying to do because that is certainly the tactic Keating was trying to emulate."

Seidman said "no one can take any comfort" from remarks he had made previously in evaluating the controversy about the five senators.

Referring to a letter from the Arthur Young accounting firm criticizing federal regulators' treatment of the thrift and to a 1985 report from economist Alan Greenspan praising Lincoln management, Seidman said in December:

"Those two documents, I think, were pretty extraordinary for senators to receive in terms of (convincing them of) the possibility that the bureaucracy was out of control."

A Cox News Service story on Seidman's comments was published in *The Phoenix Gazette* under the headline, "Seidman backs senators' Lincoln intervention."

DeConcini shows the article in his television commercials and has carried a poster-size version around the state for his forums.

Seidman expressed displeasure with the headline.

"I think somebody misinterpreted what I said," he said.

Seidman said that while he could understand the senators' concern about Lincoln's relations with regulators, he was not defending the senators' decision to meet with the regulators, nor was he defending statements they made at the meetings.

Asked whether he disagreed with DeConcini's use of his statements, Seidman said, "If what I said is being used to say that I have passed judgment on the things that went on between the senators and the regulators, that simply isn't so."

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

(Mount Clipping in Space Below)

Keating defends 5 senators who intervened for his S&L

Says lawmakers tried to aid thrift 'critical' to states

By Anne Q. Hoy
Republic Washington Bureau

WASHINGTON — Charles H Keating Jr. on Sunday rallied to the defense of the "Keating Five" senators who intervened with federal thrift regulators in 1987 in behalf of his Lincoln Savings and Loan Association.

In a nationally televised appearance on NBC's *Meet the Press,* Keating defended Arizona Sens. Dennis DeConcini, a Democrat, and John McCain, a Republican, and three other senators whose attempts to get regulators off Keating's back are the subject of a probe by the Senate Ethics Committee.

Keating said the senators properly pressed federal regulators eager to shut down the Irvine, Calif.-based thrift because regulators were threatening a business "critical to the economy" of their states. He said the senators "had a lot to talk about with respect to the viability of Lincoln."

"It wasn't an ordinary problem," Keating said. "It was a problem of taking down a savings and loan which was critical to the economy, the employment in those areas in which the senators served.

"It was a question of $500 billion being lost."

The embattled Arizona developer also denied his earlier claim that the more than $1 million in campaign contributions he raised for the five senators was intended to buy their influence.

Keating, who has launched a national public-relations campaign to improve his tarnished public image, again distanced himself from a comment he made last April, as he did for the first time earlier this month.

Last April, Keating said, "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. I want to say in the most forceful way I can, I certainly hope so."

Saying the comment was "a dumb way to say what I wanted," Keating cast himself as a fund-raiser. He said he "wanted to be involved in the process; 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 also said the only way "to support the system" is to "raise funds and support the people."

He said the anticipated record loss to taxpayers of more than $2 billion that Lincoln's failure is expected to cost would have been avoided had federal regulators listened to the senators.

"Had someone listened to the senators, for example, this country's

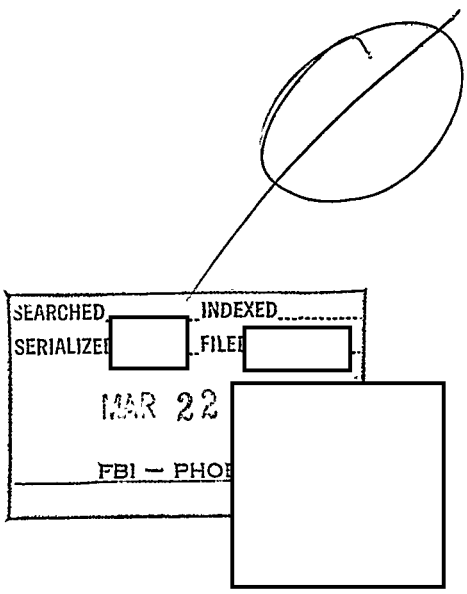
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taxpayers would be $500 billion better off," Keating said. "I am convinced that the cost of this, this debacle is going to exceed $500 billion."

Under Senate ethics scrutiny are two April 1987 meetings held in DeConcini's office. Four senators — DeConcini, McCain and Democrats Alan Cranston of California and John Glenn of Ohio — met April 2 with Edwin Gray, then head of the now-defunct Federal Home Loan Bank Board to pressure him to scuttle an investment rule Keating opposed.

A week later, Democratic Sen. Don Riegle of Michigan joined the same group when it pressured San Francisco regulators to speed up an exam of Lincoln. Keating was among each senator's largest fund-raisers.

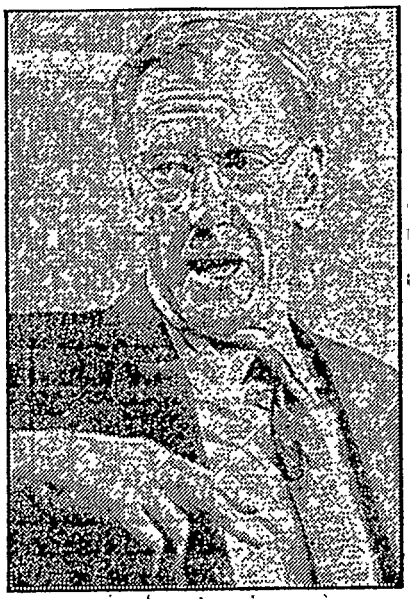
Keating, chairman of Lincoln's Phoenix-based parent company, American Continental Corp., is fighting in federal court in Washington to regain control of Lincoln. Keating presented the most vigorous defense of his actions during two days of testimony in that case earlier this month.

The court appearance contrasted sharply with his brief appearance before a House panel in November, when he declined to answer questions and invoked his Fifth Amendment right against self-incrimination.

Keating also is the subject of probes by a California federal grand jury, the Securities and Exchange Commission, the FBI and the Internal Revenue Service.

As he has done repeatedly, Keating blamed federal regulators for Lincoln's failure, stressing that they improperly seized "a profitable property."

He also denied government claims that he and family members drained Lincoln's federally insured deposits to pay themselves more than $34 million in hefty salaries and bonuses and that he had Lincoln offices wiretapped after regulators took over the institution.



Ron Edmonds/The Associated Press

Charles H Keating Jr., appearing on NBC's *Meet the Press*, defends the senators who intervened with federal thrift regulators in his behalf.

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S&L scandal still plaguing senators

DeConcini fares much worse than McCain in poll

By Sam Stanton
Republic Washington Bureau

WASHINGTON — Buffeted by their involvement in the Lincoln Savings and Loan scandal, the popularity of Arizona Sens. Dennis DeConcini and John McCain continues to suffer, according to a new Arizona Republic Poll.

But DeConcini, a third-term Democrat who has launched an all-out publicity blitz to boost his sagging approval ratings, clearly is being hurt more than McCain by his ties to former Lincoln owner Charles H Keating Jr.

Dennis DeConcini / Has launched an all-out publicity blitz to boost his sagging approval ratings.

John McCain / Is traversing Arizona this month to assess the political damage he has suffered.

The statewide poll indicates that more Arizonans are dissatisfied with DeConcini's job performance than are satisfied, a startling turnaround of his ratings in a similar survey in April.

The poll, taken of 808 Arizonans earlier this month, said 41 percent were dissatisfied with DeConcini, up from 24 percent in April.

Thirty-nine percent approved of DeConcini's performance, compared with 63 percent in April.

However, taking the poll's 3 percentage point margin of error into account in the polling process, the

— *See* **POLL**, *page A6*

KEATING SPEAKS: Developer defends lawmakers. **A9**

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POLL METHOD

The Arizona Republic Poll is based on telephone interviews conducted Jan. 4-7 with 808 Arizona adults. Random-digit dialing was used to select the sample to ensure 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 households with telephones.

Poll hints scandal plaguing senators

— POLL, *from page A1*

figures on DeConcini may be virtually even.

DeConcini spokesman Bob Maynes said he could not remember another poll in which the senator's approval ratings were lower than his unfavorable ratings.

Maynes added that he believes that many Arizonans have been misinformed about DeConcini's role in the Keating affair.

McCain, a first-term Republican, also has suffered a dramatic drop in popularity, but the percentage of people expressing dissatisfaction with his performance is much lower than DeConcini's rating.

The poll indicated that 49 percent of those surveyed were satisfied with McCain's performance, down from 63 percent in April.

Twenty-nine percent were dissatisfied, more than double the 12 percent who expressed dissatisfaction in April.

Despite the large drop from last spring, the latest survey appears to indicate that much of the damage from the Keating affair is behind the two senators.

A Republic Poll conducted in November at the height of publicity about the senators' involvement with Keating and his failed thrift, gave DeConcini a 43 percent favorable rating and a 35 percent unfavorable rating. McCain had a 48 percent favorable rating against a 27 percent unfavorable rating.

5 senators under fire

DeConcini, McCain and three other senators came under fire last year for intervening in 1987 with federal regulators in behalf of Keating, who, along with his associates and their wives, contributed a total of $1.3 million to the five men. But DeConcini has drawn stronger criticism because he is believed to be the ringleader of the so-called Keating Five.

Maynes said the poll was conducted before DeConcini began defending himself in earnest with a $190,000 advertising campaign, a news conference and a series of public forums around Arizona.

Those forums, Maynes said, have attracted about 170 people with only two saying they definitely would not vote for DeConcini if he ran for a fourth term in 1994.

Since the poll was taken, DeConcini has been criticized by two federal thrift regulators who charged that the senator has made misleading statements in his public-relations campaign.

McCain spokesman Scott Celley said McCain's office would not comment on the poll.

But McCain confidant Jay Smith, a Washington political consultant, said the similarity between the November poll and the latest survey show that "the damage has been staunched."

Drop called no surprise

He added that the drop from last spring's poll is not surprising given Keating's notoriety, and he referred to a recent poll that gave Keating only a 2 percent favorable rating.

"Hitler would probably have better numbers in Arizona than Charles Keating, and so to be associated in any way, certainly, you're going to take a hit," Smith said.

Although the latest poll did not mention Keating or Lincoln Savings, Smith said there is no doubt that the drop in McCain's ratings is directly tied to Keating.

"Absolutely, I've never seen anything like it in my life," Smith said.

He said that in polls he has done, respondents consistently mentioned Keating as a factor in their view of McCain.

But, Smith added, his polls have indicated that most Arizonans do not believe McCain should resign and that most people want him to run for a second term in 1992.

The Republic Poll was conducted Jan. 4-7 and has a margin of error of plus or minus 3 percentage points.

The poll results come at a pivotal time for both senators, who are traversing Arizona this month to assess the damage they have suffered.

Phoenix political activist Ed Buck is threatening to stage a recall drive against both men, and the two are the subject of a Senate Ethics Committee preliminary investigation.

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

(Mount Clipping in Space Below)

Fellow senators rush to defend DeConcini

By Sam Stanton
Republic Washington Bureau

WASHINGTON — Sen. Dennis DeConcini, D-Ariz., blasted Wednesday for refusing to meet with three victims of the Lincoln Savings and Loan Association collapse, on Thursday won impassioned defenses from his colleagues, who said criticism of him is unwarranted.

But his junior colleague from Arizona, Republican John McCain, upstaged the outpouring of support by doing exactly what DeConcini had refused to do: meeting with the S&L victims to discuss their concerns about Lincoln and future S&L failures.

The session Thursday with McCain came three hours after the Senate Judiciary Committee closed ranks to support DeConcini and advance his bill reforming the nation's civil racketeering laws by an 11-2 vote.

Even Sen. Howard Metzenbaum, D-Ohio, who opposed the bill, praised DeConcini as a "man of the highest integrity."

His comments were echoed by Republicans and Democrats alike, with Sen. Joseph Biden, D-Del., describing as "bizarre" the notion that DeConcini introduced his bill solely to benefit former Lincoln Savings owner Charles H Keating Jr.

Sen. Orrin Hatch, R-Utah, said the criticism of DeConcini is "reprehensible."

"It's not only pathetic, it's criminal," he added.

DeConcini, meanwhile, angrily denounced the "outrageous" attacks

— See SENATE, page A6

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Senate colleagues back DeConcini over new criticism

—SENATE, *from page A1*

against him.

"I have been subjected to attacks that I have been doing this for reasons of a savings and loan in Arizona," DeConcini said.

"There is no truth to that. . . . The campaign against this bill has used lies, distortions, coercion and personal attacks, and I abhor this type of effort."

DeConcini bolstered his statements with handwritten signs explaining that his bill has nothing to do with Lincoln Savings, signs that he held up as cameras clicked and whirred.

DeConcini said his bill, which he has supported in various forms for at least six years, would stop frivolous lawsuits that abuse the power of the Racketeer Influenced, Corrupt Organization laws. He emphasized that it would not affect a lawsuit filed by bondholders who lost money when Lincoln collapsed nor affect any other existing cases.

Not 'forum' for all quarrels

"Congress simply did not intend to create a federal forum for every argument between businessmen," DeConcini said.

"It did not intend for federal judges to be using treble-damages awards in deciding divorce cases and landlord-tenant disputes."

As DeConcini spoke, the three S&L victims and their attorneys sat in the back row of a packed hearing room in the Senate Dirksen Office Building.

The victims, all women, who lost a total of $86,000 after buying bonds from Lincoln's parent company, American Continental Corp., on Wednesday called DeConcini "gutless" and a "coward" because he refused to meet with them to discuss his bill.

The three, including a 92-year-old, legally blind woman in a wheelchair, are among 23,000 bondholders who are suing to recoup millions lost when Lincoln was seized by the government and American Continental filed for Chapter 11 protection. American Continental is headed by Keating, a Phoenix developer and large campaign contributor to both senators.

The women say they fear DeConcini's bill will reduce the ability of victims of future S&L failures to sue.

DeConcini acknowledged Wednesday that the women's attorney, William Lerach of San Diego, had called his office on their behalf.

But DeConcini said he would not speak to Lerach until the attorney apologized for what DeConcini said were lies and threats about him.

The women had vowed Wednesday to confront DeConcini at the session, but the senator entered and left the hearing room through a back door commonly used by senators.

No money to 'buy interest'

After the hearing, the women renewed their attack on DeConcini at a press conference in a hallway.

Ramona Miller Jacobs repeated her belief that DeConcini is "gutless" and only has time to meet with large contributors such as Keating.

"I guess I don't have enough power and money to buy his interest," Jacobs said.

The comments were a stark contrast to the women's praise for McCain.

"All I can tell you is I admire him," Jacobs said after she and the two other women spent 45 minutes with McCain.

"He's a very compassionate man, very sympathetic," said Leah Kane, another Lincoln victim, who is spokeswoman for 150 others in Leisure World in Orange County, Calif.

McCain opposes peer's bill

McCain, whose relationship with DeConcini never has been warm, said he met with the women at their request.

McCain said he opposes DeConcini's bill, but would not talk about DeConcini's refusal to meet with the women.

On Wednesday, the women also met with Democratic Sen. Alan Cranston of California, who along with DeConcini and McCain is one of the so-called Keating Five, whose links to Keating are under investigation by the Senate Ethics Committee.

They also met with the chief of staff to Sen. Donald Riegle, D-Mich., another Keating Five member.

The women's attorney said they had not had time to try and meet with the fifth senator, John Glenn, D-Ohio.

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(Mount Clipping in Space Below)

The Cranston Trophy

If the Senate adopts Alan Cranston's solution to the Keating Five problem they are going to have to create an annual award called the Cranston Trophy. Needless to say, it'll be given out annually on April 15, the day America's taxpayers send in their checks to endow the award.

Senator Cranston is one of the five Members of the World's Greatest Deliberative Body who intervened with federal regulators on behalf of Charles Keating's infamous Lincoln



Savings & Loan. Mr. Keating's S&L has saddled the American people with the job of covering its $2.5 billion of losses. But that's not the reason for the Cranston Trophy.

Senator Cranston is in big political trouble in California (current approval rating: 26%) because of more than $200 million in worthless bonds sold at Lincoln branches to 23,000 investors. These included many California retirement-home residents and some nuns at an Ohio convent.

The Senator's political fortunes have sunk so low that the Oakland Tribune, an old ally, accuses him of betraying a "longtime friendship" and has called for his resignation. "Cranston's dishonesty compounds every other terrible misjudgment he has made in this sordid affair," the paper wrote. "It robs him of any moral right to continue representing the people of California."

Alas, Senator Cranston has come up with a plan to make this piece of his problem whole. He has introduced legislation in the Senate that would allow the bondholders to sue the federal government and force the Federal Deposit Insurance Corp. to cover their losses, on the dubious grounds that many thought the bonds were federally insured. "What has happened to the bondholders is one of the most upsetting things I have ever known," Senator Cranston says. "Those responsible ought to pay and pay dearly."

Well, of course, Senator Cranston doesn't actually mean that America's taxpayers, who after all are the ones who will pay and pay dearly for the S&L mess, are responsible for it. No, he announced recently that he had discovered the villain in the Lincoln fiasco—the federal regulators who delayed the Irvine, Calif., thrift's closing.

Senator Cranston now says there is enough evidence to sue the regulators for negligence. He didn't mention that for two years after those same regulators warned him Lincoln was a "ticking time bomb" and under investigation for fraud he continued to pressure regulators to go easy on the thrift. And that at the same time, Senator Cranston asked for and got nearly $1 million from Mr. Keating for voter-registration drives, which turned out to be fronts for the Democratic Party.

We suppose that before the Senate awards the Cranston Trophy it would be prudent to await the outcome of the Senate Ethics Committee's report, the Oakland Tribune's effort, and ultimately the Senator's next election in 1992. At the moment, polls show that 62% of California voters wouldn't support him again.

Then of course there is the court of comic opinion. Congress appears to be on the brink of disappearing into that land whence no one has ever returned in one piece—the late-night comic's TV monologue. Jay Leno, in particular, has discovered Capitol Hill:

"I saw a Senator on one of those Sunday morning talk shows the other day and he said that the actions of the Senate have created a lot of jobs for a lot of citizens. Yeah, but, let's face it, you can't make a career out of jury duty."

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Campaign reformers launch drive with eye to 'Keating 5'

By Don Harris
The Arizona Republic

Political-watchdog groups launched a nationwide drive Wednesday aimed at winning passage of what Common Cause officials are calling a comprehensive "Keating Five campaign-reform bill."

Representatives of Common Cause and the League of Women Voters were on street corners across the nation Wednesday distributing leaflets promoting an end to "the campaign-money scandal."

The impetus for changing the way campaigns are financed, Common Cause says, stems from the collapse of Lincoln Savings and Loan Association, once owned by Charles H Keating Jr.'s American Continental Corp.

In Washington, D.C., Fred Wertheimer, president of Common Cause, told reporters that reformers owe a debt of gratitude to Keating.

"Although Keating's S&L failed, he did succeed in at least one thing: educating Americans on just how dangerous and costly the current system is, and how it can be used to gain extraordinary influence in Washington," Wertheimer said.

Five U.S. senators, including Dennis DeConcini, D-Ariz., and John McCain, R-Ariz., are facing a Senate ethics investigation into their intervention with federal banking regulators in Keating's behalf. The so-called Keating Five all received hefty campaign contributions from Keating and associates. The other members of the Keating Five are Democrats Alan Cranston of California, John Glenn of Ohio and Donald Riegle of Michigan.

In Phoenix, Dana Larsen, executive director of Arizona Common Cause, led 20 activists who distributed about 500 fliers in front of the Federal Building, 230 N. First Ave., and throughout the downtown area.

Larsen said House Speaker Tom Foley, D-Wash., and Senate Majority Leader George Mitchell, D-Maine, have promised floor action this year on campaign-reform legislation.

Such a bill must put a cap on spending by federal candidates and on contributions made by political-action committees, Larsen said. In 1988, PACs contributed $148 million to House and Senate campaigns.

Contributing to this article was *Knight-Ridder*.

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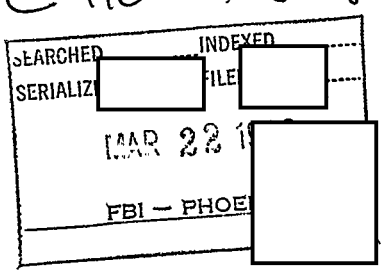
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(Mount Clipping in Space Below)

Senator wishes he'd 'never met' Keating but defends own role

San Francisco Chronicle

SAN DIEGO — Saying he wishes he "had never met Charles Keating," U.S. Sen. Alan Cranston on Friday staunchly defended the propriety of his own actions in the Lincoln Savings scandal.

Delivering the keynote address 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. 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. Cranston and four other senators, including Arizona's Dennis DeConcini, a Democrat, and John McCain, a Republican, in 1987 interceded in Keating's behalf with federal regulators who were conducting a lengthy probe of Lincoln's finances.

Losses at the thrift, seized by the government in April, may cost taxpayers $2.5 billion. The five senators now are being investigated by the Senate Ethics Committee.

In his speech Friday, Cranston said he acted only after Keating came to him with what appeared to be a "legitimate complaint."

Cranston said that all he did was demand that a lengthy audit of Lincoln be completed quickly and not necessarily in Keating's favor.

As for the money he took from Keating, $850,000 of it for voter-registration groups, Cranston defended the contributions as proper and insisted that he has derived no personal gain from them.

"Not a penny of that money — not a penny of any of Keating's money — went into my pocket," he said.

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2 senators accused of ploy due to scandal

By Anne Q. Hoy
Republic Washington Bureau

WASHINGTON — Republican Rep. Bob Stump complained Tuesday that an Arizona wilderness package was "hastily" crafted two weeks ago at the urging of the state's two senators to divert attention from a probe of their roles in the Charles H Keating Jr. scandal.

Asked whether Sens. Dennis DeConcini and John McCain acted quickly to draw attention from the Senate ethics investigation, Stump said, "Probably yes."

He said the Keating scandal will dog the two senators for years.

Stump later retracted his comments after he was contacted by Sen. Dennis DeConcini, D-Ariz.

"You talk about yellow journalism," Stump said. "You have deliberately misstated me. You posed the question. I said nothing about them running this bill because of the Keating thing."

In the interview, Stump said DeConcini and McCain face severe political problems in Arizona stemming from their intervention with thrift regulators in behalf of Keating, former owner of Lincoln Savings and Loan Association.

The comments came after the House Rules Committee approved a rule that clears the way for a House vote on a part of the Arizona wilderness package, perhaps as early as next week.

The two senators said they pushed for a compromise with Rep. Morris K. Udall, D-Ariz., on the wilderness bill because the House Interior and Insular Affairs Committee, headed by Udall, was about to act.

DeConcini said that he wanted to pare the more-extensive House wilderness package and that his efforts were unrelated to the Keating debacle.

Scott Celley, McCain's spokesman, said that "it's absurd" to suggest the Keating affair led McCain to act.

"The delegation was in a position to act on the legislation and have an agreed-upon bill or have it decided by the House Interior Committee absent the senator's input," Celley said.

Rep. Jim Kolbe, R-Ariz., expressed disappointment that the delegation did not get together to hammer out the details of the legislation.

He said the deal was reached despite an agreement that the entire delegation would strike the final deal.

But Rep. Jay Rhodes, R-Ariz., who protested at the House Rules meeting that floor action on one part of the package was premature, said he "felt a part of the process all along."

The legislation is part of a package that would more than double Arizona's wilderness land.

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DeConcini, McCain recall drives delayed

Ed Buck halts action pending Senate findings

By Don Harris
The Arizona Republic

Recaller Ed Buck has put on hold plans to attempt special elections aimed at ousting Arizona's two U.S. senators.

"The numbers aren't there," Buck said Friday. "We've decided to wait until the Senate Ethics Committee comes out with its findings."

The Senate panel is investigating the relationship between five senators — including Sens. Dennis DeConcini, D-Ariz., and John McCain, R-Ariz., and Phoenix financier Charles H. Keating Jr., a major contributor to the five senators.

DeConcini and McCain were not among the five senators who intervened in Keating's behalf with federal banking regulators, but Keating's campaign contributions to the two U.S. senators and Lincoln Savings and Loan, the failing Irvine, Calif., thrift he once headed, have aroused public interest.

Buck said various polls indicate that Arizonans, by about a two-to-one ratio, believe the senators did something unethical but that by nearly the same ratio they don't want a recall.

"Even an unscientific poll by 'many important things' capture[d] his attention in Arizona," said Ed Buck, a conducted last month among 381 of Mecham recall workers, not one of them indicated that support for recalls of DeConcini and McCain was not strong enough to mount a successful campaign.

Bob Maynes, spokesman for DeConcini, said of Buck's decision: "The question was not if he would abandon [illegible] but when."

Under Buck's leadership, a recall election was scheduled against then-Gov. Evan Mecham for May 1988. But the state Supreme Court cancelled it after Mecham was ousted by the Legislature in April 1988.

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

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'Keating 5' panel hears 1st witness

Former regulator testifies privately

By Anne Q. Hoy
Republic Washington Bureau

WASHINGTON — The nation's former top thrift regulator testified privately for four hours Friday before the Senate Ethics Committee in its probe into the relationship of Arizona's two senators and three others with Charles H Keating Jr.

Friday's session was shrouded in secrecy and was held in a U.S. Capitol office often reserved for top-secret national-security meetings.

Edwin Gray, former head of the now-defunct Federal Home Loan Bank Board and one of the first witnesses to testify, said he was asked not to discuss his testimony.

The panel is investigating the role of the "Keating Five" senators in helping Keating, a major campaign contributor, in his war against federal regulators.

Gray, who presided over the thrift industry from 1983 to 1987, was questioned by Sens. Howell Heflin, D-Ala., the committee chairman; Warren Rudman, R-N.H., its vice chairman; and David Pryor, D-Ark.; and by Robert Bennett, an attorney hired to lead the panel's most extensive probe ever.

Gray has charged that Sens. Dennis DeConcini, D-Ariz., and John McCain, R-Ariz., and the other senators improperly intervened in behalf of Keating in 1987 when the embattled Arizona developer was warring with regulators over a rule limiting direct investments by federally backed thrifts in real estate and risky enterprises. The other three senators are Alan Cranston, D-Calif., John Glenn, D-Ohio, and Don Riegle, D-Mich.

The five senators, who received more than $1.4 million in contributions from Keating and his associates, have denied any wrongdoing.

Keating's Lincoln Savings and Loan Association was seized by regulators in April.

People close to the investigation said the committee did not limit its questions to the 1987 meetings, which one source called "the tip of the iceberg."

Meanwhile, the House Banking Committee is scheduled to resume its probe March 6. Among those expected to testify are Tucson businessmen Ernest Garcia and Fernando Acosta, who were involved in real-estate deals with Lincoln, and Charles Keating III, Keating's son.

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Let's all shed a tear for poor Keating



KEVEN WILLEY
Political Columnist

Doesn't your heart bleed for Charles H Keating Jr.?

Here's a guy who was flying so high on a wave of wealth that he felt, and acted, invincible. Now, by his own admission, he's plummeted to the depths of poverty.

"My family and I are flat broke," the fallen tycoon whimpered on national television earlier this year.

Indeed, records filed last week in American Continental's Chapter 11 bankruptcy case show that Keating has slashed his former half-million-dollar-a-year salary to $1.

What a guy.

Clearly, Keating wants our sympathy. In his mind, he's just a regular fellow trying to do good. A regular fellow being unmercifully maligned by federal regulators and the press, both of which he believes have vendettas against him.

Too broke to drive himself

So why don't I hear any violins?

Because this is a guy who's so "flat broke" that he's chauffeured around Washington, D.C., in sleek, black limousines. He's so penniless that he stays at the Willard Intercontinental, a stately mosaic-floored hotel that has played elegant host to many a president on the eve of inaugurations.

Not exactly Motel 6.

This is a man so poverty stricken that he was forced to sell his vacation home. It was a cozy little getaway, valued in 1987 at just $1.4 million. It's on Cat Cay in the Bahamas.

It's not exactly on his way to the homeless shelter. He still resides in his lavish $5 million Paradise Valley estate.

Then there's the Mercedes, the 46-foot yacht, the $75 Hermes ties.

Not exactly blue-light specials.

Some days are diamonds

His wife, Mary Elaine, had a $1.2 million jewelry collection. It included a platinum ring featuring a flawless 16.6-carat emerald-cut diamond and six baguette-cut diamonds weighing an additional 2 carats, according to Uniform Commercial Code filings.

And there's the emerald-and-diamond ring. This one's much more modest: The emerald is only 3 carats and is surrounded by 24 smaller oval-shaped diamonds.

Let's not forget the diamond earrings — 4 carats each.

It's hard to have much sympathy for a man who so flamboyantly wallowed in excess. Indeed, extravagance is Keating's middle name.

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And to reward women employees, Keating would fly them in a corporate jet to Beverly Hills, Calif., and finance $1,000 shopping sprees for each of them on Rodeo Drive.

Threw money at senators

This is the same guy who contributed $1.4 million to the campaigns and related organizations of five U.S. senators in an effort to buy their influence.

Sympathy? You've got to be kidding.

To put Keating's "poverty" in perspective, consider the plight of some of his victims. There are some 22,000 of them, many elderly.

Collectively, they lost about $200 million via Keating and his high-flying Lincoln Savings and Loan Association.

Several of them testified in Congress last year that Lincoln Savings employees misled them into believing that the high-risk, unsecured bonds were safe and federally insured.

One woman from California lost $30,000 in now-worthless American Continental bonds. A diabetic, she's nearly blind. She'd planned to use the money to pay for medical expenses incurred from the loss of her left retina and the effects of two diabetic comas.

Investors lost nest egg

Another woman, 78-year-old Connie Wicksman, and her 80-year-old husband lost $25,000. It was their retirement nest egg.

A mother had invested $11,000. It included insurance payments her daughter received after suffering brain damage in an auto accident.

Keating's son, Charles Keating III, drew the ire of Rep. Henry Gonzalez on Tuesday when he failed to show up to testify before a congressional committee investigating the collapse of his father's financial empire.

The Texas Democrat, chairman of the House Committee on Banking, Finance and Urban Affairs, called it a "sad commentary on a family that has cost the American taxpayers at least $2.5 billion, wiped out hundreds of elderly bondholders and wrecked a major financial corporation."

Those bondholders are people who deserve our sympathy, not Keating.

He's now working for about 8 cents a month, and even that seems like too much.

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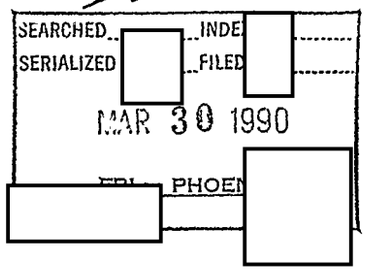
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FD-350 (Rev. 5-8-81)

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Keating Lawyer's Letter Tells Of Pressuring Top Regulators

By George Williamson
Chronicle Staff Writer

A lawyer for Charles Keating Jr., at a key juncture in the government's case against Lincoln Savings, told Keating that she had successfully "put pressure" on the nation's top thrift regulators, and "you have (them) right where you want them."

A previously confidential letter, written May 10, 1988, by attorney Margery Waxman and obtained recently by the House Banking Committee, contradicts testimony by former Federal Home Loan Bank Board Chairman M. Danny Wall that he and his Washington staff were not influenced by pressure from Keating and his lobbyists.

Waxman wrote the "Dear Charlie" letter 10 days before Keating signed an unprecedented memorandum of understanding with the bank board that, among other things, moved jurisdiction over Lincoln to Washington from San Francisco — where regulators a year earlier had urged a federal takeover of the thrift.

The agreement also provided that Washington's examination of Lincoln would not use information

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Keating Lawyer's 'Pressure' on Regulators

From Page 1

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"You have the board right where you want them, and you should be able to reach an agreement tomorrow which will completely satisfy you," Waxman wrote to Keating.

"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 meeting is crucial to their future. If they mess up this time, it is all over."

Wall's Reaction

Wall, who left the bank board's successor agency last week after announcing his resignation in December, said yesterday that the letter "sounds to me like a lawyer trying to justify fees that were being charged."

He said that to his recollection, he had never discussed Lincoln or Keating with Waxman.

In the letter to Keating, Waxman listed some specific points "that you should come out with tomorrow," including:

■ "San Francisco is finished. There is no going back to San Francisco, and nothing can be done to follow up their exam."

A year earlier, San Francisco-based federal regulators had recommended a takeover of Lincoln, a recommendation they held to even after five U.S. senators, including Alan Cranston, met privately with them on behalf of Keating.

■ "No monitor on Lincoln. You will take responsibility for communicating with Daryl on a regular basis whenever there is something that he should be made aware of." Daryl Dochow was the regulator placed in charge of the Washington-based Lincoln examination.

■ "Daryl will take responsibility for the examination — maintaining lines of communication with you at all times. Nothing will be done in the exam that you are not aware of in advance."

Waxman, who was in Chicago yesterday and could not be reached for comment, is a lawyer with the Washington firm of Sidley and Austin, one of the nation's major thrift representatives. Lincoln was among its top paying clients, but the firm also does a great deal of legal work for the government on thrift takeovers.

Five days before Waxman's letter, the bank board had voted 2 to 1 to approve transferring jurisdiction over Lincoln to Washington but left negotiation of final details to Wall's Washington staff.

House Banking Committee member Jim Leach, R-Iowa, who has characterized the final agreement as "the worst governmental document maybe of this century," said yesterday after learning of the Waxman letter:

"It's clear from the result that Keating had undue and unprecedent influence on the board. What is unclear is why. The letter leaves the question open."

Wall yesterday rejected Waxman's claim that the lawyer's "pressure" on him resulted in him instructing his staff that the next day's meeting was "crucial to their future."

Wall said: "I can't imagine what in the world that means. I certainly can't recall making such instructions."

He said the staff was made up of career employees whom "I couldn't fire, or hire, at will."

"Many elements of that letter make no sense to me," Wall said.

Wall said, for example, that a "monitor," or a supervising agent, in fact was immediately placed full-time in Lincoln's Irvine headquarters shortly after the agreement was signed.

Orders 'Untrue'

Karl Hoyle, who was the bank board's congressional liaison and who was involved in negotiations with Keating on the memorandum of understanding, called it "patently untrue" that Wall issued the kind of instructions to his staff that Waxman described.

Hoyle said that in fact Keating "balked" at the idea of the memorandum immediately after the bank board gave the go-ahead for the staff to work out the details.

Brad Boland, Keating's son-in-law and spokesman for Lincoln's parent company, American Continental Corp., said the letter from Waxman supports Keating's claim that regulators in San Francisco were overstepping their bounds in the Lincoln case.

"The facts have shown that San Francisco regulators abused their power to such an extraordinary extent that such a unique solution was required," he said.

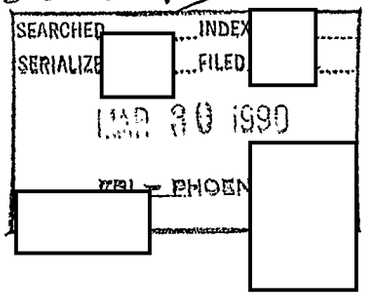
Boland added that Waxman "is a highly respected attorney in D.C., and she was able to get the facts in front of the board. They never would have done what they did unless they had the facts. And the facts were shown without any question."

Regulators have testified under oath at a House Banking Committee hearing about suspicions that a lawyer for Sidley and Austin may have tipped off Keating that the government had decided to seize Lincoln. One day before the Lincoln takeover, American Continental filed for bankruptcy protection, a move that hampered the government's ability to get at assets connected to Lincoln.

Regulators contacted Sidley and Austin about possibly representing the government on the seizure of Lincoln before the action was taken last spring, according to sources in Washington.

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Dennis DeConcini / Received more than $1.08 million.

John McCain / He garnered more than $969,000.

Senators' PAC tally in millions

Pair supporting campaign reform

By Sam Stanton
Republic Washington Bureau

WASHINGTON — Arizona Sens. Dennis DeConcini and John McCain, who are supporting efforts to reform the nation's campaign laws, each took about $1 million in contributions from special-interest political-action committees from 1983 to 1988, a new study indicates.

DeConcini, a Democrat elected to a third term in 1988, received more than $1.08 million in the five-year period, the study indicates, and McCain, a first-term Republican, garnered more than $969,000.

Both senators are under scrutiny by the Senate Ethics Committee because of huge contributions they received from Phoenix businessman Charles H. Keating Jr. and his associates.

But the study by the government-watchdog group Common Cause says that political-action committees controlled by some of the nation's most powerful lobbies also kicked in huge chunks of money to the DeConcini and McCain campaigns.

DeConcini, for instance, received $91,450 from financial-industry political-action committees and more than $70,400 from insurance lobbies, the study says.

McCain got more than $132,450 from energy groups and an additional $85,000 from aerospace and defense sources.

During the period the study covered, DeConcini raised more than $3.3 million and ran one campaign for the Senate. McCain raised about $2.85 million and ran two campaigns, one for his House seat in 1984 and one to advance to the Senate in 1986.

The study, one in a series released by Common Cause as it tries to prod Congress into enacting campaign reforms to limit contributions from political-action committees, draws no conclusions about the money the two senators received. The contributions to Arizona's senators were among the first studied by Common Cause and thus cannot be compared with those made to their colleagues.

But Common Cause President Fred Wertheimer said an overall study of funds received by all 100 senators shows that the "role and influence of PAC money" must be "dramatically reduced."

DeConcini, whose 1988 campaign expense of nearly $3 million is a record for Arizona, already has tried to do just that, sponsoring legislation that would dramatically limit contributions from political-action committees and place voluntary limits on campaign spending. He also would like to see partial public financing of campaigns.

The Senate appears ready later this month to debate a different campaign-reform bill, and DeConcini is a co-sponsor of that bill.

McCain also has said he favors campaign-finance reform but has not made it a major cause because he feels it would be inappropriate while the ethics review is taking place.

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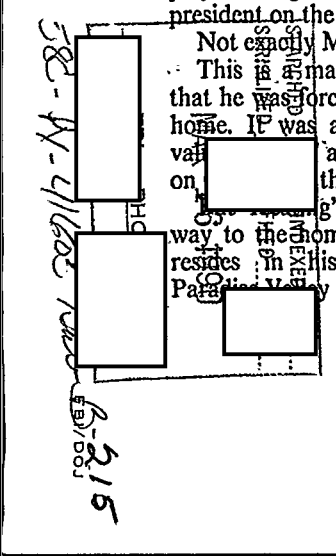
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Keating son fails to show in probe

Official assails 'cavalier attitude' of thrift family

By Anne Q. Hoy
Republic Washington Bureau

WASHINGTON — House Banking Committee Chairman Henry Gonzalez lashed out at the son of Charles H Keating Jr. for failing to appear before the panel Tuesday, branding it a "sad, sad commentary on a family that has cost the American taxpayers at least $2.5 billion."

Gonzalez, D-Texas, said the absence of Charles H. Keating III unmasks a "cavalier attitude."

"We see the Keatings on selected television programs," Gonzalez said. "We read the stories peddled by high-priced lawyers and public-relations firms."

He accused the family of engaging in "a well-orchestrated campaign to dupe the American public about the shenanigans at Lincoln, to dupe the American public that is paying the bills for the Keating disasters."

Gonzalez said the younger Keating, who held several positions with Lincoln and AmCor Investments Corp., a subsidiary of Lincoln, was not compelled to testify because the committee for weeks has been unable to assemble a majority to approve issuing a subpoena.

Brad Boland, the Keatings' spokesman, dismissed Gonzalez's charges, saying lawyers had informed the committee "a long time ago" that the

— See KEATING, page A9

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FBI/DOJ

Keating son fails to show, 'attitude' of family assailed

— KEATING, *from page A1*

younger Keating would not appear voluntarily.

"It infuriates me," Boland said. "They're trying to make a spectacle of this thing, and (Gonzalez) is just trying to grandstand."

The Banking Committee is investigating the collapse last year of the elder Keating's Lincoln Savings and Loan, which is expected to cost taxpayers $2.5 billion.

Gonzalez issued his rebuke after a federal thrift examiner testified that Sen. Dennis DeConcini, D-Ariz., had received thousands of dollars in donations from key employees of a Phoenix-based home builder linked to sham real-estate transactions with Lincoln Savings.

Christopher Seefer of the federal Office of Thrift Supervision said he was informed in June by a California regulator that the contributions were funneled to DeConcini a week after the senator had been the host for the first of two controversial 1987 meetings to pressure federal regulators to get off Keating's back.

Regulator unveils memo

The two meetings, attended by four other senators, including Arizona Republican Sen. John McCain, have prompted a Senate Ethics Committee probe of the five senators, who received about $1.4 million in Keating-related contributions.

Seefer provided the committee with a copy of a typewritten memo given to him by Richard Newsom, a bank examiner with the California Department of Savings and Loans.

Seefer said the memo alleged that employees of Emerald Homes, a Phoenix-based home builder, pumped $3,000 and then an additional $12,000 into DeConcini's coffers a week after the senator's meeting.

The memo says, "Within a week of the meeting with the 'Gang of Five' in D.C., our good friend DeCan (sic) received five $600 gifts from persons at Emerald Homes and other gifts totaling over $12K from Emerald people."

But Newsom, in a telephone interview, said he did not recall where he got the memo and could not vouch for its accuracy.

DeConcini spokesman Bob Maynes discounted Seefer's testimony.

"I am not going to respond to a ridiculous insinuation raised in a memo from a source that no one can even remember," said Maynes, quoting DeConcini. "I might add that printing such insinuations simply compounds this outrage."

Seefer said he was not accusing DeConcini of any impropriety.

The Arizona Republic reported in November that five Emerald Homes executives contributed a total of $3,000 to DeConcini on May 7, 1987, a month after the first meeting.



Rep. Henry Gonzalez Accuses the Keatings of trying to "dupe" the American public.

The story, based on Federal Election Commission records, reported that Emerald employees gave him an additional $7,000 later in 1987.

'Crime pays' for thrifts

Seefer also told the panel that his investigation of Keating's master-planned communities, Estrella and Hidden Valley, taught him that "at least in the savings and loan industry, crime pays, and it pays well."

Tuesday's hearing focused on a what Seefer called a series of "sham" real-estate transactions between Lincoln and real-estate speculators in Estrella and Hidden Valley, about 20 miles southwest of Phoenix.

Seefer said Lincoln made a series of phony land sales in the areas that allowed its Phoenix-based parent, American Continental, to book inflated profits to fend off regulators, justify "excessive salaries and bonuses" to Keating's family, and to prop up American Continental stock.

Seefer said the Hidden Valley and Estrella projects left Lincoln, a federally insured institution seized by regulators last April, holding more than $200 million in losses from bogus profits, loans that were never repaid and inflated appraisals.

Reps. Jim Leach, R-Iowa, and Joseph Kennedy, D-Mass., exploded in frustration after being told by federal regulators that Keating's lawyers again have fended off their efforts to examine American Continental.

Calling the elder Keating a "crooked son of a gun" and criticizing regulators who "can't come up with a way to investigate the guy and put him in the can," Kennedy suggested that Keating is being improperly shielded by federal Bankruptcy Court proceedings in American Continental's Chapter 11 case in Phoenix.

"At this stage of the game, months after these investigations have taken place, years after they should have taken place, Mr. Keating is still flying around the world with his friends, still living a very grand lifestyle, still basically using depositors' funds that we've heard so much about," he said.

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By George Williamson
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From Page 1

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Waxman, who was in Chicago yesterday and could not be reached for comment, is a lawyer with the Washington firm of Sidley and Austin, one of the nation's major thrift representatives. Lincoln was among its top paying clients, but the firm also does a great deal of legal work for the government on thrift takeovers.

Five days before Waxman's letter, the bank board had voted 2 to 1 to approve transferring jurisdiction over Lincoln to Washington but left negotiation of final details to Wall's Washington staff.

House Banking Committee member Jim Leach, R-Iowa, who has characterized the final agreement as "the worst governmental document maybe of this century," said yesterday after learning of the Waxman letter:

"It's clear from the result that Keating had undue and unprecedent influence on the board. What is unclear is why. The letter leaves the question open."

Wall yesterday rejected Waxman's claim that the lawyer's "pressure" on him resulted in him instructing his staff that the next day's meeting was "crucial to their future."

Wall said: "I can't imagine what in the world that means. I certainly can't recall making such instructions."

He said the staff was made up of career employees whom "I couldn't fire, or hire, at will."

"Many elements of that letter make no sense to me," Wall said.

Wall said, for example, that a "monitor," or a supervising agent, in fact was immediately placed full-time in Lincoln's Irvine headquarters shortly after the agreement was signed.

Orders 'Untrue'

Karl Hoyle, who was the bank board's congressional liaison and who was involved in negotiations with Keating on the memorandum of understanding, called it "patently untrue" that Wall issued the kind of instructions to his staff that Waxman described.

Hoyle said that in fact Keating "balked" at the idea of the memorandum immediately after the bank board gave the go-ahead for the staff to work out the details.

Brad Boland, Keating's son-in-law and spokesman for Lincoln's parent company, American Continental Corp., said the letter from Waxman supports Keating's claim that regulators in San Francisco were overstepping their bounds in the Lincoln case.

"The facts have shown that San Francisco regulators abused their power to such an extraordinary extent that such a unique solution was required," he said.

Boland added that Waxman "is a highly respected attorney in D.C., and she was able to get the facts in front of the board. They never would have done what they did unless they had the facts. And the facts were shown without any question."

Regulators have testified under oath at a House Banking Committee hearing about suspicions that a lawyer for Sidley and Austin may have tipped off Keating that the government had decided to seize Lincoln. One day before the Lincoln takeover, American Continental filed for bankruptcy protection, a move that hampered the government's ability to get at assets connected to Lincoln.

Regulators contacted Sidley and Austin about possibly representing the government on the seizure of Lincoln before the action was taken last spring, according to sources in Washington.

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

(Mount Clipping in Space Below)



Dennis DeConcini / Received more than $1.08 million.

John McCain / He garnered more than $969,000.

Senators' PAC tally in millions

Pair supporting campaign reform

By Sam Stanton
Republic Washington Bureau

WASHINGTON — Arizona Sens. Dennis DeConcini and John McCain, who are supporting efforts to reform the nation's campaign laws, each took about $1 million in contributions from special-interest political-action committees from 1983 to 1988, a new study indicates.

DeConcini, a Democrat elected to a third term in 1988, received more than $1.08 million in the five-year period, the study indicates, and McCain, a first-term Republican, garnered more than $969,000.

Both senators are under scrutiny by the Senate Ethics Committee because of huge contributions they received from Phoenix businessman Charles H. Keating Jr. and his associates.

But the study by the government-watchdog group Common Cause says that political-action committees controlled by some of the nation's most powerful lobbies also kicked in huge chunks of money to the DeConcini and McCain campaigns.

DeConcini, for instance, received $91,450 from financial-industry political-action committees and more than $70,400 from insurance lobbies, the study says.

McCain got more than $132,450 from energy groups and an additional $85,000 from aerospace and defense sources.

During the period the study covered, DeConcini raised more than $3.3 million and ran one campaign for the Senate. McCain raised about $2.85 million and ran two campaigns, one for his House seat in 1984 and one to advance to the Senate in 1986.

The study, one in a series released by Common Cause as it tries to prod Congress into enacting campaign reforms to limit contributions from political-action committees, draws no conclusions about the money the two senators received. The contributions to Arizona's senators were among the first studied by Common Cause and thus cannot be compared with those made to their colleagues.

But Common Cause President Fred Wertheimer said an overall study of funds received by all 100 senators shows that the "role and influence of PAC money" must be "dramatically reduced."

DeConcini, whose 1988 campaign expense of nearly $3 million is a record for Arizona, already has tried to do just that, sponsoring legislation that would dramatically limit contributions from political-action committees and place voluntary limits on campaign spending. He also would like to see partial public financing of campaigns.

The Senate appears ready later this month to debate a different campaign-reform bill, and DeConcini is a co-sponsor of that bill.

McCain also has said he favors campaign-finance reform but has not made it a major cause because he feels it would be inappropriate while the ethics review is taking place.

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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

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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 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.



John Glenn / The senator has denied any wrongdoing.

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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Keating assails thrift-regulator pick

By Anne Q. Hoy
Republic Washington Bureau

WASHINGTON — Arizona financier Charles H. Keating Jr. on Tuesday urged the U.S. Senate to reject President Bush's nomination of T. Timothy Ryan Jr. as the nation's top thrift regulator.

In a one-page letter to all senators, Keating said Ryan was "unqualified" and that his confirmation would "continue the sorry record of placing in this important role an unqualified individual."

The letter appeared to attract little attention on Capitol Hill. Aides to several key senators said they did not know whether it had been received.

The offices of Sens. John McCain, R-Ariz., and Dennis DeConcini, D-Ariz., said no such letter was received Tuesday.

But a top Senate aide, who asked not to be identified, branded the letter an example of Keating's arrogance.

"It's typical of this guy's role toward everything. He thinks he's being the big wheeler-dealer," the aide said. "He's a very tall man, and all of it's ego, and that's just what got everybody in trouble."

Ryan's nomination to be director of the Office of Thrift Supervision, which was narrowly approved Friday by the Senate Banking Committee, is expected to face formidable debate — primarily over his lack of experience in the financial industry — when the Senate considers the matter today.

But questions also could turn to last week's disclosure that Ryan told the Bush administration that he had occasionally used cocaine and marijuana in the early 1970s.

In the letter, Keating took the Bush administration to task for picking Ryan. He said the administration made a "tacit admission" that Ryan was the wrong person for the job when White House officials responded to criticism of Ryan by saying the post had been difficult to fill.

"This is hardly the time to shrink from the challenge of finding competent people to handle the important affairs of our government," Keating wrote.

"Indeed, if this is a reason to embrace mediocrity, I fear for the republic."

Keating for several years has been tangling with federal thrift regulators, who last April seized his Lincoln Savings and Loan.

The federal government also has filed a $1.1 billion civil-racketeering and fraud suit against Keating and his associates in an attempt to recover some of Lincoln's losses.

In addition, five senators, including DeConcini and McCain, are the subject of a Senate ethics investigation into whether they improperly intervened with federal regulators in Keating's behalf.

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

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Keating: Give me another chance

Asks U.S. judge to return Lincoln to his control

By Anne Q. Hoy
Republic Washington Bureau

WASHINGTON — In a dramatic personal appeal, Charles H Keating Jr. asked a federal judge on Tuesday to return his Lincoln Savings & Loan, saying he could "out-perform anybody else" and transform its risky assets into hefty profits.

Keating vowed to devote "every ounce of my energy" and to put all of his personal assets on the line if U.S District Judge Stanley Sporkin would return Lincoln to his control.

He even invited the court to supervise his management of it.

"I think if we had this opportunity, we could out-perform anybody else," Keating said.

"What is it you're actually proposing in dollars and cents?" Sporkin asked.

"I don't have any money," Keating responded. "I'm broke."

Keating made his appeal during his

— See KEATING, page A6



Charles H Keating Jr. / "I think if we had this opportunity, we could out-perform anybody else."

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Keating seeks another chance

— KEATING, *from page A1*

seventh day of testimony and moments before the government began questioning him.

Earlier in the day, the Phoenix financier produced documents that he said prove that federal regulators thwarted his attempts to sell Lincoln last year. In addition, he said memos show that regulators admitted making a $100 million mathematical error that led to Lincoln's seizure.

Federal regulators have denied any wrongdoing.

Keating is suing for the return of Lincoln, contending that regulators seized it because they had a vendetta against him. The government has claimed that Keating operated the thrift in an "unsafe and unsound" manner, and was siphoning millions of federally insured deposits for its parent, American Continental Corp.

Keating said that if Lincoln were returned to him, it would reap sufficient profits to allow American Continental to repay the 23,000 small investors who bought $250 million in bonds. The bonds became worthless when American Continental filed for bankruptcy protection a day before federal regulators seized Lincoln last April.

Keating acknowledged the estimated $2 billion loss to taxpayers as a result of the takeover. But he said putting Lincoln back into his hands would save money.

'Squads of armed guards'

Keating provided a vivid description of the takeover, saying federal regulators sent "squads of armed guards" into the Irvine, Calif.-based thrift. He said they harassed top management, searched his daughter, who was nine-months pregnant, and "interrogated employees."

He said regulators allowed trash to accumulate for weeks so examiners could go through it, refused American Continental employees access to their records, locked people out of their offices and insulted a female employee by telling her, "You look good enough to be working at the strip bar down the street."

Asked by Sporkin whether he had any inkling that Lincoln was about to be seized, Keating said he became suspicious three weeks before the takeover when regulators booked several of their agents into one of his Phoenix hotels for extended stays.

Turning to his efforts to sell Lincoln before it was seized, Keating said regulators failed to respond to sale offers, imposed lengthy conditions on one offer and then demanded that any purchaser put up $200 million in cash after having said earlier that $50 million would be acceptable.

Keating said the $200 million requirement "was plucked out of the air and thrown into the transaction to kill the deal."

Memo produced in court

Keating lawyer John Lundin produced an interoffice memorandum from Alvin Smuzynski, a key regulator with the Office of Thrift Supervision, to an underling, as evidence that regulators were trying to scuttle Lincoln's sale.

"We sometimes play a game with recommendations," Smuzynski wrote in the March 30, 1989, memo, two weeks before Lincoln was seized.

"You can deny a recommendation by conditioning it to death. I think we should try that."

In another memo dated March 13, 1989, an auditor working with Washington-based regulators admitted that one of the conditions set forth to win approval to sell Lincoln was not supported by accounting rules.

"I made it up. . . . We are treating Lincoln differently than everybody else," the memo said.

Regulators have said they rejected the offers for Lincoln because the proposed buyers lacked sufficient cash and because they feared Keating would be involved with the new ownership.

$100 million math error

Keating also charged that the government made a $100 million math error after its lengthy exam of Lincoln 1988. His lawyers produced a memo in which regulators conceded making a $60 million error.

The error stemmed from a December 1988 notice in which the government claimed Lincoln was suffering from a capital deficiency of $114 million.

But Keating said he was immediately suspicious of the figure, and his accountants soon discovered mathematical errors that overstated the deficiency by as much $100 million.

One of the reasons cited for seizing the thrift was its insufficient capital.

After regulators denied for more than a year that the error existed, a top regulator conceded in a Feb. 17, 1989, memo to his boss, "It now appears that the examiners did make a significant ($60 million) error in their calculation."

But the memo said accounting for the error Lincoln still had a "sustainable capital failure."

'How Lincoln will use it'

Nonetheless, the top regulator expressed fear in the memo that the error could be used by Keating in his battle with regulators.

"I want you to hear this from me before you hear it from Charlie Keating," the memo began.

It concluded, "Obviously, I find this error, if verified, most distressing — not because it changes my view of Lincoln and what has and will have to be done, but because of how Lincoln will use it."

Kevin O'Connell, a regulator who has been assisting government lawyers, told reporters the memo was a "first blush" finding and that it later was found that regulators had made no mathematical errors.

"Kevin either can't add or he's a liar," Keating said during a break.

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Keating cash shed by Corbin

Campaign funds go to S&L agency

By Sam Stanton
Republic Washington Bureau

WASHINGTON — Arizona Attorney General Bob Corbin has given up $39,000 in campaign contributions from developer Charles H. Keating Jr. and his associates, saying it would not be ethical for him to keep the money while he was fighting Keating in court.

But Keating and his aides were upset Wednesday that Corbin had handed the money over to the federal government's Resolution Trust Corp. instead of the original donors. A Keating attorney indicated that unless the government returned the money, it could be considered "theft."

"The RTC didn't give it to him," Keating said. "They've never supported anything except disaster."

The Phoenix financier said he wants the money back.

"I could probably use it to pay my SRP (Salt River Project) bill," he said.

Keating claims he is broke now that the government has seized his Lincoln Savings and Loan and his other firms have filed for protection under the nation's bankruptcy laws.

Keating's comments came after testimony concluded in U.S. District Court in his lawsuit to regain Lincoln from the government, which seized it a year ago.

That case, in which testimony began in December, will be decided after the attorneys for the government and Keating present oral arguments June 18. Judge Stanley Sporkin is expected to rule several weeks after that.

On Wednesday, Keating's lawyers introduced into evidence a draft of a 12-page article that is to appear in the *Stanford Law Review*. The article blames the savings and loan crisis on government regulators and suggests that a bonfire should be built to burn all current regulations.

Meanwhile, Keating is continuing a public-relations campaign to convince people that the government had no right to take his California thrift.

Keating, appearing from Washington on Wednesday night on KAET-TV's *Horizon* show, said he is satisfied with the trial.

"We had a fair day in the courtroom," he said.

Asked by *Horizon's* Phyllis Palacio whether he had made mistakes in his five years of operating Lincoln, Keating replied, "We may have bought some real estate sometimes that didn't pan out. But you don't do a whole lot wrong when you take a

— See CORBIN, page A7

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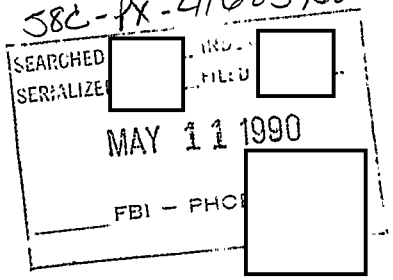
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Corbin cuts Keating tie, disowns campaign cash

— CORBIN, *from page A1*

losing S&L that's going down the tubes and you turn it into a winner."

He said that the 23,000 holders of now-worthless American Continental bonds sold through Lincoln were "raped" by the government's "confiscation" of his thrift and that his operation of Lincoln was "squeaky clean" and ethical.

He added that the government also has seized Arizona thrifts and is in the process of selling off their assets at prices below their value.

"You've got a whole state wrecked," Keating said.

On Monday, he is scheduled to appear on ABC's *Nightline*.

He also is expected to testify today before the Senate Ethics Committee, which is conducting a probe into whether five U.S. senators, including Dennis DeConcini, D-Ariz., and John McCain, R-Ariz., were improperly influenced by his contributions.

The government seized Lincoln in April 1989 and later filed a $1.1 billion civil racketeering suit against Keating and numerous associates, alleging that they looted depositor funds from Lincoln and funneled them into political causes. Keating has contended he is innocent.

> "The (Resolution Trust Corp.) didn't give it to him. They've never supported anything except disaster. . . . I could probably use it to pay my SRP (Salt River Project) bill."
>
> — **Charles H Keating Jr.**

At the time the government's suit was filed, Corbin said he would not return Keating's contributions because that could be seen as an admission that he had done something wrong.

But since then, Corbin's office has been helping in numerous probes of Keating's business dealings. Corbin said he gave back most of the money in March because his office is becoming officially involved in the suit against Keating and in a Keating motion challenging a portion of an Arizona law included in the suit.

Corbin's decision to return the funds is the latest such move for numerous politicians nationwide, including DeConcini, who last year returned $81,000. McCain has held onto $112,000 in Keating-related contributions, saying he is waiting until the court cases are cleared up.

But unlike the others, Corbin turned his money over to the government, saying it should hold the money until courts decide the allegations against Keating.

"We just thought they'll make the decisions about where it goes," Corbin said.

An attorney for Keating and the other donors, Benjamin Bull, wrote the government that it had no right to keep the money and that it would be "theft" to keep it.

However, attorney Michael Manning, who has been retained by the government to help in its cases involving Keating, said he believes Corbin could do whatever he wanted with the money.

He added that the money actually was returned to Lincoln Savings, which is under the control of the RTC.



Bob Corbin / Handed the campaign money over to the Resolution Trust Corp.

Government regulators estimate Lincoln's collapse will cost taxpayers up to $2.5 billion.

The campaign funds, including $32,000 contributed to Corbin by Keating and his family members, were part of about $43,000 in contributions made to Corbin in 1986 while he was considering running for governor. He later decided not to run for governor that year and was unopposed in his re-election bid.

He said his campaign was keeping the other $4,000 contributed because it was not given by individuals named in the court action.

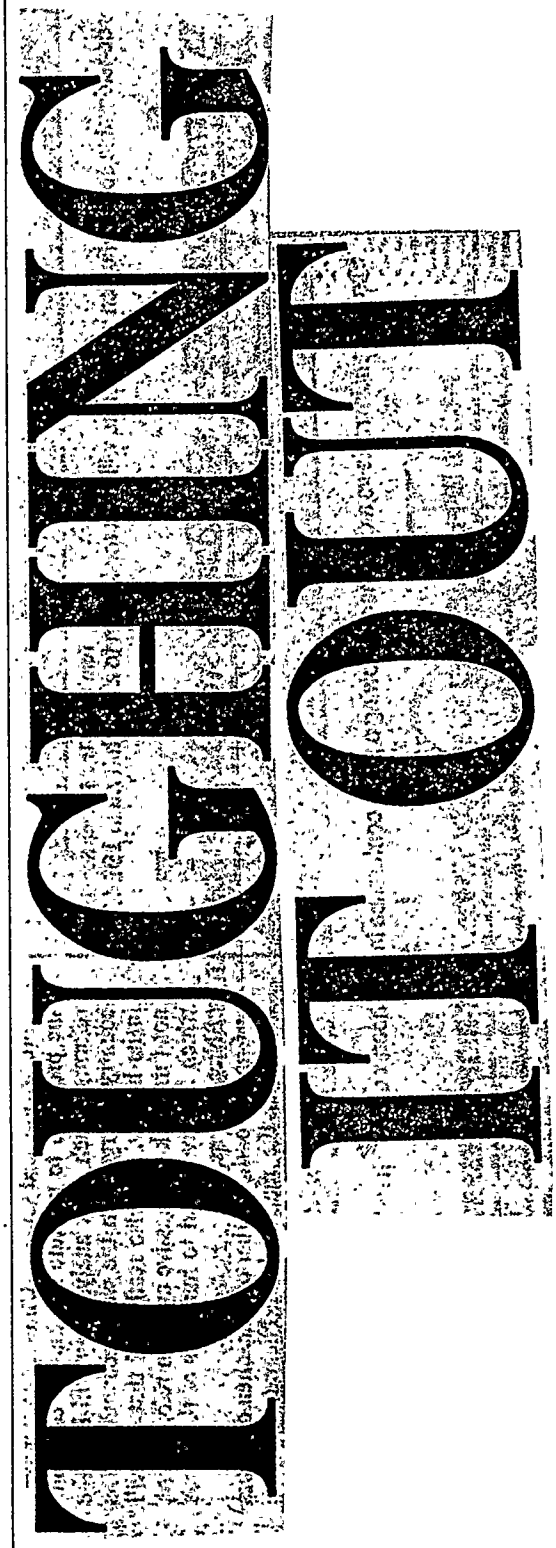
Corbin added that he was not sure what he would do with that money, which he could keep after retiring from office next year.

"I'll probably just give it to charity," he said.

Contributing to this article were Richard Robertson and Jerry Kammer of *The Arizona Republic*.

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After a year of revelations about their dealings with Charles H Keating Jr., Arizona's two U.S. senators still await the outcome of a Senate Ethics Committee probe that may decide whether they have a future in politics.

Their involvement with the Phoenix financier has evolved into what both men have said is one of the darkest periods of their lives, and polls have placed their acceptance by the public at all-time lows.

But, as the furor over Keating and his failed Lincoln Savings and Loan has subsided somewhat, Sens. Dennis DeConcini and John McCain are seeing their popularity rebound.

In the first of a two-part series that continues next week with a look at Keating, *The Arizona Republic* examines how DeConcini (left) and McCain are trying to put the Keating affair behind them.

DeConcini resumes tackling issues eclipsed by Keating

By Anne Q. Hoy
Republic Washington Bureau

TUCSON — "How ya weathering the storm?" asks a man just outside Tucson's Rocky Mountain Oyster Club.

"Well, it's like an alcoholic," responds Sen. Dennis DeConcini. "You just take it one day at a time."

The question comes easily to Arizona voters mindful of the string of political bombshells that have exploded around DeConcini since he won election to his term in 1988.

The Arizona Democrat concedes he has been hurt by waves of political problems since then. The biggest among them, his involvement with Phoenix financier Charles H Keating Jr., had left the senator visibly shaken and preoccupied by late last year.

But today, he is again actively tackling issues — the anti-drug war and law enforcement along the Southwest border among them — that last year were given short shrift as he struggled under the weight of his political problems.

"All of it cumulatively has certainly been damaging," DeConcini said. "Part of it is because the press says, 'Well, it all started back in 1988.' I started 'to crumble' in 1988 because of these charges which are untrue."

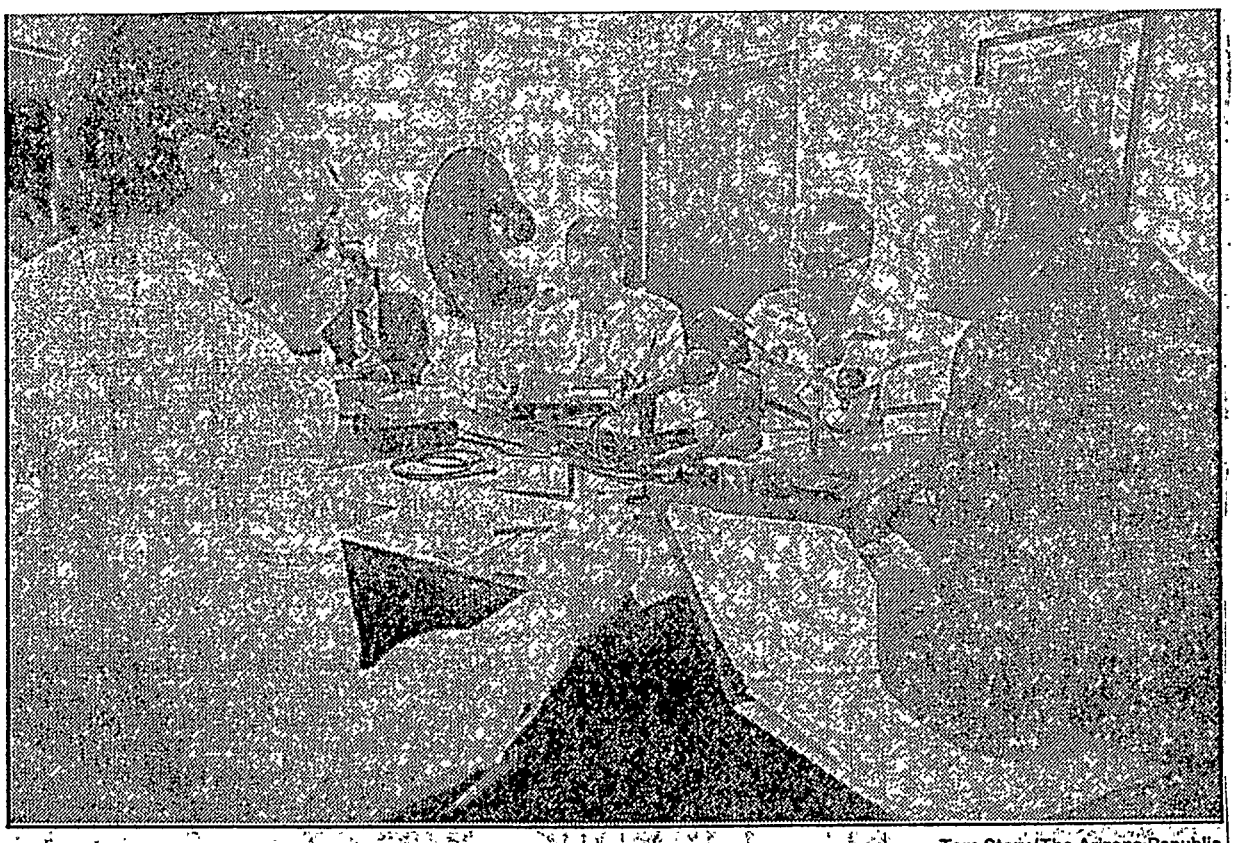
Sympathy among senators

Some consider DeConcini's turmoil a kind of astrological curse.

"It seems that the stars are crossed over (him)," quipped former Arizona Gov. Bruce Babbitt.

Yet Senate colleagues said his effectiveness has not been damaged. Sen. Paul Simon, D-Ill., said the overwhelming response among senators has been one of sympathy.

— See DECONCINI, page C2



Tom Story/The Arizona Republic

Sen. Dennis DeConcini faces reporters. DeConcini attributes part of the decline in his political fortunes to the press saying, "'Well, it all started back in 1988.' I started 'to crumble' in 1988 because of these charges which are untrue."

DeConcini views setback

—DECONCINI, *from page C1*

"There is a general feeling that 'There but for the grace of God go I,'" said Simon, who serves with DeConcini on the Judiciary Committee. "I think Dennis is basically respected by his colleagues as a good and decent person."

DeConcini, Arizona Republican Sen. John McCain and three other senators are the target of a Senate Ethics Committee probe into whether they improperly asked federal regulators to ease up on Keating, a major campaign contributor to all five.

But DeConcini's problems deepened when it was disclosed that two longtime DeConcini aides — former campaign manager Ron Ober and fund-raiser Earl Katz — stockpiled more than $50 million in loans from Lincoln Savings & Loan.

The Keating affair came on the heels of election-year disclosures that DeConcini and his family reaped hefty profits from the federal government on the sale of land in the path of the Central Arizona Project.

"Cumulatively, yes it hurts," said DeConcini, who denies impropriety. "(But) the foundation to try to crumble DeConcini was laid in the 1988 campaign and will always be around."

Self-inflicted blunders

Critics and supporters alike said DeConcini and his family of aides — many of whom are lifetime friends — have grown increasingly insular and have too rarely sought outside advice during the turmoil.

What's worse, political observers said, is that DeConcini exacerbated his problems by a series of self-inflicted public-relations blunders:

• An at first stingy, respond-only-to-precisely-what-is-asked approach to the Keating scandal that made him look evasive.

• A personally financed $190,000 media campaign, designed to tell his side of the Keating story but judged to be too late and too defensive.

• An oddly timed disclosure that he had returned $33,000 in Keating-related contributions from his 1982 campaign. That, coming on top of a previous announcement that he already had returned $48,000 given his 1988 campaign, only kept the Keating story alive.

"Dennis has aggressively gone out and kept stoking the fire," said Stan Abrams, a Tucson-based Democratic power broker and fund-raiser. "I think Dennis in that respect may have hurt himself a little bit because he keeps it going.

"You would think at some point in time you'd sit down and say, 'This is it. This is all of it. There ain't no more.' But rather than that it comes out in dribs and drabs," Abrams added.

Aides stir embarrassment

Abrams said DeConcini's political aides and advisers have ill-served him and are most to blame for his problems. He aimed particular fire at Ober and Katz, a key Middle East adviser to DeConcini who was at the center of an embarrassing controversy last year.

DeConcini placed Katz on his Senate payroll so he could travel on a military plane and take part in briefings during a 12-day trip. But when word got to Sen. Robert Byrd, D-W.Va., Senate Appropriations Committee chairman, who must approve such trips, Byrd publicly scrapped approval for Katz.

"Anytime you have a situation where you have staff people who are there for a long, long time, I think after a while they just lose their sense of perspective," Abrams said. "I think they lose touch."

What's more, relations between the media and his press secretary Bob Maynes, who is alternately dubbed "the junior senator" and "Sen. Maynes," often have been strained.

"Dennis is a guy whose loyalties are part of his agenda," said Alfredo Gutierrez, former Senate minority leader in the Arizona Legislature and now political consultant. "He sticks on to people longer than he should."

Will he run again?

Many speculate that DeConcini could not survive another race. Others, citing the visible strain the turmoil has had on his wife, Susan, predict DeConcini will retire.

But Tommy Chandler, Sr., a prominent Tucson lawyer whose first

job out of law school was to work for DeConcini's late father, Evo, said DeConcini could easily win again "because in the long run his roots run very, very deep. . . . It will hurt but it won't be fatal."

Working in DeConcini's favor is that he enjoys the trappings of incumbency — a platform, scores of long-time financial supporters and name recognition. More importantly, he does not face re-election until 1994.

Many also note this is not his first brush with political ruin.

More than a decade ago, DeConcini was the target of a failed recall drive after voting to ratify the Panama Canal treaties, which will hand over the canal to Panama by the year 2000.

Politically cautious record

DeConcini, capitalizing on his family's name and with the financial and political help of family and friends, swept into office in 1976 with 54 percent of the vote, defeating Republican Sam Steiger.

"I badly misread him," Steiger said of DeConcini. "I took one look at him and thought nobody would ever vote for him; he's a wimp."

Immediately he began building a politically cautious Senate record from which he has rarely strayed. Notable exceptions are his vote against Reagan Supreme Court nominee Robert Bork and his proposal this year to ban semiautomatic assault weapons. That proposal has drawn howls from the gun lobby and sparked a short-lived recall drive last year.

His Senate agenda has been dominated by law-and-order issues. Far before it became politically popular, DeConcini was calling for more federal money to battle drug smuggling. He also has sought improved child care, a constitutional amendment requiring a balanced budget, and a flat-rate income tax.

He chaired a special Senate probe into the wholesale failure of federal Indian programs last year.

Despite breaking his own pledge to serve only two terms, DeConcini year after year has introduced legislation to limit the terms of lawmakers.

He emerges from his recent problems as an independent and sometimes unpredictable political player who draws on the advice of a small circle of advisers. He lacks oratory skills and charisma, but strives to make up for that through persistence.

"Dennis is particularly tenacious," Gutierrez said. "He is not a guy who does glitz and glamour. He just plods onward."

DeConcini is highly partisan — his eldest brother Dino said their father used to joke that Dennis recited the Pledge of Allegiance saying ". . . and to the Democrat for which it stands."

Out of step with leadership

But his conservative tendencies often are out of step with the Democratic leadership. And at times his independence has rubbed top Democrats the wrong way.

During the Carter administration DeConcini joined Sen. Orrin Hatch, R-Utah, in pressing for an inquiry into an alleged link between then-Democratic National Chairman John C. White and his involvement in a plot to benefit Libya and fugitive financier Robert Vesco.

The highly sensitive probe came during the heat of the 1980 presidential campaign and amid charges that Carter's brother Billy had received $220,000 in loans from Libyans in an attempt to influence Carter at the

— See SENATE, page C3

Senate record cautious, independent from leadership

—SENATE, *from page C2*

height of the U.S. hostage crisis.

A former Democratic Party aide said DeConcini's insistence on the probe "earned the undying enmity of White and the top party hierarchy."

But Burt Wides, a Washington lawyer who was a Senate Judiciary Committee aide during the flap, said DeConcini's insistence on the probe, despite his party loyalty, showed "integrity and intellectual honesty."

Problems arose in 1988

It was during the 1988 election, when DeConcini faced a challenge from Republican Keith DeGreen, that political problems first began.

"The 1988 campaign was certainly damaging because of the credibility (*The Arizona Republic*) gave to Keith DeGreen's charges. Front-page stories the last three weeks of the race," he said.

DeConcini was forced to concede he and his siblings bought 320 acres of land in 1979 for $400,000. Less than half of the parcel was later condemned and sold to the federal government for $1.4 million.

Relying on what he said was faulty information from his staff, DeConcini first claimed he bought the land years before the CAP path was chosen. But the purchase actually came shortly after the route bisecting his property came under public consideration and before the final route was picked in 1981.

Another deal then surfaced.

DeConcini in 1983 invested in a partnership that bought land condemned later by the federal government for construction of New Waddell Dam, a water-storage facility for CAP at the south end of Lake Pleasant.

But this time, DeConcini had divested his shares before the settlement at the urging of the U.S. attorney's office, which had been advised by the U.S. Justice Department that such a move would be illegal. Months later, in an unrelated case, the Justice Department reversed its decision. DeConcini, meanwhile, rejected charges that he had acted on inside information.

DeConcini complained that a front-page article in *The Republic* failed to note that he turned his shares over to his sister and brothers before the second deal was completed.

He charged the omission shaved four points off the uncommanding 57 percent vote he won in 1988 against little-known DeGreen.

"That is something that will always be with me," DeConcini said. Despite his bitterness with the press, DeConcini said his religious faith has helped him get through the political turmoil.

"You deal with the hand you get. I can't write the press and tell the press what to write. All I can do is do my job as honestly as I can and know who I am and what I am. And that's what I have to do. If I run again people have to judge for themselves," DeConcini said.



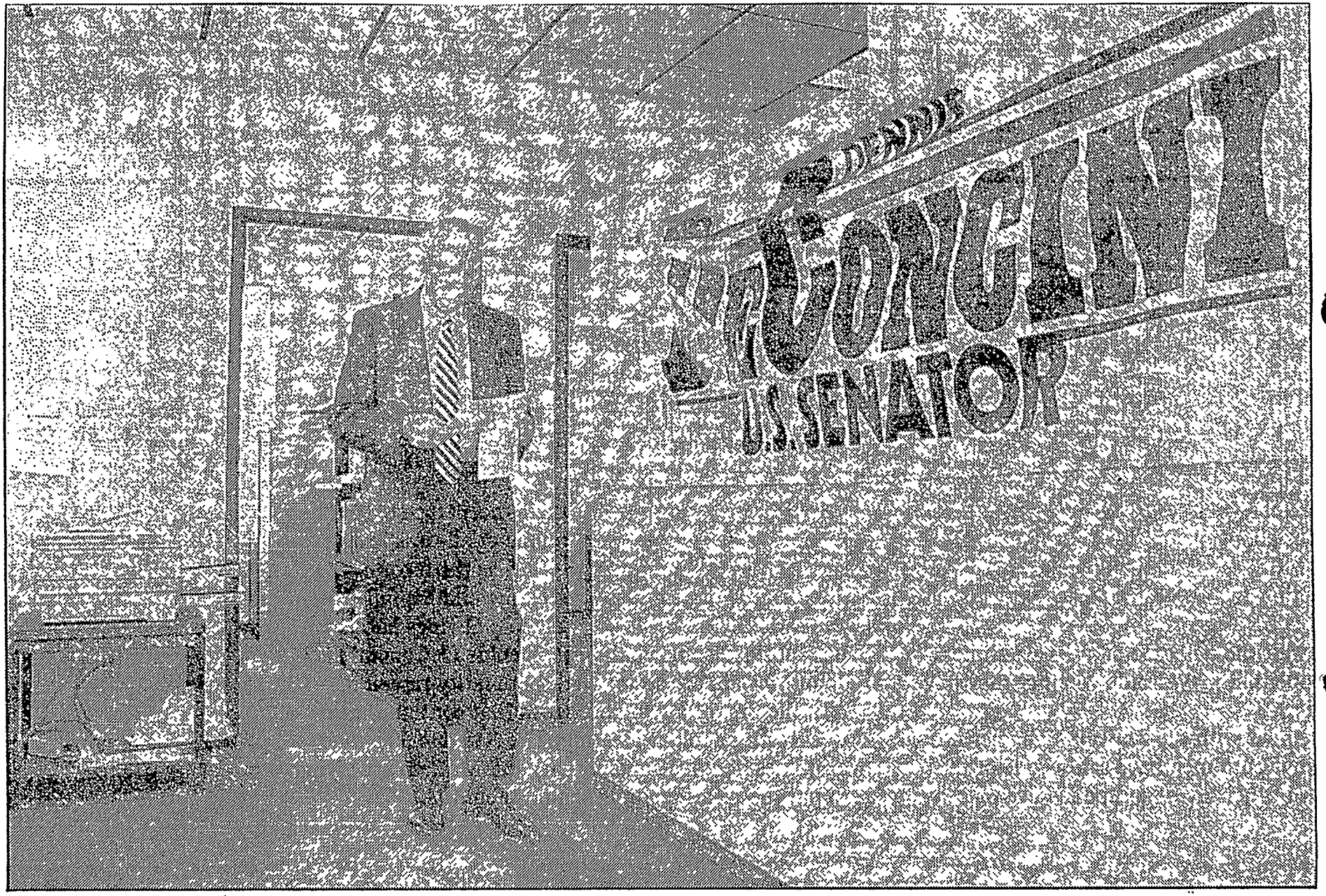
DeConcini's proposal to ban semiautomatic assault weapons has drawn howls from the gun lobby and sparked a short-lived recall drive last year.

Republic photo



Sen. Dennis DeConcini gets a victory hug from Gov. Rose Mofford on election night in 1988. The senator concedes that he has been hurt by waves of political problems since then.

File photo



Tom Story/The Arizona Republic

Sen. DeConcini reviews a document following a press conference in his Phoenix office. There's considerable speculation on whether he will seek re-election to a fourth term in 1994.

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(Mount Clipping in Space Below)

McCain cools temper, awaits outcome of probe

By Sam Stanton
Republic Washington Bureau

It's mid-morning in John McCain's office in Mesa, and already his day is going to hell.

An aide to Arizona's freshman Republican senator steps forward with the bad news. Someone has assumed he would attend a fund-raiser 10 weeks from now and has printed the tickets for the event, which is scheduled for the same day that McCain is to travel to Pensacola, Fla., for his first physical in four years.

#@#!!!***###@@@!!!!

McCain's precise reaction is unprintable.

"John, it's not our fault," aide Wes Gullett says, stepping forward into the uncomfortable silence.

"I haven't had a physical in four years," an exasperated McCain snaps from the couch he sits on with his feet stretched to the coffee table. "I guess I'll just fall over dead one of these days."

His aides grimace, but they're used to the drill, especially after the last several months of watching their boss get dragged into the scandal over Charles H. Keating Jr. and his failed Lincoln Savings and Loan.

On the rebound

McCain's involvement with Keating, something the senator concedes has become the biggest threat to his political career, has eaten away at McCain and his aides for months.

McCain's poll figures took a nose dive when the scandal broke. Now, they are rebounding. And so is McCain.

McCain no longer dwells upon the scandal. Nothing to do now but wait and see what happens, McCain replies when asked about it.

It's a typical reply to the problem now, albeit

— See MCCAIN, page C3

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— MCCAIN, *from page C1*

quite a different one from when the scandal broke late last year. Then, McCain was almost obsessed with talking about it.

It got to the point that friends finally told him point blank, "John, shut up."

Temper is legend

He has, but it goes against his grain.

When reporters called him with questions last year about previously unknown ties to Keating, an investment by wife Cindy McCain in a Keating shopping center and trips to Keating's Bahamas home, McCain went into a rage.

His temper is legend in Washington. During the confirmation hearings for Defense Secretary-designate John Tower, a hero of McCain's, the Arizona senator got into a shouting match on an elevator with one senator and into an argument with another outside a hearing room.

When his ties to Keating became public, his anger lasted for several days — something he now admits was a mistake but which he says was prompted by his refusal to allow anyone to question his integrity.

McCain acknowledges having a temper, but says it's not a problem when it is "channeled" usefully.

In a hurry, defending name

His anger over the scheduling problem in the Mesa office passed quickly, and the 53-year-old breezed through his office bantering with aides who he constantly praises to visitors as the backbone of his operation.

Then, with wife, Cindy, and press aide Scott Celley in tow, he heads to his station wagon for the drive back to Phoenix for a noon interview with a local television station.

It's still early in what will be a typically long Wednesday for McCain, who began with a radio interview at 7:30 that morning, then sped through the Veterans Administration Hospital and a senior center in Mesa.

McCain, a decorated Navy pilot, prisoner of war in Vietnam, two-term member of the U.S. House of Representatives and once a rapidly rising star in the Senate, doesn't have any time to waste. There are voters to see, farmers to visit, plant sites to tour and speeches to give.

The schedule is typical, the same type he has kept since well before the Keating scandal. But it is clear McCain knows he must keep to the mashed-potato circuit throughout the state to defend his name, and he acknowledges freely that his rising star currently "is on hold."

McCain • crisis first of career

First political crisis

McCain's quick wit and charm have helped him, as has the fact that while the Keating imbroglio is the just the latest in a string of disasters for Sen. Dennis DeConcini, it's McCain's first real political crisis.

The difference in voters' perceptions of the two senators was evident at a tour of the Phoenix veterans hospital in February.

DeConcini had just left when McCain began his tour, and a woman timidly asked if she could speak to McCain. She leaned over and thanked him for his office's help in solving a problem with the bureaucracy, then whispered, "DeConcini didn't do a damn thing."

McCain, sensitive to grumblings by DeConcini and his staff that he has tried to lay much of the Keating blame at DeConcini's feet, said nothing.

Even before the Keating problem arose, McCain had a tendency to attack a problem head on.

Grant Woods, a Republican candidate for attorney general who once ran McCain's campaigns and his House office, remembers McCain's initial reaction to the crank mail that all elected officials receive.

"He'd read a letter or someone would call him up and call him all these outrageous things," Woods recalls. "He'd tell them to go to hell."

Rebel streak well known

That shouldn't be surprising to anyone who knows about McCain's rebellious past. Examples of it run from his days at the Naval Academy to his behavior during years of torture in North Vietnam to his brassy decision to move to Arizona and muscle established politicians aside in his bid for office.

After serving as the Navy's liaison to the Senate from 1977 until 1981, McCain retired and headed to Arizona, where his new wife's parents, Jim and Smitty Hensley, run the lucrative Anheuser-Busch distributorship in Phoenix.

He had been looking for a way to get into politics, and already had paid a visit to the office House Minority Leader John Rhodes, who recalls that he suggested McCain run for the state Legislature or county Board of Supervisors.

McCain had no time for such mundane efforts, opting instead to run for Rhodes' Mesa congressional seat in 1982 after Rhodes had announced he would not seek re-election after 30 years.

Woods still remembers getting a call from a friend wanting him to help McCain, a political novice whose longest permanent address had been his POW camp, run for Congress.

"I really thought he was nuts," Woods said.

But McCain beat out a full field of more established Republicans and charges that he was a "carpetbagger." He won re-election easily and in 1986, shortly after Democratic Gov. Bruce Babbitt announced he would run for president rather than for the Senate seat being vacated by Barry Goldwater's retirement, McCain jumped into the race and crushed his Democratic opponent, Richard Kimball.

Leader of state GOP

His rapid ascent has made him a



Sen. McCain talks with (from left), Rep. Jack Jewett, R-Tucson, Rep. Jim Hartdegen, R-Casa Grande, Rep. Mark Killian, R-Mesa, and secretary Shirley Lyons.

Victoria Buckner/The Arizona Republic

leader of the state GOP.

He religiously travels from Washington, where he lives alone during the week in a large home in Alexandria, Va., to Arizona every weekend, where his wife and their three young children share a huge, southwestern-style home in central Phoenix.

While in the state, McCain is always on the move, meeting with political types everywhere in preparation for his 1992 re-election campaign, one for which state Democrats still are scrambling to find a viable candidate.

Two years ago, he became the second Republican in the congressional delegation, after Rep. Jim Kolbe, to call on Republican Gov. Evan Mecham to resign.

And although all the other Republicans in the delegation except Rep. Bob Stump joined the call, it was clear McCain was the leader of the group.

Before the congressmen gathered at the state Capitol to call for Mecham to quit, his leadership showed in an embarrassing way during a Republican convention in Phoenix.

Amid rumors that delegates supporting Mecham would stage a walkout when the delegation was introduced, McCain got up from the dais and began walking out of the room. Several of the congressman jumped up and scurried along behind him, whispering, "John, where are you going?"

As a swarm of reporters ran along, sensing a walkout by McCain, the senator turned to the congressman and whispered back, "I'm just going to the bathroom."

Since the Mecham controversy, McCain's overt attempts at influencing local politics have cooled somewhat, although he clearly will play a major role in Woods' campaign and likely will be a player if GOP gubernatorial candidate Fife Symington wins his primary.

But, unlike in 1986, when McCain campaigned with then-state House Majority Leader Burton Barr against his GOP foe Mecham, the senator has made it clear he will not interfere before the primary race is over.

Influential in Washington

McCain seems more comfortable trying to influence affairs in Washington, where his colleagues say the Keating affair has yet to harm his effectiveness.

"I think it's hurt his self-image, but not on the floor," said Sen. William Cohen, a Maine Republican who was best man at McCain's wedding. "I don't think it's hurt his effectiveness at all."

Other observers agree with Cohen. But say they believe McCain and DeConcini are spending much more time these days seeking good publicity and pushing legislation that puts them in a favorable light.

He was the main figure last year in repealing a tax on elderly Americans created by a catastrophic health care program, a move that pitted him against the leadership of both parties and the White House.

His championing elderly issues has played well to Arizona's retirees, although it seems somewhat ironic given his 1986 joke to a group in which he referred to Leisure World as "Seizure World."

He also has has been a leader in issues involving Indians, aviation and defense, the latter stemming from his military background and his seat on the Senate Armed Services Committee.

Making up for lost time

But McCain is seen as an ambitious man trying to make up for lost time. In 1988 some of the older bulls of the Senate sent him a clear message to slow down and wait his turn when they denied him the chairmanship of the GOP's Senate campaign committee, typically a post given to someone with more seniority.

He has been called one of the GOP's fastest rising stars and in 1988, when rumors spread through New Orleans, site of the GOP convention, that George Bush might dump running mate Quayle from the ticket, McCain confidantes received word from Bush officials that the senator might be tapped.

McCain says now that he never paid much attention to those rumblings, that he had made it clear that he wasn't interested.

'Asterisk in my political bio'

McCain now is hoping the ethics committee will issue a decision soon, and that it will issue separate reports on the actions of each of the five senators. Although McCain studiously avoids blaming any of the others for his troubles, he believes he did nothing wrong and wants that made clear.

But regardless of what the panel does, McCain is realistic about how his career will be seen in the future.

"The Keating thing will be an asterisk in my political bio forever," McCain said.



While visiting West Senior Center, McCa samples a sna from 81-year "Granny" Thomas.



Victoria Buckner/The Arizona Republic

Sen. John McCain visits the West Senior Center in Phoenix. His bid to repeal a tax on elderly Americans created by a catastrophic-health-care program is seen as pushing legislation that puts him in a favorable light with senior citizens.



The Associated Press

Senate candidate McCain watches election-night returns in 1986. He defeated Richard Kimball for the seat vacated by Barry Goldwater's retirement.

(Mount Clipping in Space Below)

'Keating Five' scandal leaves a stench

For the first time we can all follow the sewer line that runs through American politics.

Washington

The "Keating Five" scandal removed the manhole cover to this country's gurgling political sewer. The stench that's long engulfed the tunnels and subways of Capitol Hill now wafts through the streets.

You can say this for the folks who brought us the biggest congressional scandal in history: They knew how to catch our attention. When Charles Keating's Lincoln Savings and Loan went bust, he created an odor so pungent we can't get it out of our lungs. For the first time we can all follow the sewer line that runs through American politics: A fat cat gives five senators some money; the senators muscle the federal regulators; the fat cat's business goes bust; the depositors and taxpayers get stuck with the multibillion-dollar tab.

This transaction has left everyone worried, the innocent as well as the guilty. After years of taking money and asking questions later, even senators of unquestioned integrity are now worried about who they're doing business with. Suddenly, the thought of getting caught in bed with the wrong political partner is sending everyone into a panic.

"Who am I talking to?" That's the question Delaware Sen. Joe Biden says his colleagues have on their minds these days. "How about if, down the road, this guy who collected 20 checks for me gets into trouble? How about if one of them is owner of a failing S&L? How about if he's an ax-murderer?"

Sen. Biden admits the situation is not always so murky. Sometimes the politician and the contributor both know precisely where each are coming from. He recalls one particularly vivid episode from his first Senate campaign.

Only 29 and facing a veteran incumbent, Sen. Biden found himself a week before the election without a nickel for advertising. He recalls meeting with a contributor who could have solved his problem on the spot. "I knew this guy was going to ask me my position on capital gains. I knew that the right answer would get me $20,000," he recounted. "I gave the wrong answer."

Sen. Biden points to another, more recent circumstance when he was simply lucky. As a presidential candidate in 1988, he was told by someone to look up a certain "bright young man out West" who could easily raise him $150,000. His name was Michael Milken, who recently pleaded guilty to Wall Street shenanigans that made his name a code-phrase for corruption.

"If I had accepted money from him, totally legit, would anyone have believed I didn't talk about junk bonds?" Luckily, Sen. Biden says, he

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couldn't stand Mr. Milken the minute he met him. In this case, the price of groveling was too high even for a presidential candidate needing to raise millions.

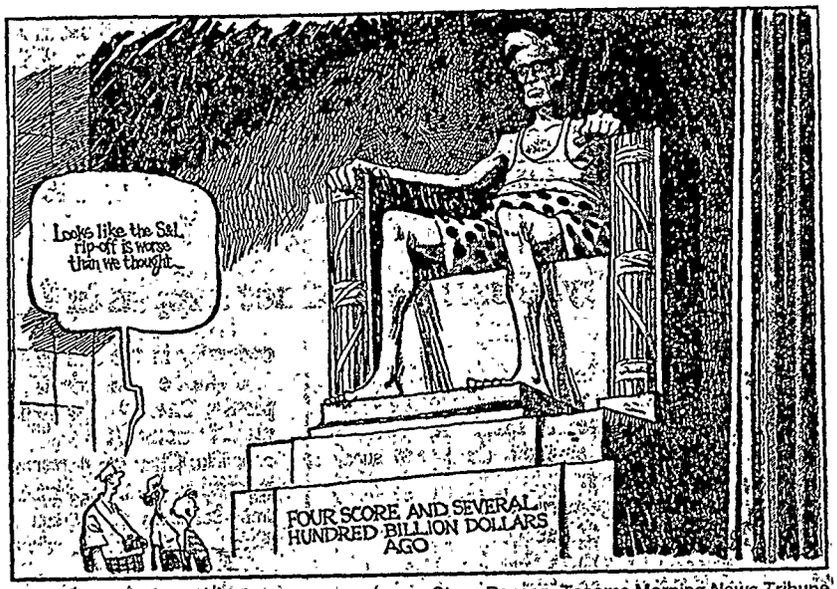
Not all senators are so squeamish. Not all states are as small, economical and bite-sized as Delaware.

Consider California. Democrat Alan Cranston won his first Senate race for the price of $3.6 million, just a tad more than his rival. In 1986 his re-election cost $11 million. Two years later Republican Pete Wilson spent $13 million defending the state's other Senate seat.

What does this mean to the quality of government? It means that the honorable senator from California must collect $15,000 every single day the "world's greatest deliberative body" is in session. Just to save his seat in the Senate dining room, he needs to collect $5,000 every breakfast, lunch and dinner.

Sen. Cranston, a charter member of the Keating Five — he took almost a million from the S&L executive in one form or another — is one of those senators pushing for public financing of future Senate races. So is the unblemished Sen. Biden. They both say it's the only way to clean up the system and rid the government of the Keatings and the Milkens and all the others who surf their way through the country's political sewers.

He's right. But the first step is not to complain about the smell; it's to stop creating it. If people are willing to kiss the tails of and take the money from rats, maybe they belong in the sewer.



Steve Benson, Tacoma Morning News Tribune

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(Mount Clipping in Space Below)

Not my fault, Keating says of the thrift disaster

Mogul praises senators, assails S&L regulators

By Anne Q. Hoy
Republic Washington Bureau

WASHINGTON — A defiant Charles H Keating Jr. on Wednesday denied responsibility for the nation's savings and loan debacle, which he has come to symbolize, and charged that federal regulators have "wrecked the economy" in Arizona.

In a 30-minute luncheon speech before the National Press Club, Keating blamed federal thrift regulators for the financial ruin of hundreds of ailing thrifts seized by the government.

Keating predicted that a $500 billion thrift bailout — enough, he said, to feed every American for 13 months or put 6.25 million poor, gifted children through college — would cost American taxpayers $40 billion a year.

His speech was part of a flurry of media appearances the Phoenix financier has sought in recent months in an effort to refute charges against him and his parent company, American Continental.

His recent accessibility is in sharp contrast to last year, when he asserted his Fifth Amendment right against self-incrimination and refused to testify before a congressional panel probing the collapse of Keating's Lincoln Savings and Loan.

"I didn't lose that money," Keating said. "Why am I speaking up? Because, at first, all of my attorneys, probably wisely, advised me, 'Don't,' but when the information became so inundated, such a flood tide, I thought that I should take advantage of offers ... come out, face you, tell you what I think and go from there."

Keating said the Resolution Trust Corp., the agency charged with disposing of the assets of insolvent savings and loans, should be abol-

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Ron Edmonds/The Associated Press

Charles H. Keating Jr. addresses the National Press Club. His speech Wednesday was part of a flurry of media appearances he has made recently.

ished.

"And when you kill that king, kill him dead," he added.

He also belittled RTC Board Chairman L. William Seidman and the agency's new plan to slash the prices of real-estate assets by as much as 20 percent in a bid to speed up sales.

"Is Keating responsible for a $500 billion debacle? Am I the cause of the whole thrift thing? Where are the other people who have been put out of business and taken over, bondholders and shareholders wiped out?" Keating asked.

In Arizona, he said, regulators have "wrecked the economy" by seizing eight out of 10 thrifts and controlling $20 billion in mostly real-estate assets.

"They've wrecked the economy in the state. They'll wreck it for years to come," he said.

"Most of those associations were local-owned. They'll bleed the capital out of that state because, instead of local-owned associations that tend to keep capital and investment in the state of Arizona, now it's all foreign-owned. Arizona will never recover from what the federal government has done to it."

Federal officials have placed the value of seized Arizona properties at $10 billion.

Keating praised the performance of the "Keating 5" senators, who intervened in his behalf, including Arizona's Dennis DeConcini, a Democrat, and John McCain, a Republican.

"I would rate their performance pretty darn high," Keating said. "I've said 100 times, and I'll say again here and now, Had they listened to them, the taxpayer would be pretty close to $500 billion better off."

Keating also criticized the federal government's $1.1 billion civil racketeering suit, saying that it will cost the government millions of dollars to litigate and that even if its wins, it will get nothing, because he is broke. The suit against Keating and numerous associates alleges that they looted depositor funds from Lincoln and funneled them into political causes.

Keating is expected to appear on ABC's *Nightline* within the next few weeks, perhaps as early as tonight. The show airs in Phoenix at 10:30 p.m. weekdays on KTVK-TV (Channel 3).

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DeConcini's net worth falls

Keating mess leads loss of $1 million

worth drop by more than $1 million, had to pay $50,000 in bills that had new documents show. gone unpaid until the embezzlement

DeConcini, whose estimated net was detected.

worth at the end of 1988 was Then, DeConcini became ensnarled

$9.69 million, is reporting a net worth in the ever-expanding probe of Keat-

at the end of last year of $8.35 mil- ing and his connections to prominent

lion, according to documents filed politicians.

Tuesday with the Senate. DeConcini, a Democrat, is one of

The senator, who owns real estate five senators, including Arizona Re-

in Arizona and California, saw his publican John McCain, who face a

personal wealth drop, in part, because Senate Ethics Committee investigation

of the slump in real estate. But other of their involvement with Keating.

problems also plagued him. DeConcini returned $81,000 in

First, his campaign fund lost Keating-related contributions last

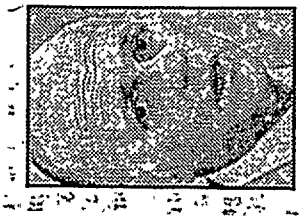
$500,000 when a campaign worker year, and spent $192,000 on television

embezzled the money and DeConcini and newspaper advertisements to

— See DeCONCINI'S, page B6

By Sam Stanton
Republic Washington Bureau

WASHINGTON — Sen. Dennis DeConcini, who has spent more than $300,000 handling fallout from the Charles H Keating Jr. affair and from a separate $500,000 embezzlement by a then-campaign aide, has seen his net



Dennis DeConcini / The senator saw his personal wealth drop in part because of the slump in real estate. But other problems also plagued him.

DeConcini's net worth declines by $1 million

—DeCONCINI'S, *from page B1*

cash, checking and savings accounts and $704,670 in CDs at the end of 1988.

The figures are included in the personal financial-disclosure forms that must be filed annually by House and Senate members. But because DeConcini files more information than required, comparisons between his net worth and that of the other six members of the Arizona congressional delegation are difficult.

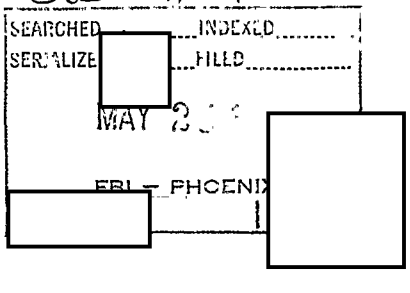
DeConcini filed 60 pages of documents Tuesday and provided a 12-page listing to reporters. McCain filed a 14-page Senate form, while House members filed five-page forms.

McCain, a freshman Republican, indicated that he had cashed in a life-insurance policy for $3,070, has a Senate Employees Federal Credit Union balance of $5,000 to $15,000 and received $37,104 from his Navy pension. The senator listed $30,250 in honorariums, which was donated to charity.

Most assets and income McCain listed on his form are those of his wife, Cindy, whose parents own the Anheuser-Busch distributorship in Phoenix. The senator reported no liabilities.

Cindy McCain listed holdings in excess of $250,000 for nine assets, from Hensely & Co. stock — the company owned by her parents — to raw land. She also listed a personal debt to Valley National Bank of more than $250,000.

58C-LA-41605 Sub B-227



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Keating case coincidences are piling up

Not long ago, I mentioned a troubling link between Dennis DeConcini and Richard Bilby.

DeConcini is the U.S. senator who intervened with federal regulators on behalf of Charlie Keating. Bilby is the federal judge in charge of a massive bankruptcy and racketeering lawsuit against Keating's financial empire.

Bilby also is a lifelong friend of DeConcini. He owes his judicial appointment to the senator. When asked if there is a conflict of interest, Bilby said DeConcini's political problems have nothing to do with the court proceedings.

That was in February. Things have changed. Bilby was given recently an amended complaint with 59 new defendants. Plaintiffs said Keating used a network of co-conspirators to commit fraud. The list included R.A. Homes and two of Dennis DeConcini's key aides, Earl Katz and Ron Ober.

Katz is the senator's political fund-raiser, and has raised millions of dollars from contributors such as Charles Keating. Ober is DeConcini's campaign manager. While working for the senator these two men also worked for themselves forming several enterprises under the name R.A.

Perhaps it is just coincidence but with virtually no cash outlay R.A. Homes obtained $100 million in loans from Keating's business empire. DeConcini has claimed ignorance of these transactions while lobbying for Keating.

The lawsuit alleges these loans were disguised and used to buy land from Lincoln Savings and Loan in a "straw man" deal designed to artificially inflate the value of corporate assets. Plaintiffs contend Keating perpetuated a fraud by influencing "certain elected officials by either hiring their staff members at huge salaries or otherwise providing financial benefits."

Daniel Cracchiolo, Katz's attorney, argued that his client had "nothing to do with R.A. Homes." Facts suggest otherwise: Katz signed a document identifying him as "general partner". Katz received $400,000 in consulting fees from R.A. Homes; Katz's son, a Superior Court judge, was company secretary.

It may be another coincidence, but Cracchiolo and DeConcini are longtime friends. One of Cracchiolo's first jobs was clerking for Supreme Court Justice Evo DeConcini, Dennis' dad. Cracchiolo's brother, Joseph, a former U.S. bankruptcy referee, resigned in 1983 during a corruption probe. The family has been tied to organized crime in newspaper articles, though Daniel Cracchiolo vigorously denies the allegation.

Meanwhile, back in Bilby's courtroom, Cracchiolo argued that Katz was being sued as part of a "smear" tactic because of his fund-raising for DeConcini.

Bilby apparently concurred. He cited political reasons for removing Katz as a defendant and compared publicity from the racketeering lawsuit with a criminal indictment. "Once you are indicted, if you are a politician, you are dead," Bilby said. "And I think that what a lot of these people are concerned about is, they get tied into this mess, the same thing happens to them."

The judge did not note that Katz is a businessman while his friend, Dennis DeConcini, is the politician. Nor did he mention that Katz already is entangled in the national scandal.

Leonard Simon, an attorney for the plaintiffs, told Bilby: "I think justice, you know, is more important than publicity. We have people who lost a lot of money."

It did not matter. Katz will not have to give depositions explaining his role. Nor will he testify about what DeConcini knew, or what role the senator played.

Michael Hawkins, the former U.S. attorney in Arizona, was less successful in arguing that R.A. Homes should be released. Bilby ruled that the company and Ober must remain as defendants — at least temporarily.

Curiously, of the 59 new defendants submitted to Bilby, only two were liberated from the case.

The first — Katz — was represented by Cracchiolo. The second — an Illinois consulting company — was represented by Hawkins. Hawkins happened to be DeConcini's campaign chairman in 1976, and became U.S. attorney for Arizona by way of DeConcini's nomination.

Hawkins told me Bilby is "impeccably fair." He added that relationships do not interfere with justice, and "politics has nothing to do with it."

I asked about the close ties between Bilby, DeConcini and the defense lawyers. It is just a coincidence, he said.

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

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MARY McGRORY

Vain Warnings on Keating

She warned him. She told him in person and on paper that Charles H. Keating Jr. was bad news. But Laurie A. Sedlmayr was the staff member and Dennis DeConcini was the senator, so they did what he wanted, and it has all turned out much worse than even she expected.

It's an old story about the employer overbalanced by the employee, not just on Capitol Hill, of course, but in books and plays that never fail to delight. James M. Barrie's "The Admirable Crichton" springs to mind, and P.G. Wodehouse's wonderful saga of Jeeves and Bertie Wooster.

Sedlmayr is, to all appearances, your model legislative assistant. A dark blonde, her clothes, her manner, her speech proclaim the self-effacing, level-headed aide, looking around corners in an effort to save her principal from himself.

Her boss may have known that Keating was big trouble, that he was insatiable in his demands for action to make the world a safer place for Lincoln, his savings and loan. It did not take a Rhodes scholar to see that the owner of American Continental Corp., parent of the S&L, treated senators like office boys. "More extreme in using the system," as Sedlmayr discreetly put it, "a highflier."

"I found him to be something of a zealot," she explained under questioning from the Senate ethics committee special counsel, Robert S. Bennett. "I think the senator thought I was overstating the case."

Actually, the senator almost had to think she was. He had to raise money in order to stay in the Senate, and Keating was a big giver, also a big honcho at home. American Continental employed more than a thousand people in its Phoenix headquarters.

Arizona's other senator, John McCain, also was expected to salute Keating, who was a friend. He too had a farseeing assistant, the estimable Gwendolyn van Paasschen. She tried to protect McCain from the octopus-like embrace of Keating, and succeeded up to a point. McCain had received larger campaign contributions from Keating than DeConcini had. Van Paasschen, nonetheless, spoke her mind when DeConcini tried to inveigle McCain into going with him to the office of Federal Home Loan Bank Board Chairman Edwin J. Gray to plead for Lincoln.

"It was my view and I told Senator McCain . . . that it was my view that what Senator DeConcini had suggested was inappropriate," she told the committee.

The two women met often for what Sedlmayr called "mutual discussions." They probably sounded like two nannies in a park, clucking over their wayward charges.

Van Paasschen had what the "Keating Five" lacked: a seemliness barometer. She prevailed upon her principal not to go begging to Gray, but he slipped away to two famous meetings, one with Gray and the other with regulators from California who had the unenviable task of keeping Keating in line.

McCain has won points, along with Sen. John Glenn of Ohio, a certified innocent who is thought to be the victim of an overeager staff, for severing all ties with Keating once the "criminal referral" flag was raised.

What emerged from Sedlmayr's reading of various memos and letters she had written—some in her own name, some in the senator's—is that nothing Keating asked was too much.

Keating wanted a hearing on a rule forbidding S&Ls to make direct investments; DeConcini fired off a letter to a Senate committee chairman, calling the proposed ban "arbitrary and premature." Keating spewed complaints about Gray; DeConcini ferried them to the top—to Donald T. Regan and James A. Baker III. Keating wanted to replace Gray with Lee Henkel Jr., who owed the Lincoln S&L "millions of dollars"; DeConcini lobbied the White House in his behalf, although Sedlmayr testified he had never met the man.

At one point, Bennett asked Sedlmayr why she had been concerned about the meeting with Gray that DeConcini had arranged. "I thought it might be misinterpreted by the press," she said diffidently. "I thought it might come out being a political mistake."

"Why?" asked Bennett.

"Well," she replied dryly, "we're here."

Maybe one consequence of the multiple embarrassments of the "here" could be that senators will in the future heed the good counsel of the women they hire to warn them about rocks ahead.

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

Keating Hearings Take Senate Into Thick of S&L Swamp

Publicity will affect senators' futures and raise issues of constituent service and campaign finance

With potential explosive force, the savings and loan scandal and voters' growing disenchantment with Congress are about to collide in full public view.

Televised hearings of the Senate Ethics Committee are scheduled to begin Nov. 15 into the actions of the so-called Keating Five senators, who in 1987 intervened in behalf of a failing thrift that was under blistering review by federal regulators.

The proceedings will probe whether any of the five — Alan Cranston, D-Calif.; Dennis DeConcini, D-Ariz.; John Glenn, D-Ohio; John McCain, R-Ariz.; and Donald W. Riegle Jr., D-Mich. — violated Senate rules against exerting improper influence in return for compensation.

The questions raised sound simple: What did the senators do, why did they do it and was it wrong?

The hearings will seek to answer them on a legalistic level in light of Senate rules. But the political fallout from the hearings may have as much effect on the senators' futures — and the reputation of the institution — as anything the Ethics Committee decides.

Not since the Watergate hearings in 1973 has the public had an opportunity to look deeply into the inner workings of politics — in this instance, what some call the seamy connection between campaign contributions and government favoritism. The Keating hearings raise a delicate question for all members of Congress: How far can a politician go to aid a supporter?

As a "two-bit burglary" at a ritzy Washington office building came to exemplify the worst of politics in the 1970s, the $2 billion failure of Lincoln Savings and Loan has become a symbol of one of the most incredible financial debacles ever to hit the country.



A. MICHAEL JENKINS

Charles H. Keating Jr. attracted plenty of attention from news media when called to testify before the House Banking Committee in 1989.

The owner of that high-flying thrift, Charles H. Keating Jr., already faces civil racketeering charges and has spent a month in jail following arrest on a California criminal fraud indictment. Keating proclaims his innocence and contends that federal regulators drove Lincoln into insolvency by seizing it.

But if Keating is easily the best-known "S&L kingpin," the senators, who called two meetings with federal regulators in April 1987 to criticize the progress of a long-running examination of Lincoln, have become symbols of the government's failure to stop the crisis.

The raw facts make it easy for commentators to point fingers.

There is no question that the five senators spoke up for Keating. And together the senators' re-election campaigns or their other political causes received $1.3 million in contributions from Keating, his associates and his businesses.

But the senators protest that their actions amounted to little more than a request for the regulators to conclude a drawn-out examination of Lincoln — not a demand that the results of that examination favor Keating. And, they insist, the money did not make them act.

Moreover, there is also little doubt that the five had little if anything to do — ultimately — with the collapse of Lincoln or the cost that came from the delay in closing the thrift long after regulators deemed it to be in deep trouble. Even those regulators who have denounced the senators for interference — and not all make that claim — have denied that they changed course as a result. *(What the senators did, p. 3789; history of the Keating affair, p. 3791)*

What Are the Rules?

The Keating affair was the subject of six intense, controversial days of hearings in 1989 by the House Banking Committee. Its chairman, Henry B. Gonzalez, D-Texas, called the scandal a mini-Watergate.

But while Gonzalez looked broadly at Keating's business practices and the regulatory failures that allowed Lincoln to collapse so spectacularly — federal District Court Judge Stanley Sporkin said the thrift had been "looted" — the coming Ethics Committee proceedings will focus narrowly on the actions of the five senators.

With Congress out of session and the elections over, the hearings will draw a horde of reporters. The cable television network C-SPAN plans live gavel-to-gavel coverage, feeding 15 million households. The harsh spotlight will cast a long shadow over the Senate — and congressional ethics generally.

"This is a real test for the future of

By John R. Cranford





PHOTOS BY R. MICHAEL JENKINS

Chairman Howell Heflin, above left, with Vice Chairman Warren B. Rudman, and special counsel Robert Bennett, right.

The Proceedings

THE ETHICS COMMITTEE

Chairman: Howell Heflin, D-Ala.

Vice Chairman: Warren B. Rudman, R-N.H.

Members: David Pryor, D-Ark., Terry Sanford, D-N.C., Jesse Helms, R-N.C., and Trent Lott, R-Miss.

Committee's special outside counsel: Robert S. Bennett of the Washington law firm of Dunnells, Duvall, Bennett & Porter. In 1981, Bennett was hired by the Senate Ethics Committee as outside counsel in the investigation of Sen. Harrison A. Williams Jr., D-N.J. This year, Bennett also headed the committee's investigation of Sen. Dave Durenberger, R-Minn.

THE PUBLIC HEARINGS

Where, When: Beginning at 9:30 a.m., Nov. 15 in Room 216 of the Hart Senate Office Building, continuing as necessary Nov. 16, 19-20, 26-30.

Opening Statements: Committee members will open the hearings with their statements, followed by opening remarks by special counsel Bennett. The five senators, or their attorneys, then will have an opportunity to make opening statements. They will appear in alphabetical order — Alan Cranston, D-Calif.; Dennis DeConcini, D-Ariz.; John Glenn, D-Ohio; John McCain, R-Ariz.; and Donald W. Riegle Jr., D-Mich. — at this and all other junctures. Bennett will then be allowed to reply to their opening remarks.

The Case Against the Senators: Bennett will present all his witnesses and documentary evidence against the five senators. Each witness will be cross-examined first by committee members, then by attorneys for the five senators. Bennett will then be allowed to again question each witness, and attorneys for the five senators can again cross-examine each witness.

The Defense: Each of the five senators will be allowed to make detailed statements. Each will be questioned by Bennett, followed by questions from attorneys for the other four senators, followed by questions from committee members.

Attorneys for each of the five senators then will present witnesses and documentary evidence. Bennett will first cross-examine defense witnesses, followed by questions from attorneys for the other four senators, followed by questions from committee members.

Bennett will then be allowed to present rebuttal evidence.

Closing Arguments: Bennett will present his closing arguments, followed by attorneys for each of the five senators, followed by a final presentation by Bennett, followed by closing statements by committee members.

Committee Action: The committee has agreed that "except in extraordinary circumstances" it will conclude the hearings and make a decision on each of the senators by Dec. 31, 1990.

ethics regulation in Congress," says Bruce Jennings of the Hastings Center, a nonpartisan ethics think tank in Briarcliff Manor, N.Y.

"They don't dare err either way," he says. Not only must the Ethics Committee not appear to whitewash the affair, but "they don't want to err on appearing to be unfair or railroading anybody."

The questions that will be raised are fundamental:

- When is it proper for a member to intervene in the lawful operations of a government regulatory agency? And at what point does such intervention cross the line into undue influence?
- Can it be shown that the actions of all five senators — or any of them — resulted not out of a genuine concern for a constituent but rather because of the money Keating funneled to them?

Senate conflict-of-interest rules bar a member from accepting compensation that accrues "to his beneficial interest" in exchange for "influence improperly exerted from his position."

For that rule to be applied, the committee would have to decide that the influence exerted by any one of the senators was improper, and then that campaign contributions count as accruing to the senator's "beneficial interest."

The committee has never addressed the issue. But similar questions were before the House ethics committee in its probe of Speaker Jim Wright, D-Texas, which concluded in 1989.

The special counsel who investigated the Wright case for the House committee questioned whether Wright brought undue pressure on federal regulators to go lightly on thrifts being buffeted by economic woes in the Oil Patch in the mid-1980s. Wright also held up a measure that would have pumped money into the thrift deposit insurance fund — money needed to close failing thrifts to stem their losses.

A bipartisan majority of the ethics committee ruled that Wright's activities did not constitute undue influence. "While it may be that Rep. Wright was intemperate in his dealings with representatives of the Federal Home Loan Bank Board, the committee is not persuaded that he exercised undue influence in dealing with that agency," the ethics committee wrote in an April 17, 1989, report.

The attention focused on the broad range of Wright's dealings with his friends and supporters led him to resign without broad public hearings being held.

Members of Congress "are elected to

Key Players in the Keating Five Case

Alan Cranston

Democrat — California



Connection to Keating: Lincoln Savings and Loan is based in Irvine, Calif.

- Met privately with Edwin J. Gray, chairman of the Federal Home Loan Bank Board, on April 2, 1987, in behalf of Lincoln Savings and Loan.
- Met with bank board examiners April 9, 1987, in behalf of Lincoln. Cranston's appearance at this two-hour-long meeting was brief.
- Called M. Danny Wall, Gray's replacement as bank board chairman, in August or September 1987 to urge a speedy conclusion of Lincoln examination.
- Intervened with California state and federal thrift regulators in late 1988 and until April 1989 to urge sale rather than seizure of Lincoln.
- Received $39,000 from Charles H. Keating Jr. and associates for his 1986 re-election campaign.
- Solicited and received $850,000 from Keating for three voter-education projects tied to Cranston and his son, Kim.
- Solicited and received $85,000 for a California Democratic Party get-out-the-vote drive.

His lawyer: William W. Taylor III of the Washington firm of Zuckerman, Spaeder, Goldstein, Taylor & Kolker.

Main Senate post: Stepping down as majority whip; chairman of Veterans' Affairs Committee.

Next election: 1992.

Dennis DeConcini

Democrat — Arizona



Connection to Keating: American Continental Corp. — Lincoln's parent — has headquarters in Arizona.

- Hosted both April 1987 meetings, which were held in DeConcini's office. Gray has testified that DeConcini offered the government a deal in Keating's behalf. DeConcini, whose aide drafted a memorandum before the meeting, laying out what Keating wanted and would agree to, has disputed this.
- Intervened with California state and federal thrift regulators in late 1988 and until April 1989 to urge sale rather than seizure of Lincoln.
- Received $48,100 from Keating and associates for his 1988 re-election campaign, and $33,000 for his 1982 campaign. DeConcini returned the 1988 contribution in September 1989, after allegations that money may have been siphoned from Lincoln.
- Associated with two aides, campaign manager Ron Ober and fundraiser Earl Katz, who received together about $50 million in real estate loans from Lincoln in 1986-88. DeConcini has said he was unaware of their connection to Lincoln at the time of the April 1987 meetings.

His lawyer: James Hamilton of the Washington office of the New York firm of Olwine, Connelly, Chase, O'Donnell & Weyher. Former assistant chief counsel to the Senate Watergate committee. Represented Sen. Herman E. Talmadge, D-Ga. (1957-81), before the Senate Ethics Committee in 1978-79. Also represented Sen. Dave Durenberger, R-Minn., before the committee.

Main Senate post: Chairman of the Appropriations Treasury, Postal Service and General Government Subcommittee.

Next election: 1994.

John Glenn

Democrat — Ohio



Connection to Keating: American Continental is chartered in Ohio.

- Attended both meetings in April 1987 with Gray and regulators.
- Received $34,000 in campaign contributions from Keating and associates. A now-defunct political action committee associated with Glenn received $200,000 from Keating's companies.

His lawyer: Charles F. C. Ruff of the Washington firm of Covington & Burling. Former Watergate special prosecutor and U.S. attorney.

Main Senate post: Chairman of Governmental Affairs Committee.

Next election: 1992.

John McCain

Republican — Arizona



Connection to Keating: Personal friend; American Continental has headquarters in Arizona.

- Attended both meetings in April 1987 with Gray and regulators.
- Received $112,000 in campaign contributions from Keating and associates. McCain said he will return the campaign contributions if they are found to have been diverted from Lincoln.
- In May and June 1989 McCain reimbursed American Continental for $13,433 for nine plane trips to the Bahamas for himself and his family in 1984-86; on three of those trips, McCain and his family stayed at Keating's residence on Cat Cay. The Ethics Committee has indicated that since McCain was not in the Senate at the time, the trips will not play a role in the deliberations.

His lawyer: John M. Dowd of Washington firm of Akin, Gump, Strauss, Hauer & Feld.

Main Senate posts: Member of Armed Services and Commerce committees.

Next election: 1992.

Donald W. Riegle Jr.

Democrat — Michigan



Connection to Keating: American Continental owns a major Detroit hotel.

- Met with Lincoln's auditor in February 1987, to discuss its problems with regulators. In a March 1987 meeting with Gray on other matters, Riegle suggested he meet with the four other senators and the next day took a tour of Keating's Phoenix headquarters.
- Attended April 9, 1987, meeting with regulators.
- Received $78,250 from Keating and associates for his 1988 re-election. Returned that money in March 1988. In July 1990, Riegle announced he would return all thrift industry individual and political action committee (PAC) contributions received since 1983 — about $120,000 — and no longer accept money from PACs and officers of companies under purview of committees he chaired.

His lawyer: Thomas C. Green of the Chicago firm of Sidley & Austin. Former assistant U.S. attorney. Represented retired Air Force Maj. Gen. Richard V. Secord in the Iran-contra affair.

Main Senate post: Chairman of Banking Committee.

Next election: 1994.

be, among other things, ombudsmen and facilitators," says Ralph Lotkin, until recently chief counsel of the House ethics committee and now a lawyer in private practice in Washington.

He notes that the committee, in its report on Wright, found a basis in the Constitution for what it called "the constant tension between the legislative and executive branches" over their respective roles.

But Fred Wertheimer, president of the independent citizens' lobbying group Common Cause, says the Keating case does not involve "run-of-the-mill constituent service questions." Rather, he argues, the senators tried to influence law enforcement proceedings. In October 1989, Common Cause lodged the ethics complaint that led to the upcoming hearings.

What's at Issue?

During the hearings, scheduled for nine days over three weeks, the committee's outside counsel, Robert S. Bennett, will lay out the case he has developed against the senators. *(Hearing procedures, p. 3788)*

Bennett was hired by the committee in November 1989 for this case and gave it a 350-page report Sept. 10. Bennett reportedly said the facts — as applied to Senate rules — suggest that the committee should not proceed against Glenn and McCain, but should proceed against the remaining three. Sources said the committee split 3-3 along party lines, rejecting a motion to follow Bennett's recommendations. Instead it voted to conduct hearings on all five.

That sets up what is sure to be an effort by the five senators to distinguish themselves from one another.

And although committee Vice Chairman Warren B. Rudman, R-N.H., says there is "very little that's factually unknown" about the case, that does not mean the committee will not challenge some assertions of fact.

"Some of these witnesses — I have serious doubts about their credibility," Rudman says.

A key example of an assertion that has been made publicly — and refuted publicly — involves an April 2, 1987, meeting between four of the senators (Riegle was not there) and Edwin J. Gray, at the time chairman of the Federal Home Loan Bank Board.

Gray testified to the House Banking Committee that the senators offered a "quid pro quo" in Keating's behalf. According to his version, Lincoln would act more like a traditional thrift if the regulators would allow Keating to engage in some of the non-traditional activities that they were challenging.

DeConcini, who hosted the meeting, vehemently denies that any such deal was offered. But his staff had prepared a memorandum days before the meeting spelling out just such a deal. And McCain has said he was approached March 24, 1987, by Keating and asked to make such an offer.

McCain said in an interview he told Keating it was improper and threw him out of his office.

How Will It Play Out?

Politically, there is little doubt that the thrift scandal has roused the electorate. The Keating affair, in particular, has threatened the electoral prospects for many congressional incumbents — not just the senators.

Two House members with direct thrift connections lost their re-election bids on Nov. 6 — Charles "Chip" Pashayan Jr., R-Calif., who had ties to Keating, and Denny Smith, R-Ore., who was personally involved with another failed thrift. *(House elections, p. 3801)*

And more to the point, NBC News reported that by margins of 60 percent or higher, voters in Arizona and Michigan told public opinion researchers on Election Day that DeConcini and Riegle should either resign now or not run again when their terms expire.

Voters in California expressed similar sentiments about Cranston. He announced Nov. 8 that due to a recent diagnosis of prostate cancer he would not seek re-election in 1992. *(Stories, pp. 3794, 3832)*

While the hearings should draw more public attention to the Keating affair, all parties to them have reasons for wanting such a public airing.

The five senators obviously hope the hearings will allow them to put forth their interpretation of events and thereby put an end to the ordeal. Public hearings, says former House ethics committee counsel Lotkin, offer "an opportunity for any member to get his or her story across as opposed to having to deal with misinformation that may be disseminated by well-meaning press."

And the Ethics Committee expects the hearings to provide a basis of facts for its final judgment on the actions of each senator before the end of the year.

Lotkin suggests another reason for the committee to do its fact-finding in public: providing an explanation and justification for its actions and a way of setting limits. "It's an avenue of information to the public at large, and also a vehicle of communication and education to other members," he says.

Finally, Jennings of the Hastings Center says he hopes the hearings might call into question the method of financing political campaigns, which he argues may be the real culprit.

"The public seems to think that it's bad people that corrupt the system. They think that by throwing the rascals out and getting back to amateur politics you get away from that."

It might be that the system itself corrupts good people, he says.

"We don't tend to look for systemic problems and systemic solutions," he says. "It's boring."

It is unclear, however, that the hearings will accomplish the purposes that all envision.

Participants refer privately to the media "circus" that they fear will envelope the hearings. And the fact that the five senators will try to distance themselves from one another may make their task of extracting themselves from the Keating tar baby much more difficult.

Perhaps most important is the wild card role that may be played by Keating himself. He has been known to be flamboyant, telling reporters in April 1989 that he hoped his campaign donations had helped persuade the five senators to act in his behalf.

But it is not known if Keating will be subpoenaed to testify.

He was called by the committee during private deliberations during the summer and refused to testify, citing his constitutional prerogative against self-incrimination. He did likewise when called before the Gonzalez hearings in November 1989.

The Ethics Committee said Oct. 25 that it has not discussed granting him immunity from prosecution for whatever he may reveal in testimony. Such a waiver would compel him to appear or face contempt charges, but it also could jeopardize pending criminal proceedings against Keating. ■

Background

1990 Weekly Report: hearings set, p. 3571; leaks, p. 3474; Bennett report, p. 3202; savings and loan contributions, p. 2028; Riegle funds, p. 2275; Durenberger hearing, p. 1851. 1989 Almanac: ethics inquiry, p. 43; thrift bailout, p. 117; House hearings, p. 133. 1988 Almanac: thrift crisis, p. 242. 1987 Almanac: p. 628.

History of the Keating Case

The story of the rise and fall of Lincoln Savings and Loan in Irvine, Calif., has been called a mini-Watergate by House Banking Committee Chairman Henry B. Gonzalez, D-Texas, and a microcosm of the entire national savings and loan industry debacle by others.

The tale involves alleged fraud and insider dealing by the thrift's owners, allegations of political interference into the regulatory process, charges that regulators leaked confidential information about Lincoln's troubles, and the expected cost of $2 billion to clean up the mess. Following is a chronology of the affair, including details of actions taken by the so-called Keating Five senators:

1978

Charles H. Keating Jr. forms American Continental Corp., an Ohio corporation based in Phoenix, principally involved in home construction.

1979

July 2. Keating signs a consent decree with the Securities and Exchange Commission (SEC), based on allegations that he and American Financial Corp. Chairman Carl H. Linder received insider loans from Provident Bank, a wholly owned subsidiary of American Financial, based in Ohio. Keating and Linder admit no violations of law, but agree not to violate securities laws in the future. Keating had been vice president and director of American Financial before leaving to set up American Continental with Linder's help.

1984

Feb. 22. Lincoln Savings and Loan Association, a California thrift chartered in 1926 by the state, is acquired by American Continental as a wholly owned subsidiary for $51 million. American Continental represents in its change-of-ownership application that it will retain existing Lincoln management, engage in slow growth, emphasize mortgage lending and not rely on brokered deposits for growth. At the end of December 1983, Lincoln had assets of $1.1 billion, 48 percent of which were residential loans. Another 24 percent were classified as risk assets; the thrift had no brokered deposits. It had annual income of $3 million, up from a $4 million loss the previous year.

1985

Jan. 31. A new regulation by the Federal Home Loan Bank Board takes effect that would sharply limit direct investments in subsidiaries, land development and other ventures. In the fall of 1984, Alan Greenspan, then a private financial consultant (now chairman of the Federal Reserve Board), had written to the bank board on Lincoln's behalf, along with Professor George J. Benston of the University of Rochester, objecting to the proposed rule. On Jan. 22, Rep. Frank Annunzio, D-Ill., and more than 200 cosponsors introduced H Con Res 34, calling on the bank board to delay the effective date of the direct investment rule. No action was taken on the resolution.



Keating

Feb. 13. Greenspan writes to San Francisco Federal Home Loan Bank, urging permission for Lincoln to exceed the new rule's 10 percent limit on direct investments. "Denial of the permission that Lincoln seeks would work a serious and unfair hardship on an association that has, through its skill and expertise, transformed itself into a financially strong institution that presents no foreseeable risk to the Federal Savings and Loan Insurance Corporation," Greenspan wrote. Lincoln's application was eventually denied by the Federal Home Loan Bank Board in Washington.

Dec. 5. The San Francisco Federal Home Loan Bank informs Lincoln that it has violated bank board regulations by its rapid growth. As soon as Lincoln was acquired, its previous management was removed. At the end of December 1985, the thrift's assets had more than doubled to $2.8 billion. Brokered deposits accounted for 37 percent of all deposits, residential loans had fallen to 15 percent of assets and risk assets had passed 54 percent. The thrift reported income of $80 million for 1985.

1986

March 12. The San Francisco Federal Home Loan Bank begins an examination of Lincoln because of concerns about the thrift's rapid growth and its entry into high-risk activities.

May 8. San Francisco examiners write to Lincoln requesting monthly reports on junk bond holdings, which had increased from $110 million in August 1984 to $349 million in March 1986. Lincoln responded June 10 that the request was "arbitrary and unreasonable" because there had been no increase of junk bond holdings as a percentage of assets.

July 3. San Francisco Federal Home Loan Bank examiners meet with Lincoln officials, including Keating, to discuss problems that the examiners are having with Lincoln officials. The meeting deteriorated into reciprocal allegations of bad faith. Lincoln attorneys wrote to examiners July 15 that the examination was an "extraordinary burden on officer and employee time" and that future requests for information would have to be made through Lincoln's attorney; that request was rejected.

From that time on, Lincoln began arguing to Washington bank board officials and in public that the San Francisco office was harassing the thrift. Bank Board Chairman Edwin J. Gray was accused by Keating of having a "vendetta" against Lincoln.

Aug. 18. San Francisco Federal Home Loan Bank examiners alert bank board headquarters in Washington of numerous concerns about Lincoln, including excess direct investments of $600 million, loan underwriting and appraisal deficiencies, joint ventures misclassified as loans, and concentration of loans to one borrower.

Oct. 7. Lee H. Henkel Jr. is nominated to fill one of two bank board vacancies that have prevented the board from acting for months; Lawrence J. White is named Oct. 20 to the other vacancy. Henkel had served with Keating in John B. Connally's abortive presidential campaign in 1980 and later as a tax counsel to Keating. Sen. Dennis DeConcini, D-Ariz., had written to White House Chief of Staff Donald T. Regan on June 6, 1986, urging Henkel's appointment. Keating later boasted that he engineered Henkel's nomination.

Nov. 25. Lincoln examination is deemed to be complete, despite continued allegations that Lincoln has been uncooperative. First of several conferences with Lincoln officials is held to discuss findings.

Dec. 18. At his first board meeting, Henkel proposes a "grandfather" clause as part of a tough new direct investment rule under consideration by the board. It was reported that the grandfather clause would principally benefit Lincoln. Henkel denied that he knew that, or that anyone connected with Lincoln helped him draft it. He has conceded that he was approached by the U.S. League of Savings Institutions, which wanted the clause.

Dec. 19. Bank board authorizes investigation of alleged "file stuffing" and backdating of documents in Lincoln's loan application files.

1987



Gray

Feb. 26. Sen. Donald W. Riegle Jr., D-Mich., meets with Jack D. Atchison, then-managing partner of the Phoenix office of Arthur Young, Lincoln's outside auditor, to discuss the ongoing examination of Lincoln. Atchison supplied Riegle on March 13 with a seven-page letter outlining alleged examiner abuses and the "unduly harsh" examination report that Lincoln anticipated. Similar letters were sent March 17 to Sens. DeConcini and John McCain, R-Ariz. In 1988, after giving Lincoln unqualified audits for 1986 and 1987, Atchison left Arthur Young to be senior vice president of American Continental at a salary in excess of $950,000.

Feb. 27. The bank board adopts its new direct investment rule without the grandfather clause. Henkel abstains; he later resigned from the bank board, effective April 1. The new rule eventually was upheld in federal court after Lincoln sued to have it overturned.

March 6. Riegle meets with Gray and says that other senators are concerned about the treatment of Lincoln. Riegle suggests that Gray meet with the others.

March 20. Lincoln files a formal petition with the Federal Home Loan Bank Board to have Gray disqualified from acting on the pending Lincoln examination report because of his alleged animosity toward Lincoln. Gray was not disqualified, but he left the board before the formal request for enforcement action was forwarded to the board.

March 23. Keating hosts a fundraiser for Riegle at Detroit's Pontchartrain Hotel (which Keating owned). It is attended mostly by American Continental employees or others with business ties to Keating; it nets $78,250 for Riegle. In March 1988, Riegle returns those contributions, following news accounts of the Keating connection. In early March 1987, Riegle had traveled to Phoenix for a speaking engagement and fundraiser sponsored by New England Life Insurance Co. and while there toured American Continental operations.

April 2. Sens. DeConcini, McCain, Alan Cranston, D-Calif., and John Glenn, D-Ohio, meet with Gray for an hour in the evening in DeConcini's office; no one else is present. Accounts of the meeting differed. Gray contended the four senators wanted the direct investment rule withdrawn and that they offered a "quid pro quo" that Lincoln would increase its home mortgage lending if the federal regulators would back off. The senators denied that a deal was discussed, although some conceded that the discussion could have touched on the direct investment rule. A two-page March 19, 1987, memorandum to DeConcini from aide Laurie A. Sedlmayr laid out "what American Continental wants from Gray for concessions." The memorandum closely corresponds with Gray's assertion of what the senators sought in the meeting.



Black

April 9. Cranston, DeConcini, Glenn, McCain and Riegle meet with examiners from the San Francisco Federal Home Loan Bank and the Washington office of the bank board for two hours in the evening in DeConcini's office. Notes taken during the meeting by William Black, then deputy director of the Federal Savings and Loan Insurance Corporation (FSLIC), show that the senators were concerned about the pace of the Lincoln examination. DeConcini suggested that Lincoln would increase its home mortgage lending in return for regulatory "forbearance."

The meeting broke up shortly after the examiners revealed confidential information that they were going to make criminal referrals to the Justice Department about some Lincoln practices.

April 24. President Ronald Reagan appoints M. Danny Wall, chief banking aide to Sen. Jake Garn, R-Utah, and former staff director of the Senate Banking Committee, to the bank board to replace Gray as chairman. Gray left June 30, when his term expired; Wall took over July 1.

May 1. San Francisco Federal Home Loan Bank examiners recommend that Lincoln be seized for operating in an unsafe and unsound manner and for dissipating its assets.

August-September. Cranston calls Wall to urge that a decision be made in the Lincoln investigation.

Oct. 14. Lincoln's attorneys inform the San Francisco Federal Home Loan Bank that the SEC has begun an inquiry into Lincoln's transactions with Ivan F. Boesky, who pled guilty to insider trading charges in November 1986. The SEC's investigation of Lincoln and American Continental is continuing.

Oct. 16. Alvin W. Smuzynski, deputy director of bank board headquarter's Office of Regulatory Policy, Oversight and Supervision, writes to his immediate supervisor, Darrel W. Dochow, that Lincoln "is currently operating in an unsafe and unsound manner." Smuzynski affirms some findings of the San Francisco Federal Home Loan Bank and reverses others. He recommends a consent cease and desist order for Lincoln.

Late 1987. American Continental begins raising money through sale of junk bonds, often marketed in or adjacent to Lincoln branches; purchasers testified to the House Banking Committee in November 1989 that they were steered by Lincoln employees to buy these bonds instead of Lincoln's federally insured certificates of deposit. Ultimately, 23,000 bonds worth $250 million were sold. The bonds became worthless when American Continental declared bankruptcy in April 1989.

1988

February-May. The Enforcement Review Committee, a panel of senior bank board officials, meets repeatedly on the Lincoln case with San Francisco examiners; Keating, his staff and attorneys; headquarters supervisors; California state thrift regulators; and examiners from the Seattle Federal Home Loan Bank, where the Lincoln case is potentially to be transferred. San Francisco, Seattle and California state regulators all urged either seizing Lincoln or putting the thrift under a cease and desist order. Headquarters officials, particularly Dochow and Rosemary Stewart, director of the Office of Enforcement, were opposed.

May 5. On the recommendation of the Enforcement Review Committee, the bank board votes 2-1 to accept a Lincoln-proposed "memorandum of understanding" that the thrift would increase its capital and improve its loan underwriting standards, while supervisory jurisdiction over Lincoln would be transferred from San Francisco to Washington bank board headquarters. The memorandum is signed May 20; a separate letter signed by Stewart states that

there would be no criminal referrals based on the 1986 examination. A May 10 letter to Keating from his Washington attorney, Margery Waxman, boasts, "You have the board right where you want them. . . . If they mess up this time, it is all over." Federal officials and the Chicago law firm of Sidley & Austin, Waxman's firm, denied in March 1990 that Waxman's letter was accurate.

July 11. A new examination of Lincoln is begun by employees drawn from several regional home loan banks other than San Francisco.

Sept. 1. An examination is ordered for Lincoln's parent, American Continental, because more than $94 million in Lincoln tax payments were made to American Continental, not to the Internal Revenue Service, as part of a tax-sharing agreement that regulators considered improper.

Dec. 20. The latest examination reports are completed and forwarded to bank board headquarters. The same day American Continental agrees to sell Lincoln to a group of investors, and the California Savings and Loan Commissioner issues a cease and desist order against Lincoln because of the sale of American Continental bonds to Lincoln customers in Lincoln branches. California state regulators object to the sale of Lincoln, as do some federal regulators. Several efforts to sell the thrift fall through. Sens. Cranston and DeConcini intervene with state and federal regulators through early April 1989 to encourage sale of the thrift, rather than its seizure. Bank board member Roger F. Martin has told the Ethics Committee that he received nearly identical telephone calls in April 1989 at his unlisted home number. One, from Cranston, came at 10 p.m.; the other, from DeConcini, came at 5:30 the following morning.

1989

Feb. 14. The bank board concludes that Lincoln is undercapitalized and begins a third examination of the thrift.

April 13. American Continental Corp. files Chapter 11 bankruptcy proceedings seeking protection from creditors and securing access to its records. The bankruptcy filing also covers 11 subsidiaries of Lincoln, which hold many of the thrift's assets.

April 14. Lincoln is found by the bank board to be operating in an unsafe and unsound manner, and to be dissipating its assets. The bank board seizes control of the thrift and places it into conservatorship of the FSLIC. On March 31, the thrift reported total assets of $5.3 billion — almost five times what Lincoln owned in 1984. Only 2 percent were in home mortgages, and 63 percent were classified as risk assets. The thrift reported a quarterly loss of $29 million and a loss of $18 million over the preceding 12 months.



Wall

April 17. The bank board refers evidence of possible criminal actions by Lincoln and American Continental to U.S. attorneys and the FBI in Phoenix, Los Angeles and New York.

May 12. Keating sues the bank board, charging that seizure of the thrift was illegal. On Aug. 23, 1990, federal District Court Judge Stanley Sporkin ruled in Washington that the government was "fully justified" in seizing Lincoln and that the actions of Keating and Lincoln's management "amounted to a looting of Lincoln."

Aug. 2. Federal Home Loan Bank Board puts Lincoln into receivership, orders its assets liquidated and creates a new Lincoln to take over old Lincoln's deposits. The government put Lincoln up for sale Nov. 2, 1990.

Aug. 9. President Bush signs a bill (HR 1278 — PL 101-73) overhauling the thrift regulatory system and abolishing the bank board and the FSLIC.

Sept. 15. The Resolution Trust Corporation (formed to manage failed thrifts and dispose of their assets), Lincoln's new conservator, sues Keating, 19 associates and family members, and 17 Lincoln affiliates, charging fraud, racketeering, breach of fiduciary duties and other acts leading to losses of $1.1 billion.

Oct. 13. Common Cause, a government watchdog group, asks the Senate Ethics Committee and the Justice Department to investigate the actions of Sens. Cranston, DeConcini, Glenn, McCain and Riegle in behalf of Keating and Lincoln. The complaint notes that the five received from Keating and his associates more than $1.3 million in contributions to their own political campaigns or to political funds with which they were associated. The Ohio Republican Party had called Sept. 28 for an ethics probe of Glenn.

DeConcini had announced Sept. 18, 1989, that he would repay $48,100 that his 1988 campaign had received. In May and June 1989, McCain repaid American Continental $13,433 for nine plane trips to the Bahamas between 1984 and 1986. On three occasions McCain and his family stayed at Keating's vacation home. McCain said he would return $112,000 in campaign contributions if the money was found to have been diverted from Lincoln. Riegle had returned $78,250 in campaign contributions in March 1988.

Oct. 17. House Banking Committee begins six days of hearings into Lincoln's collapse. Most principals, except for the five senators, are called as witnesses. Keating and his former accountant, Jack D. Atchison, refuse to testify, citing their constitutional right against self-incrimination. The hearings conclude Nov. 21; no formal report is issued following the hearings.

Nov. 17. The Senate Ethics Committee hires Washington lawyer Robert S. Bennett to conduct an inquiry into the actions of the five senators in behalf of Keating and Lincoln. Bennett had previously been hired by the committee to investigate alleged ethics violations by Sen. Dave Durenberger, R-Minn. That case was concluded July 25, 1990, by a 96-0 Senate floor vote denouncing Durenberger. In 1981-82, Bennett had headed an Ethics Committee investigation following the Abscam scandal that led to the resignation of Sen. Harrison A. Williams Jr., D-N.J.

Dec. 22. The Ethics Committee launches a formal preliminary inquiry into the Keating case.

1990

Sept. 10. Bennett submits to the Ethics Committee a 350-page report of his findings. News accounts report that he recommended dropping proceedings against Glenn and McCain, but continuing an investigation into Cranston, DeConcini and Riegle.

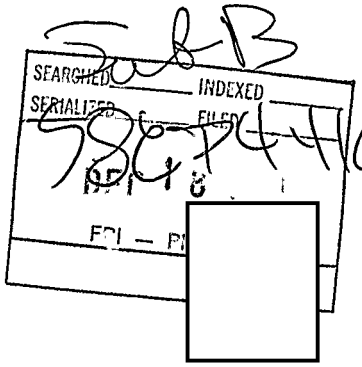
Sept. 18. A California criminal indictment of Keating, growing out of the junk bond probe, is released. Keating is jailed on $5 million bond. On Oct. 21, a federal judge deems the bail "irrational" and reduces it to $300,000. Keating makes bail and is released from jail.

October. The Ethics Committee meets privately for several hours with each of the five senators, concluding Oct. 17.

Oct. 22. Republican senators, led by McCain, take to the Senate floor to condemn leaks of Ethics Committee documents that led to news reports of Bennett's recommendations on Glenn and McCain, and of post-April 1987 contacts with Keating by Cranston, DeConcini and Riegle. McCain calls for release of the Bennett report. Democrats, led by Ethics Chairman Howell Heflin of Alabama and Majority Leader George J. Mitchell of Maine, decry the leaks.

Oct. 23. The Ethics Committee announces public hearings into the case beginning Nov. 15. The committee vows to conclude its inquiry by Dec. 31 "except in extraordinary circumstances." The panel asks the General Accounting Office to investigate news leaks.

By John R. Cranford



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FD-448 (Rev. 3-7-88)

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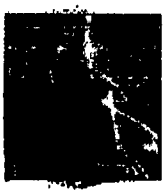
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FD-350 (Rev. 5-8-81)

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(Indicate page, name of newspaper, city and state.)
The Washington Times
Washington, D.C.
Date: 12/3/90
Edition:

RAINY
HIGH 48. LOW 40. PAGE B

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.

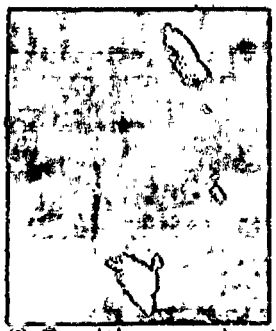
The Times has been told that a federal grand jury sitting in Southern California is reviewing the evidence involving the senators, but additional details were not yet forthcoming.

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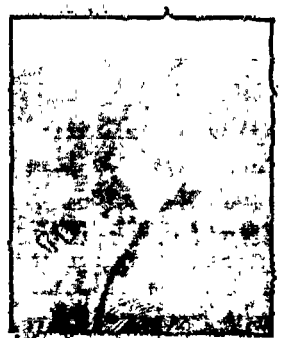
Although the financial dealings and legislative records of all of the Keating Five senators had been reviewed by the FBI over the past year, the lastest inquiry centers on the relationships that Mr. DeConcini and Mr. Cranston had with Mr. Keating and his failed thrift, Lincoln Savings and Loan of Irvine, 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

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 [illegible] 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.

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

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(Indicate page, name of newspaper, city and state.)
The Washington Times
Washington, DC pp A1,6

Date:
Edition: 12/4/90

Title: "Two of 'Keating 5' Deny FBI Probes

Character:
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Submitting Office:

Indexing:

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 terrorized 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 months ago," but said neither he nor his office 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 [illegible] 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.

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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."

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

The Washington Post
(Indicate page, name of newspaper, city and state.) Washington, D.C.
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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 fundraiser 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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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 1961, 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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Ex-Keating aide testifies in private to ethics panel

By Sam Stanton
Republic Washington Bureau

WASHINGTON — The Senate Ethics Committee moved behind closed doors Wednesday to hear secret testimony about Charles H. Keating Jr.'s ties to the "Keating Five" senators.

The testimony, as well as documents from Keating's American Continental Corp. and Lincoln Savings and Loan Association, came from James Grogan, a former top aide to the Phoenix financier and an architect of two 1987 meetings the senators held with thrift regulators.

Grogan earlier had refused to testify in the probe of whether the senators improperly interfered with Lincoln's regulators.

He agreed to talk after the committee granted him limited immunity.

Grogan met with the panel and the senators' lawyers all day Wednesday. Committee members and attorneys said they could not comment on what he had said.

Grogan was expected to be questioned through today and possibly Friday before he testifies publicly.

He is a major piece of the puzzle the committee is trying to assemble in the Keating matter. He was Keating's chief lobbyist on Capitol Hill and was responsible for persuading some senators to look into Keating's complaints that federal regulators were conducting a probe of Lincoln because they had a "vendetta" against Keating.

The senators held two meetings in April 1987 with regulators to discuss Lincoln. Those meetings later sparked controversy when regulators charged that the meetings were used to pressure them into going easy on a campaign contributor and friend of the senators.

Grogan did not attend those meetings.

He is the first member of Keating's inner circle to break silence in the congressional probes of Keating.

Seven witnesses have refused to talk to the Senate panel, citing their Fifth Amendment right against self-incrimination. Grogan was one of those but has agreed to talk with the stipulation that things he says cannot be used to indict him later.

Keating also had taken the Fifth Amendment but later asked the panel for permission to testify under a grant of immunity. The committee rejected that request.

Keating is under criminal indictment in California and faces a $1.1 billion civil suit filed by the federal government that charges that Lincoln failed in April 1989 because he and others looted it. The thrift is expected to cost taxpayers $2 billion. Keating has denied any wrongdoing.

Grogan is the last witness expected to be heard before the senators take the witness stand themselves.

Republican John McCain of Arizona is scheduled to testify first, possibly Monday or Tuesday. He will be followed by Democrats John Glenn of Ohio, Don Riegle of Michigan and Dennis DeConcini of Arizona.

Democrat Alan Cranston of California is not expected to appear publicly because he is being treated for cancer. The panel may interview him privately, however.

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Fuse lighted for upcoming 'Keating 5' fireworks



KEVEN WILLEY
Political Columnist

So you thought last week's Senate Ethics Committee hearings on the "Keating Five" were interesting?

You ain't seen nothing yet.

The senators themselves — including Arizona's own Democrat Dennis DeConcini and Republican John McCain — are scheduled to take the witness stand this week. Look for DeConcini's pit-bull attorney, James Hamilton, to rip into McCain beginning either Tuesday or Wednesday.

It might go something like this: "So, Senator McCain, just how many mai tais *did* you have at Mr. Keating's beach-front Cat Cay estate while your wife was frolicking in the surf and you were grilling the lobsters?"

You can watch the action on C-SPAN II. Also, KAET-TV (Channel 8) will begin airing the hearings live at noon Monday.

Howard Adams has landed.

Gov. Rose Mofford plans to name the former Phoenix city councilman as coordinator of the Governor's Office of Highway Safety. The position pays $52,457, and does not require Senate confirmation.

Mofford has asked the current director, Sarah Wuertz, to resign, effective this week.

Mofford aide Ralph Milstead, former head of the Department of Public Safety, says the swap was part of a reorganization designed to strengthen the office's ties to the DPS. Speculation has it [illegible] that it was motivated by [illegible]ons, probably unfounded, that [illegible] is a Mechamite, and by a desire to find a home for Adams, a longtime police advocate who gave up his council seat to run for justice of the peace but lost.

Tough to believe it takes Arizona nearly four months to hold a runoff election for governor, isn't it? Especially when you consider that whole countries can do it in a matter of days.

Take Poland. Lech Walesa failed to win a majority in a recent general election and was thrust into a runoff. Poland will vote again next Sunday.

Meanwhile, Arizona won't elect its new governor until Feb. 26. And it could be even later if the U.S. Justice Department thinks bad weather up north might prevent too many Navajos from voting.

Just whose country is more progressive?

The official canvass of election results is out. No surprises, but a few observations:

• Sen. Jones Osborn, D-Yuma, lost his bid for a 10th term to Jim Buster by just 177 votes out of 21,495 cast. Osborn, a sure bet for Senate president had he won, considered demanding a recount but didn't.

• Of the five congressional incumbents, Republican Bob Stump won re-election by the narrowest margin, prompting speculation that he may become a target of the Democrats when districts are redrawn for the 1992 election. Stump beat Roger Hartstone, 57 percent to 43 percent.

• State Rep. Henry Evans, D-southeast Phoenix, won re-election by a scant 56 votes. No wonder Evans was posturing so blatantly on ENSCO in the final weeks.

• The significance of Stan Furman's victory in west Phoenix's District 16 cannot be overstated. Furman, a Democrat, beat five-term GOP Sen. Wayne Stump, 60 percent to 40 percent, in a district where Republicans outnumber Dems 53 percent to 37 percent.

• In the District 16 House race, Republican Dave McCarroll hung onto his seat by just 1,028 votes out of some 50,000. McCarroll should be thankful Democrat Jerry Benson isn't pro-choice like Furman, or he'd probably be out of work, too, due to aggressive phone banking by pro-choicers.

• Gila County posted the highest voter turnout, at 66 percent. Yuma County was worst, with less than 50 percent of its registered voters casting ballots. Statewide turnout: 59 percent.

The state Senate may have gotten rid of a Gillespie, but the Mesa Unified School District has just acquired one.

Sen. Jerry Gillespie, a Mesa Republican and a flamboyant defender of ousted ex-Gov. Evan Mecham, was defeated in the Sept. 9 primary. But his wife, Mary, a home-schooling advocate, won a seat Nov. 6 on the board of the state's largest school district.

Mary Gillespie defeated Mesa school-board President Craig Crandall, who reportedly is lobbying now for a Mofford appointment to the state Education Board.

Many people have complained that Arizona politics of late seems to have lost its fun.

But not Democrat Mo Udall, the veteran congressman from [illegible]-southern Arizona who has literally written the book on political humor.

Here's what Udall had to say to his campaign supporters at the victory party after the Nov. 6 election:

"Now that the election is over,

"Let all this bitterness pass.

"I will hug your elephant,

"And you can kiss my — donkey."

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Blood feud: Scandal poisons DeConcini, McCain relations

News Analysis

By Sam Stanton
Republic Washington Bureau

WASHINGTON — Dennis DeConcini finally was getting a break.

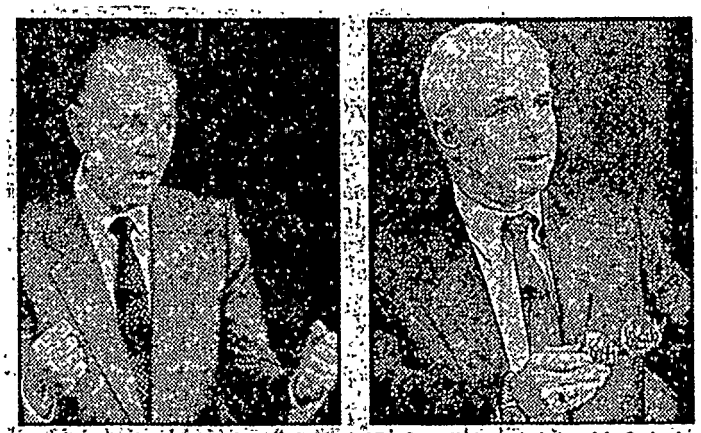
Arizona's senior senator had escaped Washington and the ethics hearings that may end his career. He and his wife, Susie, were going to enjoy the football game between the University of Arizona and Arizona State University from the plushness of the President's Box at Wildcat Stadium in Tucson.

The third-term Democrat walked in with his wife, as the game began — and the place froze.

Sitting there in a seat directly behind the one reserved for DeConcini was his mortal enemy: Republican Sen. John McCain.

No fistfight was reported, but that may have been the preferable way to settle the blood feud raging between the two Arizona senators.

— See SCANDAL, page A15



The battle between Sens. Dennis DeConcini and John McCain is not new but recently has become heated by the ethics probe.

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— SCANDAL, from page A1

between Arizona's two senators.

DeConcini thinks McCain has engaged in a months-long smear campaign to sink his political career over the scandal involving indicted Phoenix businessman Charles H Keating Jr.

McCain thinks DeConcini has phonied up documents to drag him down with DeConcini in the morass of the scandal that erupted in the wake of the failure of Keating's Lincoln Savings and Loan.

Welcome to the world of Arizona's two U.S. senators, two-fifths of the "Keating Five."

It is a world at war, but it is being fought amid the genteel trappings of the "World's Most Exclusive Club," where normally the roughest thing members call each other is "my good friend."

"It would be virtually impossible for Dennis and John to ever get together again for any reason," said one congressional observer familiar with both men.

"There's so much tension between them. ... It's going to poison the well so deeply, I don't think they can ever pull it out."

"Everybody's just horrified," said another observer, who, like his colleague, pleaded not to be identified so he could stay out of harm's way.

Brutal campaign likely

Assuming that both senators survive the ethics probe and that McCain runs for a third term in 1992, DeConcini is expected to pull out every stop to drive his colleague from the Senate.

"It's going to be a blood bath," one observer predicted.

DeConcini may get a brief respite; he doesn't have to run for re-election until 1994, unless the fight so sours him that he decides not to seek a fourth term.

The feud between the two men is not new. But in recent weeks, it has become superheated as the televised Senate Ethics Committee probe of the Keating Five senators has intensified.

The panel is probing whether DeConcini, McCain and Democratic Sens. Alan Cranston of California, Donald Riegle of Michigan and John Glenn of Ohio acted improperly when they intervened with federal regulators in Keating's behalf. The financier and his family and associates had given $1.3 million to their campaigns and causes.

McCain's lawyer has called "phony" a letter DeConcini wrote that purported to be an invitation by him and McCain for senators to attend a 1987 meeting with regulators overseeing Lincoln.

Scandal fouls DeConcini, McCain ties

McCain, who has fought to have the panel excuse him from the investigation, as its special counsel has suggested, says he never was told about the letter and never signed it.

And, last week, it became clear that DeConcini had tried to drop an even bigger bomb on Arizona's junior senator.

According to testimony before the panel, DeConcini called a former Keating aide to discuss that aide's claim that McCain never intended to pay for some of his Bahamas vacations with Keating in the mid-1980s. The claim was detailed in a letter to the ethics panel in October.

Issue angers McCain

Those trips are a sore point with McCain, partly because it is embarrassing to be perceived by the public as having cavorted with Keating on a beach and partly because McCain didn't pay for all of the trips until 1989.

The failure to pay was an "oversight," McCain has said. But DeConcini latched onto the Keating aide's claim and discussed how to make the allegation public.

DeConcini's aides have said that was an effort to show that the Ethics Committee's special counsel, Robert Bennett, unfairly has singled out DeConcini for criticism while ignoring McCain's dealings.

It wasn't meant to hurt McCain, just Bennett, DeConcini aides say.

Somehow, that logic escapes McCain loyalists, who are awaiting their boss' turn on the witness stand, which is to come in early January.

His appearance may be bloody, with DeConcini attorney James Hamilton expected to home in on McCain with piercing questions about those Bahamas trips, the number of mai tais the McCains enjoyed with the Keatings and just how warm that azure water was.

If it happens, this will be DeConcini's revenge, a public grilling of McCain that will serve as payback for what DeConcini sees as a smear campaign by his junior colleague.

Blamed for leaks

Arizona's senior senator is convinced that McCain or his supporters have orchestrated a series of leaks that have pummeled DeConcini with negative stories in the press for months.

While headlines screamed about Bennett's recommendation that McCain and Glenn be exonerated for lack of evidence, newspapers zeroed in on leaked documents about Keating's fund raising for DeConcini and other sordid tidbits.

DeConcini's people have told colleagues that part of their strategy is to keep McCain linked to the scandal, under the theory that if McCain gets off, so will DeConcini.

But DeConcini probably won't continue attacking McCain for supposedly leaking documents, a strategy his legal team began with last month when the hearings opened. That gambit may have been lost by the revelation about the Keating aide's Bahamas letter and DeConcini's attempts to leak that.

So far, it is unclear just what DeConcini will say when he takes the stand.

DeConcini may hammer home the point that his intervention for Keating is the same type of thing he has done for 75,000 other Arizona constituents.

It is still unclear how the six-member Ethics Committee — three Democrats and three Republicans — are viewing the accused senators' tactics.

Maybe McCain's "I'm above the fray and should be cleared" strategy will work. Perhaps DeConcini's "everybody does it" plan will suffice.

But it is clear that the days of old — when Arizona congressmen and senators pulled together to make up for the state's lack of clout in Congress — are over, at least on the Senate side.

The feud has left such a bad taste in the mouths of House members that they and their staffs don't even talk about it anymore, giving it the silent treatment that a family might accord that crazy uncle it had to send off to a mental institution.

"It's just out in the open now," one said.

"Why talk about it? It's happening, and it's on TV."

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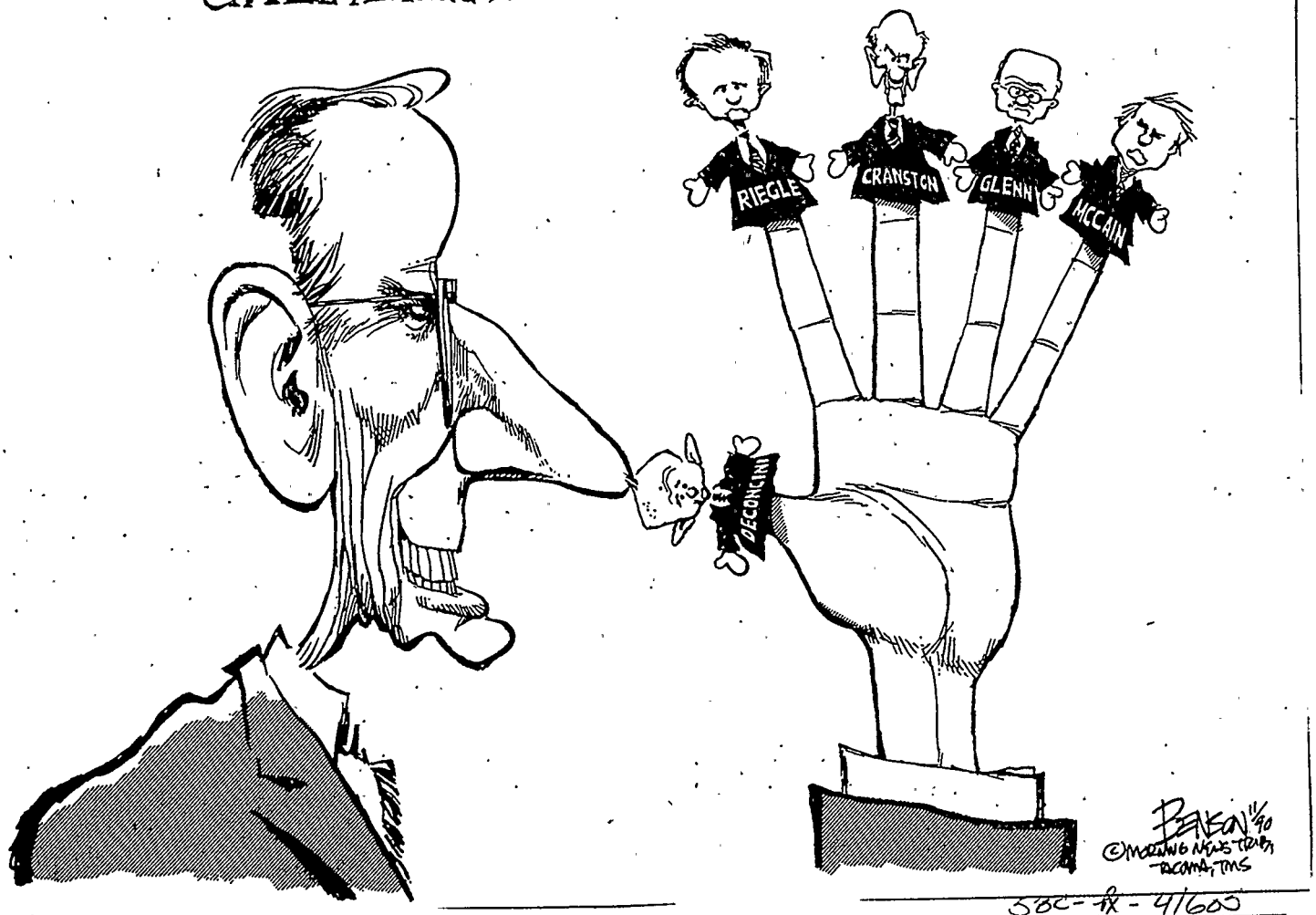
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At issue: Keating's motive for giving

By Martin Van Der Werf
Republic Washington Bureau

WASHINGTON — There was never any indication that political contributions from financier Charles H Keating Jr. were made in return for efforts to get regulators off his back, his former top Washington lobbyist testified Saturday.

However, James Grogan said it is his personal belief that the more money a person contributes to politicians, the more access he gets.

That statement raised the hackles of members of the Senate Ethics Committee, who are looking into the actions of the "Keating Five," senators who intervened with federal regulators in an effort to help Keating's failing Lincoln Savings and Loan of Irvine, Calif.

The thrift's collapse heralded the downfall of Keating's financial empire. The Valley resident faces securities-fraud charges in California and is the focus of investigations by a variety of agencies.

Grogan's repeated denial during the rare Saturday meeting that any links ever were suggested between Keating's $1.3 million in political contributions and the senators' subsequent actions appeared to contradict one of the most famous statements of the entire Lincoln episode.

On April 17, 1989, soon after Lincoln was placed in receivership, 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."

Grogan, testifying under a limited grant of immunity from prosecution, came under repeated attack Saturday from lawyers for the five senators, particularly that of Sen. Donald Riegle, D-Mich.

Grogan has said that Riegle set up a key meeting between the senators and Edwin Gray, then-chairman of the Federal Home Loan Bank Board, in April 1987.

That contradicts a sworn statement from Riegle, who has denied setting up the meeting, the first of two with regulators who oversaw the savings and loan industry.

Riegle, chairman of the Senate Banking Committee, did not attend the first meeting but had asked to be called by Sen. John McCain, R-Ariz., as an "expert witness," Grogan said. The Michigan senator wanted an invitation, Grogan said, so he would have a reason for being at the meeting if ever questioned about the matter by the press.

Much of the testimony throughout the Senate hearings, now a month old, has pointed to Sen. Dennis DeConcini, D-Ariz., as the organizer of the meetings, which were held in his office.

The other senators under investigation are John Glenn, D-Ohio, and Alan Cranston, D-Calif.

Grogan on Saturday repeated testimony that Riegle suggested the meetings with Gray while on a visit to Phoenix in March 1987 to view the operations of Keating's American Continental Corp., the parent company of Lincoln Savings.

"It was very significant for the company, because, for the first time, a senator on the Banking Committee suggested that he could help us," Grogan said of Riegle.

Although Riegle's attorney, Thomas Green, tried repeatedly to punch holes in Grogan's story, Grogan maintained that he was certain he had not misunderstood Riegle.

Lawyers for the other senators acknowledged that the officeholders had gone to bat for Keating, but they tried to establish that the senators had not done everything Keating asked of them.

What clearly raised the ire of the Ethics Committee members, however, was Grogan's statement that he thinks contributions buy access.

Sen. Terry Sanford, D-N.C., went through a list of senators who had met with Grogan but never received any political contributions from Keating.

"I notice you had a meeting set up with me," Sanford said. "Did my secretary ask if you had paid the access fee?"

As the audience chuckled, Grogan said, "No."

The committee had been expected to meet for at least two days this week, but instead it adjourned until Jan. 2. McCain, the first senator scheduled to testify before the panel, may appear as soon as Jan. 4.

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Dennis Cook/The Associated Press

James Grogan (right), former counsel and lobbyist for Charles H Keating Jr.'s American Continental Corp., speaks with his attorney, James Henderson. Grogan testified Saturday with limited immunity before the Senate Ethics Committee.

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DeConcini's request 'improper,' panel told

Doug Mills/The Associated Press

Former banking regulator Edwin J. Gray (left) confers with his attorney, Leonard Garmant.

Sought deal for Keating, ex-regulator testifies

By Sam Stanton
Republic Washington Bureau

WASHINGTON — The nation's former top thrift regulator on Tuesday accused Sen. Dennis DeConcini of trying to cut an "improper" deal for Charles H Keating Jr. He also said Arizona Sen. John McCain later agreed it was DeConcini's idea.

Edwin J. Gray, once the head of the Federal Home Loan Bank Board, told the Senate Ethics Committee that DeConcini's efforts to help Keating, the indicted former owner of Lincoln Savings and Loan, came in two meetings in April 1987. Those meetings spawned the now-infamous "Keating Five" case against five senators.

Gray said DeConcini's suggestion of a deal arose amid pressure from politicians who agreed with Keating that the bank board was too strict. He said it was made in meetings originally suggested by Sen. Don Riegle, D-Mich.

"He (Riegle) pulled me aside and he said, 'You know, there are some senators out West that are very unhappy about the bank board's regulation of Lincoln, and I think you ought to talk to them,"

— See FORMER, page A8

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Former regulator testifies

— FORMER, *from page A1*

Gray told the panel under oath.

A few weeks later, Gray said, he got a message to "come alone" to DeConcini's office at 6 p.m. April 2.

Gray said he was bothered by the instruction to go without his staff, because there would be no witnesses.

"There were only five principals, myself and the four United States senators," he said. "No one ever to know what was said there, no one else to hear. I recognized that immediately."

But he complied and was met on Capitol Hill by DeConcini, Republican McCain and Democrats Alan Cranston of California and John Glenn of Ohio.

Deal offered

At that point, he said, DeConcini told him Lincoln would change its investment policies if Gray would pull back a rule that limited Lincoln's ability to invest in high-risk ventures.

Gray recounted words that he said were "etched forever in my mind," quoting DeConcini as saying, "Mr. Chairman, we're here to talk about our friend from Lincoln Savings."

Gray added that because DeConcini repeatedly said "we" and none of the other senators objected, he assumed DeConcini was speaking on behalf of the group.

He said that DeConcini was referring to Keating and that the senators wanted answers about the bank board's probe of Lincoln. But he said that he was unable to answer their questions and suggested that they talk to the San Francisco-based examiners.

A week later, Gray said, a meeting with those officials was set up at DeConcini's request, and all five senators, Riegle included, attended.

Keating and his associates contributed about $1.3 million to the five senators' campaigns, but each has denied any wrongdoing and has said the money did not influence him.

Description disputed

The senators also have disputed Gray's description of what happened, saying that he was wrong or that they did not recall DeConcini's trying to make a deal for Keating, something Gray said would be improper.

But Gray said that McCain, a former prisoner of war in Vietnam, told him in a 1989 telephone call that the Keating scandal had been "worse than my worst day in Vietnam."

He said McCain also indicated that although he did not remember DeConcini's offering to make a deal at the first meeting, he did at the second meeting.

"Senator McCain was not calling me a liar," Gray said. "He just simply didn't remember. He also said, 'But you know, Senator DeConcini did make that proposal in the second meeting.' "

McCain has said he does not remember such an offer.

DeConcini has denied making any suggestion and has said in past hearings that Gray should be charged with perjury.

None of the senators was present, but lawyers for some of them wasted no time trying to pick apart Gray's testimony.

Memory questioned

Lawyers for Riegle and DeConcini hammered at Gray's memory and asked how he could remember events of nearly four years ago so clearly.

They pointed out that Gray could not remember who gave him the message about the first meeting or where it came from. And, they said, Gray had not maintained calendars or diaries of his days at the bank board, and had no documents about his session with the senators to refresh his recollection.

"The only document was my memory," Gray responded.

The attorneys continued their attack, asking why he had attended the meeting if he had misgivings. They also wanted to know why, when McCain had said in the meeting he did not want to do anything improper, Gray had not spoken out that the whole meeting was improper.

Gray said that "in retrospect," he should have said something but that he needed the senators' support on legislation he backed.

Gray, considered the chief accuser of the senators in their dealings for Keating, took up the entire day of testimony Tuesday and is expected to be grilled most of today.

The hearings are expected to last into the second week of December. Then the ethics panel must decide whether to pursue action against any of the senators.

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SENATE ETHICS HEARINGS

The Keating scapegoats

BACK in 1986 the chairman of the Federal Home Loan Bank Board, Ed Gray, was desperately trying to close down failing savings and loans. Mr. Gray went to Congress and asked for $15 billion so that the board could take over several corrupt and mismanaged thrifts.

In the House, the erstwhile speaker, Jim Wright, blocked the bill at the behest of some high-flying thrift operators in his home state of Texas. The Senate also disdained Mr. Gray's warnings that a delay in closing the failing thrifts would drive up the costs of a future bailout.

Sen. David Pryor of Arkansas put the recapitalization bill on hold and badgered Mr. Gray for his attempts to rein in the out-of-control thrifts. Meanwhile, Speaker Wright was trying to get one of Mr. Gray's staffers fired.

A $3 billion bill finally passed the Senate in late 1986, but it died in the House. Had Congress heeded Mr. Gray's warnings, the thrift debacle never would have reached the $500 billion price tag now put on it.

Sen. Pryor was one of the key figures in delaying the federal bailout, yet he now serves on the Senate Ethics Committee and presumes to sit in judgment of the so-called Keating Five. Congress, however, seems oblivious to such contradictions.

The Ethics Committee's hearings on the Keating Five affair amount to a morality play cleverly staged to conceal Congress's role in the thrift debacle. In fact, dozens of members were involved, as was Sen. Pryor, in the S &L affair under the guise of "constituent services." Dozens upon dozens of members accepted campaign contributions from S & L operators and their political action committees.

Nevertheless, attention has focused on the Keating Five because Charlie Keating has come to symbolize the whole scandal. Because the affair is so widespread, involving so many institutions and individuals across the nation, it is hard for the public and press to get a grip on its true dimensions. It is easier to concentrate on Mr. Keating, and in truth his swaggering arrogance suited him to the role of arch-villain.

If one were to fix blame objectively for the thrift disaster, surely Sen. Pryor would bear a greater share than any of the Keating Five. He was instrumental in blocking legislation that would have put a halt to the expanding crisis. Moreover, Mr. Gray testified under oath that his two meetings with the five senators in 1987 had no affect whatsoever on the burgeoning thrift disaster nor did the meetings cause the two-year delay in closing down Lincoln Savings and Loan.

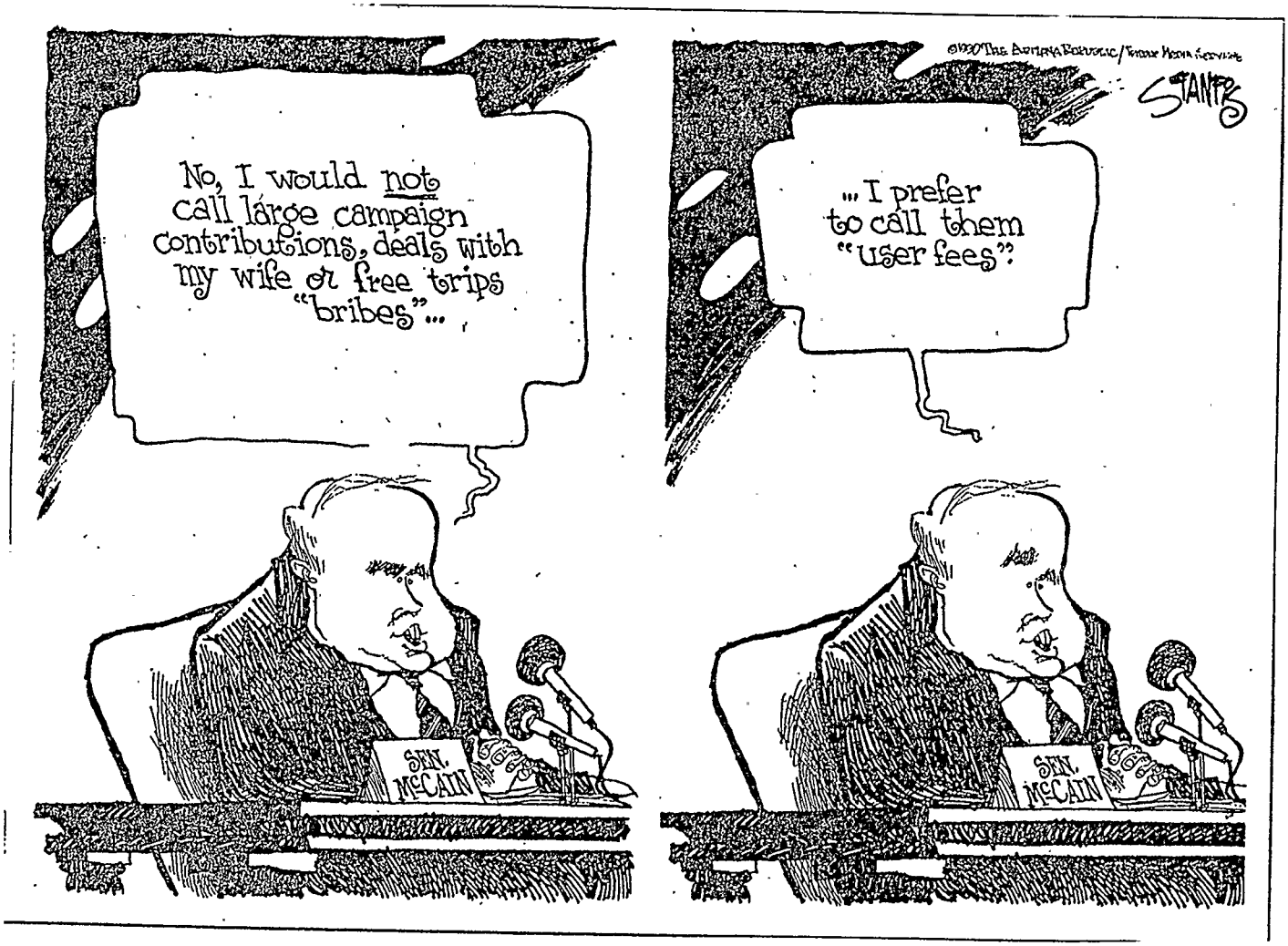
It should be clear to all that Congress is intent on making scapegoats of the Keating Five. Influence peddling on behalf of special interests and big-time campaign contributors is ubiquitous in Washington. By subjecting the five senators to an *auto-da-fe*, Congress hopes to divert attention from its larger involvement in the biggest bank heist in American history.

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No, I would not call large campaign contributions, deals with my wife or free trips "bribes"...
SEN. McCAIN
©1999 THE ARIZONA REPUBLIC/TRIBUNE MEDIA SERVICES
STAMPS
... I prefer to call them "user fees".
SEN. McCAIN

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

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Judge finds flaws in Keating counts

Orders 22 fixed or face the ax

By Lisa Morrell
The Arizona Republic

LOS ANGELES — A Los Angeles County Superior Court judge said Friday that he plans to throw out more than half of the state securities-fraud charges against Charles H. Keating Jr. unless prosecutors can fix flaws in the indictment.

Judge Lance Ito gave prosecutors 10 days to correct problems in 22 counts of the 42-count indictment that accuses Keating and three of his former executives of fraud in the sale of $250 million in junk bonds by Keating's American Continental Corp. of Phoenix.

Ito's decision was a partial victory for defense attorneys, who had sought dismissal of the entire indictment. He let stand 20 other counts.

"At least in more than half the case today, a judge ... has recognized that a person in this country does not have to stand trial without adequate charges being filed," said Abbe Lowell, a Washington, D.C., defense attorney for former American Continental President Judy Wischer.

"We'll see if the government can correct their errors. Frankly, we think they cannot."

A prosecutor with the Los Angeles County District Attorney's Office said after the hearing that the indictment can be saved.

"It is a very simple matter to correct," said William Hodgman, a deputy district attorney. "We're going to be just fine."

But defense attorneys said they do not believe prosecutors will be able to fix the problems.

—See KEATING, page A14

Judge Lance Ito / His decision is a partial victory for Keating's defense attorneys, who had sought dismissal of the entire indictment.

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Keating fraud counts jeopardized

— KEATING, *from page A1*

"This is not an example where a prosecutor takes his pen and paper and tries to come up with a charge that sticks," Lowell said. "If they think they now can cut and paste what they could not do before and make it stick, let them try."

As part of the revisions, prosecutors will be more specific in the charges, which will result in more counts being brought against Keating, former chairman of American Continental; Wischer; and Ray Fidel and Robin Symes, two former executives of Lincoln Savings and Loan Association of Irvine, Calif., an American Continental subsidiary.

The judge's decision came at the end of a daylong hearing in which defense attorneys asked him to throw out the entire case against Keating and his three former executives.

Coming under harshest fire were 20 counts that allege that the defendants sold securities in California without legally required approval by the California Department of Corporations.

The indictment accused the defendants of going beyond the limited approval for bond sales that had been granted by the department. But defense attorneys claimed that overstepping those bounds is not a crime under California law.

Ito, noting those arguments, ordered prosecutors to try to correct the indictment.

Hodgman said prosecutors will use evidence from grand-jury transcripts to show the 20 violations occurred. Prosecutors said they will not have to go back to the grand jury to make the necessary changes.

Ito also criticized the indictment's last two counts, which allege that the defendants violated California law by lying to the Department of Corporations and selling the bonds using advertising that had not been approved by the department.

The judge found that those counts were not specific enough on what crimes the defendants were accused of committing and, therefore, violated the defendants' rights to due process.

Ito said that, for example, Wischer would not be able to know which of dozens of letters she had written about bond advertising led to one count in the indictment.

Ito let stand 20 counts that accuse Keating and the others of deceiving buyers of the junk bonds, most of which were purchased at Lincoln's southern California branches.

The judge said there was "a rational basis" for those counts in the more than 4,500 pages of transcripts detailing grand-jury proceedings that led to the September indictment of the four executives.

The indictment gives enough information about those counts for the attorneys for Keating and the others to mount a defense, Ito said.

Defense attorneys complained that prosecutors are abusing a California law by holding their clients, as top executives, responsible for any misstatements that may have been made by their employees in the sale of the bonds.

Keating was jailed for 33 days on the state charges before being released on a reduced bail of $300,000 last month. Wischer, Fidel and Symes also are free on bail.

If convicted on at least six of the charges, each defendant could receive a maximum prison term of 10 years.

The judge scheduled a hearing for Dec. 3 on the revised indictment.

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

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DeConcini accuses ethics counsel of bias

Says investigator 'wants to get somebody'

EXCERPTS FROM THE HEARINGS, A2
11TH-HOUR PAYMENT: Keating's Paradise Valley home is rescued again, A4

By Sam Stanton
Republic Washington Bureau

WASHINGTON — An angry Sen. Dennis DeConcini lashed out with a vengeance Monday at accusations by the Senate Ethics Committee's special counsel that he abused his office to peddle favors for Phoenix financier Charles H. Keating Jr.

DeConcini, D-Ariz., in the political career in the make me gag," DeConcini said into his dealings with "Bennett says that the facts tilt. He tilts them sometimes shouting and at other times pounding a lectern. "No, the facts don't tilt. He tilts them. He wants to get somebody. I'm sorry to say. He wants another trophy on the wall."

DeConcini, whose 2½-hour speech was one of the cross-hairs of the ethics probe into Keating's accused special counsel Robert Bennett of a presentation so biased and unfair that it is "enough to

See DeCONCINI, page A3.



Sen. Dennis DeConcini, D-Ariz., testifies before the Senate Ethics Committee. He spoke for 2½ hours Monday.

Gary Cameron/Reuters

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DeConcini assails ethics counsel

— DeCONCINI, *from page A1*

most forceful of his career, also accused Bennett of going easy on Sen. John McCain, R-Ariz. He added that although he hopes McCain is exonerated, he does not think Bennett handled the probe of the senators fairly.

DeConcini's statement came on the third day of hearings into whether the "Keating Five" senators misused their offices to help Keating, now under criminal indictment in California, in his fight with federal regulators probing his Lincoln Savings and Loan.

The other senators presented their opening defenses last week, with all of them claiming no wrongdoing. But DeConcini's was by far the most combative against Bennett, a Republican who has worked for the ethics panel in other cases and has spent the past year investigating the five.

Bennett defends self

Bennett, whom DeConcini repeatedly referred to as a "special prosecutor," later defended himself, telling the panel and DeConcini that he was merely presenting the evidence as he found it.

"I've been asked to do a job, and I've done it," he said.

Bennett also came under attack from DeConcini's attorney, James Hamilton, who said he wondered whether Bennett was "really a plant, if he's a double agent sent here by Common Cause," the self-styled citizens' lobby that started the probe with an official complaint to the panel last year.

Hamilton's complaint echoed that of DeConcini and fellow Keating Five Sens. Alan Cranston, D-Calif., and Don Riegle, D-Mich., that Bennett was creating new rules and standards of conduct for the senators.

Bennett called that "ridiculous."

"Do you realize that these senators have said on national television that Bob Bennett's standards are too high . . .?" Bennett asked. "The greatest deliberative body in the world — they can't hack it under my standards?"

He added that DeConcini and other senators are resorting to the method that "if you don't like the message, you burn the messenger."



John Duricka/The Associated Press

Sens. Donald Riegle, D-Mich., (left) and Dennis DeConcini, D-Ariz., visit before the resumption of the Senate Ethics Committee hearings in Washington on Monday.

78 favorable calls

The Keating case has drawn worldwide attention and has eroded the standing of all five senators. But despite DeConcini's fall to all-time lows in Arizona polls, DeConcini spokesman Bob Maynes said his office received 78 favorable calls in reaction to the senator's statement and only nine negative calls.

At issue is whether the senators improperly tried to help Keating with regulators because Keating gave heavily to their campaigns.

DeConcini, who with Cranston and Riegle has been labeled by Bennett as the three most culpable, said that his intervention was not unusual at all and that it had nothing to do with contributions.

DeConcini said that since he entered the Senate 14 years ago, he or his staff have intervened in behalf of constituents 75,000 times and that he became involved in the Keating case because Keating's flagship firm,

American Continental Corp. of Phoenix, employed 2,000 Arizonans.

"Colleagues, when I get involved, I get involved personally, and I stay involved," DeConcini said. "I'm persistent ... and if I think there is a cause where the government has mistreated a constituent, I'm going to do all I can within the bounds of ethical conduct to see that that government responds to this constituent."

'Powerful evidence'

DeConcini said he and the other senators met with federal regulators to ask about the investigation of Lincoln because "of pretty powerful evidence" that Lincoln was being treated unfairly — evidence that included letters from the Arthur Young & Co. accounting firm and from economist Alan Greenspan, now the head of the Federal Reserve Board.

DeConcini said he had no way of knowing that Jack Atchison, the Arthur Young official who wrote the letter complaining of unfair treatment, later would take a $900,000-a-year job with Keating.

He added that even after two April 1987 meetings with the regulators, he made telephone calls to see whether the government would allow Keating to sell his thrift before it was taken over by federal officials.

But he insisted that the calls were proper and that he never pressured the officials into allowing the sale. Instead, he said, the calls simply were inquiries he made because he was concerned about the impact that Lincoln's failure — and that of American Continental, its owner — would have on Arizona.

Mother Teresa mentioned

DeConcini also noted that for many years, Keating was considered a prominent businessman in Arizona who gave lavishly to charities, including more than $1 million to Mother Teresa, a comment that prompted Bennett to joke later that he had been unable to subpoena her.

DeConcini said later that had he known then what he knows now — the allegations that Keating plundered the thrift to the point where it may cost taxpayers $2 billion — he never would have taken the steps he took.

DeConcini asked the panel to dismiss him from further investigation, saying it would be the just thing to do. The panel did not respond to that request.

Bennett has recommended that DeConcini, Cranston and Riegle be kept as part of the probe and that McCain and the fifth senator, John Glenn, D-Ohio, be cleared.

The committee instead has decided to hold these public hearings into the matter, although Bennett has virtually exonerated McCain and Glenn.

DeConcini questioned whether Bennett had been fair in his probe, saying he had not asked McCain about his wife's investment in a Keating shopping center or about trips McCain took to the Bahamas with Keating.

Bahamas trips

DeConcini said he was particularly interested in the Bahamas trips because one was taken with Lee Henkel, an Atlanta businessman and Keating associate who once served on the Federal Home Loan Bank Board.

Bennett has criticized DeConcini for supporting Henkel's appointment to the board and has claimed he has evidence that DeConcini traded a vote on another appointment in exchange for White House support of Henkel.

DeConcini, who said much of Bennett's evidence consists of "lies," "hearsay" and "distortions," said he wanted to know why that McCain-Henkel trip was not explored in detail.

He added, however, that he hopes McCain is exonerated, "because he's done nothing wrong."

HIGHLIGHTS FROM MONDAY

- Sen. Dennis DeConcini begins his defense, saying special counsel Robert Bennett's evidence consists of "lies," "hearsay" and "distortions."
- DeConcini claims that Bennett focused special attention on him while ignoring questions about Arizona Sen. John McCain, one of the "Keating Five."
- Bennett says DeConcini and others are complaining about him because they don't like the facts.
- DeConcini asks the Ethics Committee to dismiss its case against him. The panel takes no action.
- DeConcini also says McCain should be cleared "because he's done nothing wrong."
- The panel agrees to seal 15,000 pages of documents it had planned to release, keeping them secret at least until next Monday.
- McCain aide Gwendolyn Van Paasschen takes the stand as the first witness and is expected to continue her testimony today.

McCain aide Scott Celley said outside the hearing that McCain was pleased with DeConcini's comments, but when asked whether McCain hopes that DeConcini is cleared, too, he said only that McCain wants the ethics panel to complete its probe in a speedy fashion.

The chances of that are slight. Now that each senator and his attorney has given opening statements, the panel is preparing to hear from about a dozen witnesses Bennett plans to call. By the end of the day Monday, only one witness — McCain aide Gwendolyn Van Paasschen — had taken the stand. She is expected to continue testifying today, and the committee then plans to recess until Monday.

The panel was prepared to release 15,000 pages of documents in the afternoon, but it delayed that and said it would decide the matter Monday.

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

(Mount Clipping in Space Below)

Event recalls Watergate, Iran-contra

By Anne Q. Hoy and Sam Stanton
Republic Washington Bureau

WASHINGTON — It was an elaborate Washington event, laden with the aura of those that came before it: the Watergate and Iran-contra hearings. And it was heavy with snapshots, both public and personal.

There was Arizona Sen. John McCain's mother, her left leg encased in a cast, being wheeled into the room minutes before the hearing began. She worked a needlepoint project throughout the proceedings.

There were the six committee members — three Democrats and three Republicans — each wearing a customary red necktie, preferred for its photogenic qualities, each conscious of the rolling television cameras.

The cameras poked from second-story booths flanking both sides of the large and modern hearing room. Producers in booths yet another floor up barked instructions to the camera operators.

There was family. McCain's wife, Cindy,

— See RED NECKTIES, page A11

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Red neckties, family snapshots, and the memory of probes past

— RED NECKTIES, *from page A1*

joined by her parents, Jim and Smitty Hensley, sat a few rows behind the freshman Republican.

Sen. Dennis DeConcini's wife, Susie, and two of the Arizona Democrat's children, Patrick and Denise, took their places behind DeConcini. Select friends of the other three senators under investigation, and top aides, filled the two rows of reserved VIP seats.

More than a hundred reporters were packed behind eight tables and standing along the walls in the cavernous room in the Senate's modern Hart Building. Dozens of photographers jockeyed for shots as the members filed in.

The five senators stood for photographs, then sat at small, felt-covered tables in front of the jury.

Security was tight, and the Capitol Police had guard dogs on leashes.

Among the surprisingly few members of the public watching the hearings was Brad Boland, the son-in-law and spokesman of Arizona financier and political supporter Charles H Keating Jr.

Keating is the central figure in the drama and the man who has come to symbolize the nationwide savings and loan disaster.

In a case replete with complex intertwinings, it was only partly ironic that Boland, once an aide to McCain, has now rebuked his former boss and praised DeConcini for helping Keating when McCain would not.

As the day drew on, the public audience grew, and the curious and concerned had to be rotated in and out of the two rows reserved for the spectators.

This was opening day of the Senate Ethics Committee hearings into the case of the "Keating Five." It was dominated by the detailed and exacting opening statement of special counsel Robert S. Bennett.

In a dramatic ploy at the outset, Bennett sifted through his hand dozens of puzzle pieces, drawing an analogy between the tiny, misshapen objects and the case against DeConcini, McCain and Sens. Donald Riegle, D-Mich., John Glenn, D-Ohio and Alan Cranston, D-Calif.

Bennett sought to assemble one clear picture of the puzzle for the committee and the thousands of Americans watching the televised hearings. They will decide, Bennett said, whether any of the five violated the public trust by helping Keating.

Cranston, who faces radiation treatment for prostate cancer, was the only accused senator absent. In his place sat his two lawyers.

The probe already has cost taxpayers $901,000 in legal and investigative expenses, not counting 2,000 hours of work by the Ethics Committee staff.

The unusual case has generated an uncharacteristic volley of partisan bickering over the committee's refusal to accept Bennett's Sept. 10 recommendation that the probe of McCain and Glenn be ended, and that the investigation of DeConcini, Cranston and Riegle be intensified.

Fred Plocher, 76, a retired Congregational minister of Canyon City, Colo., accompanied by his wife, Dorothy, said the case was not as "juicy" as Watergate or the Iran-contra hearings. But he said it poses important questions about the legitimate responses of members of Congress to the pleas of constituents and the need for members to raise huge sums of money.

"Given the persistence and craftiness of Keating, it is easy to believe that any senator could have been caught in the same web as these five," Plocher said. "This case does not have the same juiciness as Watergate and Iran-contra. No sex.

"But in terms of the constitutional and philosophical questions it raises, it's a significant case."



John Durlcka/The Associated Press

Lawmakers (from left) John Glenn, Dennis DeConcini and John McCain arrive for hearings that are expected to decide the senators' political fate.

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

(Mount Clipping in Space Below)

DeConcini assailed before ethics panel

McCain's role is played down

By Sam Stanton and Anne O. Hoy
Republic Washington Bureau

WASHINGTON — The Senate Ethics Committee opened its hearing on the "Keating Five" on Thursday, with special counsel characterizing Sen. Dennis DeConcini as a pawn of Charles H. Keating Jr. and virtually clearing fellow Arizona Sen. John McCain of involvement in the scandal.

DeConcini, a Democrat, was described to the six-member Ethics Committee as going to great lengths for Keating, while McCain, a Republican who once was a close friend of Keating, emerged as standing up to him when the one-time thrift mogul asked him to violate the integrity of his office.

Robert S. Bennett, special counsel to the committee, said he had found evidence that DeConcini "almost always honored Mr. Keating's requests" for help with other officials.

Bennett said there is no evidence that McCain or Democrat John Glenn of Ohio are guilty of any wrongdoing.

"It is unfortunate that this case has been called the Keating Five," Bennett said. "There are really five separate cases with some common threads."

The others involved in the Keating scandal are Alan Cranston of California and Donald Riegle of Michigan. Both are Democrats.

Bennett said evidence showed that DeConcini:

- Had worked in Keating's behalf in 1981 to have him appointed ambassador to the Bahamas.
- Had tried to pressure the White House numerous times into naming a

— See ETHICS, page A10

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Ethics counsel assails DeConcini as hearings open

— ETHICS, *from page A1*

Keating crony to a key federal thrift post.

• May have traded his vote on a judgeship to the White House for the thrift appointment.

DeConcini called the process "unfair" and said he will defend himself.

McCain feels 'exonerated'

McCain said he felt "exonerated," even though the committee members are the only ones who can decide how to deal with the five senators.

The hearing was televised nationwide, and the panel's chairman, Alabama Democrat Howell Heflin, told the senators at the outset that many Americans already believe they are guilty.

"The American people are justly outraged by the savings and loan mess, which may cost us hundreds of billions of dollars to clean up," Heflin said.

"And, senators, I need not tell you, for each of you knows better than I, that as we start these hearings, many of our fellow citizens apparently believe that your services were bought by Charles Keating, that you were bribed, that you sold your office, that you traded your honor and your good names for contributions and other benefits."

Bennett took four hours to present his evidence, suggesting that DeConcini and Cranston were heavily involved in helping Keating use political muscle against his enemies in the federal government.

"Based on the evidence gathered by the special counsel, it (will be) clear from the testimony that Sens. Cranston and DeConcini were important players in Mr. Keating's strategy," Bennett said.

Cranston aid described

Cranston continued to help Keating even after former Arizona Gov. Bruce Babbitt told him Keating was "a crook," Bennett said. DeConcini worked in Keating's behalf until one day before the government seized Keating's thrift in April 1989.

Bennett also said that Riegle, now head of the Senate Banking Committee, was more deeply involved in the scandal than Riegle has said and that Keating money was funneled to him from DeConcini fund-raiser Earl Katz, who gave the funds to DeConcini for Riegle.

Bennett said evidence showed that campaign donations from Keating to some senators had coincided with the senators' efforts in Keating's behalf.

The senators, who combined got $1.3 million in campaign donations from Keating sources, have denied any wrongdoing in asking regulators in 1987 why they were taking so long investigating Keating's now-insolvent Lincoln Savings and Loan.

The five have said Keating was just a constituent, but Bennett told the ethics panel, "Constituent service cannot be elevated to the status of a religion."

The hearings, part of the largest Senate ethics probe in history, are expected to decide the political fate of four of the five senators.

Cranston announced last week that he has prostate cancer and will not seek a fourth Senate term in 1992.

Lawyers and families

He did not attend the hearings, but the other four showed up with their lawyers and families.

All five senators are expected to begin their defenses with opening statements today. Only DeConcini spoke to the panel Thursday to challenge Bennett's evidence.

Bennett called DeConcini a powerful senator who fought to get regulators to back off Lincoln Savings and later pressured officials to allow Keating's American Continental Corp. sell its S&L subsidiary rather than have the government seize it.

DeConcini denies any wrongdoing, but Bennett said serious questions have arisen about his involvement.

He asked why DeConcini lobbied so much for an appointment to the Federal Home Loan Bank Board for Keating associate Lee Henkel, an Atlanta businessman with loans from Lincoln.

DeConcini, who never had met Henkel, talked about the appointment with then-White House chief of staff Donald Regan six times and traded 14 telephone messages with Regan on the matter, Bennett said.

Henkel, who borrowed millions from Lincoln, later was appointed and tried immediately to change an investment rule in Keating's favor. He was forced to resign when his relationship with Lincoln was revealed.

Vote swap charged

Bennett said evidence may show that DeConcini offered to support Daniel Manion's appointment to the federal bench in exchange for Henkel's appointment. DeConcini denied the charge, and Sen. Barry Goldwater, R-Ariz., backed him in a statement.

Bennett said DeConcini had called Regan and then-Treasury Secretary James Baker to urge the firing of Keating enemy Edwin Gray, then-head of the Home Loan Bank Board.

DeConcini also asked the White House in 1981 to appoint Keating to an ambassadorship in the Bahamas. But that would not have been considered an unusual request, since Keating was a successful businessman in Arizona at the time.

The questions Bennett raised about DeConcini contrasted with those about McCain. Bennett said that when he started his probe last December, he was "troubled" by McCain's friendship with Keating, trips they had taken to the Bahamas and an investment with Keating by McCain's wife.

But Bennett said there is no evidence McCain is guilty of wrongdoing.

ROBERT S. BENNETT

POSITION: Hired by the Senate Ethics Committee in November 1989 to conduct the largest single ethics inquiry in Senate history, probing the "Keating Five."

AGE: 51.

EDUCATION: Harvard Law School, 1965. Georgetown Law Center, 1964. University of Virginia Law School, 1961-62. Georgetown University, bachelor's degree, 1961.

CAREER: Partner, Washington firm of Dunnells, Duvall, Bennett & Porter since 1975. Associate, Washington firm of Hogan & Hartson, 1970-75. Assistant U.S. attorney for District of Columbia, 1967-70. Law clerk to U.S. District Judge Howard Corcoran, 1965-67.

FAMILY: Married, three children.



Harry Hamburg/New York Daily News

In his opening statement, Robert Bennett draws an analogy between the pieces of a jigsaw puzzle and the case against the "Keating Five." Bennett on Thursday said he sought to assemble one clear picture of the case.

2 meetings are key

The core of the case involves two meetings in 1987 in DeConcini's Capitol Hill office. Federal regulators were asked to attend the meetings to explain their scrutiny of Keating and his business affairs.

Keating, who faces criminal indictment in California over the estimated $2 billion Lincoln failure and who has refused to talk to the panel, had asked the senators for years to get federal regulators to ease up on his thrift.

Bennett said that each of the five had taken actions that would have benefitted Keating but that the two meetings were "the high-water mark" of Keating's political influence.

At the first session, on April 2, 1987, all the senators except Riegle discussed the matter with Gray. At the second meeting a week later, all five senators met with San Francisco-based regulators who were investigating Lincoln.

Bennett said memos from DeConcini's office and testimony of others show that DeConcini offered during the meetings to negotiate a Keating deal with the regulators.

He said DeConcini offered to have Keating increase his thrift's traditional investments if regulators would ease up on a rule requiring him to come up with $60 million in backing on some risky investments.

DeConcini denies offer

Bennett said negotiating such an offer would have been wrong. DeConcini said he never offered such a deal.

Bennett said McCain took no actions in Keating's behalf after those meetings — a key point, because the senators were told then that a criminal investigation of Keating was in the offing.

But he said DeConcini and Cranston continued to try to help Keating as his financial empire collapsed.

"Charles Keating was not the only constituent in this case," Bennett said. "People who lost their life savings because of what has been described by (federal) Judge (Stanley) Sporkin as the 'looting of Lincoln' were also constituents of some of these senators.

"And the taxpayers will have to pay for Lincoln's failure and are also the senators' constituents."

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

(Mount Clipping in Space Below)

Keating asks for immunity before panel

Is willing to discuss his link to senators

By Sam Stanton
Republic Washington Bureau

WASHINGTON — Indicted Valley financier Charles H Keating Jr., the central figure in unraveling whether the "Keating Five" senators traded their influence for money, has offered to testify before the Senate Ethics Committee in exchange for immunity.

Keating, who previously has invoked his Fifth Amendment right before the committee to refuse to testify, offered through letters from his attorney dated last Monday to appear before the committee's unprecedented hearings.

Copies of the letters obtained by *The Arizona Republic* on Saturday show that the offer was made to committee special counsel Robert S. Bennett three days before the hearings began Thursday into the five lawmakers' activities in Keating's behalf.

"The committee can, and should, immunize Mr. Keating and free him to testify," Chicago attorney Stephen Neal wrote.

"Immunizing Mr. Keating to testify might impact some threatened collateral legal proceedings (criminal cases). But the committee should weigh and balance the public interest in a full, complete, open and fair proceeding against the

— See KEATING, page A10



Charles H Keating Jr. / An offer to testify before the Senate Ethics Committee, if accepted, also could help him stave off current and future criminal prosecutions.

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Keating willing to talk at senators' hearing

KEATING, *from page A1*

value of any threatened criminal prosecution of my client for his part with the five senators."

The offer, if accepted by the panel, also could help Keating stave off current and future criminal prosecutions. He is facing criminal-fraud charges in California in connection with the collapse of his Lincoln Savings and Loan Association, which is expected to cost taxpayers up to $2 billion.

However, there is no indication of whether the panel will agree to the offer.

Bennett could not be reached for comment Saturday, but Neal said discussions about Keating possibly testifying began Nov. 8, when Bennett called him to ask whether Keating would do so.

Neal, reached at a Boston hotel, said that he could not talk about the discussion, adding that he has heard nothing from Bennett or the committee since sending the letters.

Despite that, Neal said Keating's testimony could be a key part of the hearings.

'Important information'

"Charlie has important information, I think. But I'm not going to get into details," he said. "It will be a shame if this investigation is closed without hearing from him."

Neal added that he would not discuss the impact that a grant of immunity might have on pending and future criminal cases against Keating. But he made it clear that the financier, who has been outspoken about other portions of the case, is itching to tell his story to the committee.

"He is not a man by inclination or habit who likes to sit by and have evidence heard without telling his side of the story," the attorney said.

The Ethics Committee normally does not discuss issues pending before it. Despite that, the committee took the unusual step Oct. 25 of issuing a denial to a report that it previously had considered granting limited immunity to Keating. But in that statement, the panel did not rule out granting immunity in the future.

The offer marks the first time that Keating has agreed to discuss anything having to do with his dealings with the senators.

5 under scrutiny

The Keating Five — Republican Sen. John McCain of Arizona and Democratic Sens. Dennis DeConcini of Arizona, Alan Cranston of California, John Glenn of Ohio and Donald Riegle of Michigan — are under scrutiny to determine whether their efforts to help Keating in his struggle with federal regulators were influenced by his massive political contributions to the lawmakers.



Robert S. Bennett / All five senators have denied any wrongdoing, although he has recommended that only two be cleared of any further inquiry.

DeConcini, reached at his Virginia home, said he doubted that the Justice Department would want Keating to testify because it might hurt any federal criminal case against Keating.

Asked whether Keating's testimony might help him, DeConcini said, "I can't comment on that. I have no idea what he'd say. Being associated with Mr. Keating — there's nothing good about that today."

McCain could not be reached for comment.

Asked in 1989 whether he felt his contributions swayed the senators, Keating replied, "I certainly hope so."

But he since has refused to discuss the politicians.

'Might be delighted' to talk

One of Neal's letters to Bennett indicates that in their Nov. 8 telephone discussion, Neal said he had advised Keating to decline to testify.

Neal added in the letter, however, that his advice was "based on circumstances existing" at the time of the letter and that the panel "has the ability to change those circumstances."

He also said that if it were not for his advice, Keating "might be delighted to testify before the committee."

The second letter says that Keating's testimony is crucial to whether the Ethics Committee hears the full story and that what Keating says "might help some senators; it might hurt others."

"The American public has a right to know the full story of these senators and their dealings with my client," Neal wrote.

"Yet, neither the American public nor the committee can know the whole story without my client's testimony."

Without Keating, Neal added, "there will always be serious doubt that the full story was either heard or desired by the committee."

Denied wrongdoing

The ethics case hinges on the testimony of the senators and former and current federal thrift regulators who met with them to discuss the regulators' scrutiny of Lincoln.

All five senators have denied any wrongdoing, although Bennett has recommended that only McCain and Glenn be cleared of any further investigation.

Arizona Attorney General Bob Corbin, whose office has been involved in investigating Keating, said that if Keating were to receive full immunity from the panel, nothing he said could be used against him in other federal proceedings.

"Giving him immunity means anything he testifies to could never be used against him," Corbin said, adding that the situation is similar to the one that occurred when former Iran-contra figure Oliver North testified before Congress under a grant of immunity. Numerous charges against North later were thrown out because of the congressional action.

Neal said in his letter that he is confident that Keating "will defeat all of these charges."

Charges against Keating

Keating currently faces a 20-count indictment in Los Angeles County alleging securities fraud by him and top aides in connection with the sale of $250 million in uninsured junk bonds. The bonds, issued by Keating's flagship company, American Continental Corp. of Phoenix, were sold through Lincoln offices, and many purchasers have said they were led to believe that they were buying bonds insured by the federal government.

With Lincoln now in the hands of the federal government and American Continental in Bankruptcy Court, the bonds are considered worthless.

Keating, who was released from a Los Angeles jail last month on bail and is in Phoenix preparing for his legal defenses, also is the subject of several other state and federal probes.

With Lincoln's failure expected to be the costliest in thrift history, Keating has come to symbolize the nation's S&L scandal, which is expected to cost taxpayers more than $500 billion.

The hearings resume Monday, with DeConcini expected to give an opening statement defending himself.

The four other senators already have delivered their opening defenses.

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

(Mount Clipping in Space Below)

Aide: DeConcini didn't listen

Panel is told of warning to avoid Keating meeting

By Sam Stanton
Republic Washington Bureau

WASHINGTON — Sen. Dennis DeConcini, D-Ariz., ignored an aide's advice that it would be a political "mistake" to meet with the head of the Federal Home Loan Bank Board and other senators to discuss complaints from Phoenix financier Charles H Keating Jr., the Senate Ethics Committee was told Monday.

DeConcini ignored the warning from aide Laurie Sedlmayr and met with Edwin Gray, the bank-board chairman, and other senators, the panel was told, a move that has become the focal point of the Keating scandal rocking the Senate.

"I told him I didn't think it would be a good idea and would be later misinterpreted by the press," Sedlmayr testified. "He thanked me for my suggestion but said he was going to go ahead anyway."

Sedlmayr, daughter of former Tucson thrift executive

— See AIDE, page A 12

Dennis DeConcini / The senator listens as one of his aides testifies Monday. It marked the fifth day of hearings in front of the Senate Ethics Committee.

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Aide tells panel that DeConcini ignored advice

— AIDE, *from page A1*

Floyd Sedlmayr, is a longtime aide to DeConcini who handles banking issues. She also testified that she "was not a fan of Mr. Keating" and considered him to be a "zealot" in his personal causes.

She also said she told DeConcini that he should stay out of the dispute between Gray and Keating.

Gray since has become the chief accuser against DeConcini in the Senate investigation of whether DeConcini and four other senators violated ethics rules to aid Keating, a major campaign fund-raiser for all five. Keating had sought their help for his now-failed Lincoln Savings and Loan.

Sedlmayr's testimony came on the fifth day of hearings into the actions of DeConcini, Republican Sen. John McCain of Arizona and Democratic Sens. Alan Cranston of California, Donald Riegle of Michigan and John Glenn of Ohio.

Gray spoke briefly before the hearing recessed for the evening, reading a prepared statement in which he said it was clear that Keating "had especially heavy clout and that he intended to use it."

Gray said his meeting with the senators and a subsequent session with regulators checking into irregularities at Lincoln "capped years of private threats and public vilification" against him and the bank board.

Gray did not answer questions but is expected to do that today in a session that is also expected to include attacks by him on DeConcini and others.

Evidence was presented Monday that DeConcini tried to get the White House to replace Gray in 1985. DeConcini later sent Keating a letter about it, writing that "a strong complaint has been registered."

In addition, DeConcini wrote a memo to Laurie Sedlmayr in 1986 regarding news reports that Gray was under fire for his use of government expense accounts and asking, "Is there anything we can do to bring heat or make a statement regarding this matter?"

Sedlmayr said that she warned him not to take any action and that, about three months later, she advised DeConcini not to meet with Gray over the Keating complaints because such a move "would be later misinterpreted by the press."

"Why did you think it was a political mistake?" asked Robert Bennett, the Ethics Committee's special counsel.

"Well, we're here," she said as spectators in the room laughed.

Sedlmayr said she feared that Gray later would misrepresent the meeting, something DeConcini claims Gray has done. Gray contends that DeConcini tried to negotiate a deal with him for Keating, a claim that DeConcini denies.

Sedlmayr also testified that she believed that Riegle, not DeConcini, had been the leader in setting up the meeting and that Riegle had gotten DeConcini to write Riegle a letter inviting him to a second one as a "cover."

She also testified that she was extremely upset when a memo she wrote for DeConcini on what Keating wanted from the government was leaked to *The Arizona Republic.*

Sedlmayr said she believed that it came from McCain's office and that McCain aide Gwendolyn van Paasschen later met her in tears to talk about how distraught she was about the leak.

McCain and his aides have denied the accusation, but McCain is expected to be asked about the matter next week when he and the other senators are called to testify.

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

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M. Danny Wall / Testifies that Charles H Keating Jr. was a "master of delay" who used lawsuits, threats and complicated straw deals to disguise his abuse of Lincoln Savings.

'Keating 5' witness recounts calls on S&L

2 senators' queries 'not improper'

By Sam Stanton
Republic Washington Bureau

WASHINGTON — As Charles H Keating Jr.'s financial empire crumbled two years ago, Sens. Dennis DeConcini and Alan Cranston made at least six calls to the nation's top thrift regulator to ask whether he would let Keating sell his Lincoln Savings and Loan Association, the official said Tuesday.

The calls, in which the Democratic senators asked about the status of three proposed sales of Lincoln, were made up to a few days before federal agents moved in and seized the ailing thrift on April 14, 1989, former Federal Home Loan Bank Board Chairman M. Danny Wall testified.

Wall told the Senate Ethics Committee that he did not think the calls were improper and that neither DeConcini, Arizona's senior senator, nor Cranston, California's senior senator, pressured him to

—See WITNESS, page A8.

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Witness recalls queries on S&L

— WITNESS, *from page A1*

accept any of the three proposals.

Wall added that all of the sales were rejected by the bank board because the buyers actually were linked to Keating through a series of "very complicated, very convoluted" deals that Keating had devised.

"They were not real transactions," Wall testified.

"When all was said and done at the end of the day, Lincoln was on both sides of the transactions."

Wall, testifying on the 11th day of the "Keating Five" hearings, said Keating is a "master of delay" who used lawsuits, threats and complicated straw deals to disguise his abuse of Lincoln.

He added that while Keating was pressuring him and politicians to allow the thrift to be sold, Keating's people were going to extraordinary lengths to show that the buyers were independent of him, including an attempt to falsely imply that financier Donald Trump was involved in one purchase.

"Today, that wouldn't be a benefit," Wall said as spectators laughed.

But at the time, Keating needed to convince regulators that a prospective purchaser had enough money to keep the thrift afloat, Wall said.

He said that from January to April 1989, while the bank board was gathering evidence to seize Lincoln, DeConcini called at least twice, and Cranston contacted him four times about the proposed sales.

"I recall generally that during these conversations, Senator DeConcini urged that the board give prompt consideration to the proposals to sell Lincoln, but did not state that he wanted a particular proposal to be accepted," Wall said.

"I further recall that at the time, I did not think there was anything improper about Senator DeConcini's contacts with me regarding the sale of Lincoln."

DeConcini, who has said he also made calls to other regulators about the sale, has maintained that he only was trying to save the jobs of thousands of Arizonans affiliated with Lincoln and its parent company, Phoenix-based American Continental Corp.

DeConcini's calls were made April 7 and 11, Wall said. He added that he believes there "may have been another contact" with DeConcini that is not in his records.

Wall said that while Keating was trying to sell the thrift, Cranston contacted him four times, including a face-to-face meeting.

He added that from 1987 to 1989, Cranston contacted him many other times about Lincoln and that, in hindsight, he believes it was "unusual" for a senator to make as many contacts about a single institution.

Wall said in an affidavit released for his committee appearance that had he known in 1989 that Cranston's campaign and affiliated groups had received large amounts of money from Keating at about the same time Cranston was making the inquiries, he would have been "very disturbed."

However, Wall said, Cranston never made improper requests of him for Lincoln.

The other members of the Keating Five — Republican John McCain of Arizona and Democrats John Glenn of Ohio and Donald Riegle of Michigan — never called about the possible sale of Lincoln, Wall testified.

The five are under scrutiny by the ethics panel to determine whether they violated Senate rules by helping Keating.

Keating raised $1.3 million in campaign funds for the five senators, and all of them intervened with officials after Keating complained that he was the victim of renegade regulators probing Lincoln.

The senators have conceded making inquiries and meeting with regulators after Keating complained, but they have denied any wrongdoing.

Tuesday's session started an hour late after a closed session involving the six panel members.

Committee Vice Chairman Warren Rudman, R-N.H., told reporters later that he could not discuss the session, other than to say that "it had to do with a whole bunch of things" and that some issues were "getting complicated."

The last witness expected to be called by committee special counsel Robert Bennett is federal regulator Bill Black, who was scheduled to testify today about his dealings with Lincoln and a meeting he participated in with the five senators.

After Black testifies, the five senators will begin presenting their cases, with McCain first.

HEARINGS HIGHLIGHTS

- M. Danny Wall, former head of the Federal Home Loan Bank Board, says Sens. Dennis DeConcini and Alan Cranston called him at least six times to ask whether he would let Keating sell Lincoln Savings and Loan Association.
- Wall says that the calls were proper but that Cranston had many other contacts with him regarding Lincoln from 1987 to 1989.
- Wall says three Lincoln sale deals were rejected because all of them would have involved Keating or his associates in some way. He says Keating's people once falsely implied that a purchase involved Donald Trump.

TODAY:

- San Francisco regulator Bill Black, who attended a meeting with the five senators. After Black, the senators are to open their cases, with McCain testifying first.



Dennis DeConcini / Says he only was trying to save thousands of Arizonans' jobs.



Alan Cranston / Never made improper requests of him for S&L, a regulator says.

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

(Mount Clipping in Space Below)

Gunning at McCain?

DeConcini denies plot

By Sam Stanton
Republic Washington Bureau

WASHINGTON — Sen. Dennis DeConcini personally worked two weeks ago for the release of information to discredit "Keating Five" special counsel Robert Bennett and drag fellow Arizona Sen. John McCain deeper into the scandal, according to testimony Monday.

Although DeConcini's top aide denied that the senator's actions were aimed at hurting McCain, the Senate Ethics Committee was told that DeConcini called a former aide to Charles H Keating Jr. on Nov. 26 and asked to release information that would damage McCain.

The testimony by David Stevens, the former tax director for American Continental Corp., came amid an intense feud between Arizona's two senators. It is the first sign that DeConcini, a Democrat, personally had acted to focus attention on information that could damage McCain, a Republican.

Stevens on Monday told the panel that:

• DeConcini, a third-term senator, called Stevens at his Boise, Idaho, home and asked

— See DeCONCINI-McCAIN, page A5

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DeConcini-McCain rift grows

DeCONCINI-McCAIN, *from page A1*

whether he would sign affidavits about McCain's trips to Keating's Bahamas retreat and elsewhere in 1985 and 1986. The affidavits were prepared by top DeConcini aide Gene Karp.

- DeConcini asked last month whether he could release a letter that Stevens sent the ethics panel in October indicating that Stevens believed McCain never intended to pay for his family's flights on Keating's jets.

McCain has said his failure to pay for most of the flights until 1989 was an oversight. The letter has been obtained by numerous press outlets in the past two weeks.

- DeConcini told Stevens that the information was not being used to hurt McCain but would show how unfair Bennett was being in his pursuit of the case. DeConcini has contended that Bennett unfairly has sought to prosecute him during his probe of the Keating Five senators while going easy on McCain.

The disclosures came in the 15th day of hearings into whether the Keating Five — DeConcini, McCain, and Democrats Alan Cranston of California, John Glenn of Ohio and Donald Riegle of Michigan — did anything wrong when they intervened to help Keating's Lincoln Savings and Loan.

Keating, who had pumped $1.3 million into the senators' campaigns and causes, now faces criminal charges in California and numerous other probes of his activities with American Continental and its subsidiary, the failed Lincoln Savings and Loan of Irvine, Calif.

ETHICS PANEL HIGHLIGHTS

- Former Keating aide David Stevens says DeConcini asked him for permission to release letter damaging to McCain.
- Stevens says DeConcini indicated he didn't want to hurt McCain but hoped to show that ethics counsel Robert Bennett was unfair.
- Stevens says DeConcini aides drew up affidavits about McCain for him to sign.
- DeConcini continues parade of character witnesses, with four testifying and four others submitting written statements of support.

Expected to testify today:

- Former Cranston aide Caroline Jordan. After that, former Keating lobbyist James Grogan is scheduled to appear in closed session Wednesday before the panel.

The hearing Monday began with a parade of character witnesses who testified to DeConcini's honesty and discussed how hard he had worked to help them with their problems.

But the afternoon session was dominated by Stevens, who had been called to discuss a letter he wrote to the panel on Oct. 26 in which he said he believed that McCain never intended to reimburse American Continental for flights his family took on the firm's aircraft.

Stevens sent a copy of the letter to DeConcini on Nov. 16, along with an expression of his "support as you undergo the travesty" of the hearings.

Ten days later, he said, DeConcini called him at home and asked whether Stevens would agree to sign an affidavit confirming that his claims to the panel about McCain were true.

"He said that it would be another way of showing that the hearing was not being conducted in a fair manner . . . " Stevens said.

"He said he wasn't using my letter to hurt McCain, and, in fact, he didn't think the letter would hurt him."

Under questioning from McCain attorney John Dowd, Stevens conceded that his letter about McCain's intent to not repay American Continental was his own conclusion and was contradicted by other testimony he had given committee investigators earlier.

Stevens, visibly nervous as he testified, also indicated that he regrets how much attention the letter has received, saying his decision to mail it "has changed the course of my life."

Stevens also testified that DeConcini had asked him whether he could release the letter to the press, something that may be a sore point with panel members, who have called for the expulsion from the Senate of anyone leaking information from the probe.

However, Karp said that if DeConcini had made the request of Stevens, something he would not concede, it would not violate the leaks rule because the letter was sent to DeConcini. In other words, the senator would be revealing his own correspondence.

DeConcini was meeting with his attorneys late Monday and unavailable for comment, Karp said.

The testimony about DeConcini, which went unchallenged by DeConcini attorney James Hamilton, marks the differing ways in which the senators are perceived by Keating loyalists.

DeConcini has been praised by Keating aides, while McCain has been criticized for not doing enough to help Keating.

The testimony also is the latest example of telephone calls DeConcini personally has made in the Keating scandal.

Part of the evidence weighing against DeConcini includes the fact that the senator was calling federal officials as late as April 1989 in an effort to see whether Keating could sell Lincoln before it failed. That was two years after he was told Lincoln was facing a possible criminal probe by the Justice Department.

Lincoln was seized by federal agents on April 14, 1989, and its collapse is expected to cost taxpayers as much as $2 billion.

By contrast, McCain has portrayed himself as a Keating friend who cut off relations with him just before two April 1987 meetings involving the Keating Five and Lincoln's federal overseers.

The overseers have testified that they were pressured by the senators into going easy on Lincoln, and some have claimed that DeConcini tried to negotiate a deal for Keating.

The hearings continue today with testimony from former Cranston aide Caroline Jordan.

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(Mount Clipping in Space Below)

Senator's ethics claims contradicted

Riegle arranged talks, ex-Keating aide says

By Sam Stanton
Republic Washington Bureau

WASHINGTON — A former top aide to Charles H. Keating Jr. on Friday contradicted claims by Sen. Donald Riegle, D-Mich., that he had nothing to do with setting up two April 1987 meetings that eventually spawned the "Keating Five" scandal.

The former aide, James Grogan of Scottsdale, also told of Keating's strategy of "buying access" to five senators with donations, expecting them to go bat for his troubled savings and loan.

Grogan, once an officer of Keating's Phoenix-based American Continental Corp. and its subsidiary, Lincoln Savings and Loan Association, is the first Keating insider to speak publicly about Keating and his relationship with the so-called Keating Five senators.

Grogan related how he and Keating courted the senators and their senior aides at high-priced restaurants, in their Capitol Hill

— See EX-KEATING AIDE, page A 18

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Ex-Keating aide disputes claims of Sen. Riegle

EX-KEATING AIDE, *from page A1*

office suites and on vacation trips. In one example of how Keating developed comfortable relationships with senators, Grogan recalled how his boss greeted Sen. Alan Cranston, D-Calif., before they dined at a posh hotel in early 1988.

"Sen. Cranston came up and patted Mr. Keating on the back and said, 'Ah, the mutual-aid society,'" Grogan testified.

"And Mr. Keating said, 'Good evening, senator; it's really good to see you.' And there was a very warm feeling between the two."

But Grogan was quick to say that donations did not guarantee influence.

"I would draw a distinction between buying access and the ability to make your pitch," he said, "and buying influence and the ability to actually have someone do something."

The 36-year-old lawyer revealed that Keating later decided a meeting with regulators had been a "terrible mistake" and only had worsened relations with thrift regulators who were examining Keating's Lincoln Savings.

Grogan, who earned $300,000 a year working for Keating, said the fateful meetings between the senators and regulators were not the idea of his former employer but were suggested by Riegle, now chairman of the Senate Banking Committee.

Riegle has denied arranging the meetings.

But Grogan, testifying in the Senate Ethics Committee's probe of the five senators, said Riegle was so concerned about the perception of the meetings that he insisted on having other senators write to him to invite him to the first meeting after he had arranged it.

Grogan said that he went to Sen. John McCain, R-Ariz., to ask him to invite Riegle but that McCain refused. He said that McCain later agreed to go to Riegle's office to talk to the senator about Keating's concerns but that McCain did not invite Riegle to an April 2, 1987, meeting that was held with Federal Home Loan Bank Board Chairman Edwin Gray.

Other senators 'miffed'

Riegle did not attend the meeting, Grogan said, and that "miffed" the other senators present: McCain and Democrats Cranston, Dennis DeConcini of Arizona and John Glenn of Ohio.

Riegle did attend an April 9 meeting with the San Francisco regulators who were conducting the Lincoln examination.

The five senators are being investigated to determine whether they improperly intervened with the regulators in Keating's behalf.

Grogan, who said his relationship with Keating now is "rather strained," testified under a grant of limited immunity from prosecution.

He indicated that Keating, who had raised $1.3 million for the senators, viewed the five as a team working in his behalf.

After the first meeting failed to resolve Keating's problems with regulators, Grogan said, "I was sent back . . . to keep the team together."

Both meetings were held in DeConcini's Washington office. He has been portrayed as the group's "ringleader."

But Grogan said Riegle actually came up with the idea of having the senators take Keating's complaints directly to the regulators. The suggestion first came during a 1987 tour Riegle and his top banking aide took of Keating's Phoenix properties.



John Duricka/The Associated Press

James Grogan testifies before the Senate Ethics Committee. Grogan said his relationship with former boss Charles H Keating Jr. now is "rather strained."

ETHICS-HEARING HIGHLIGHTS

Friday:

- James Grogan becomes first Keating insider to testify about the senators and their ties to Charles H Keating Jr.
- Grogan claims that Sen. Donald Riegle, D-Mich., set up two April 1987 meetings, contradicting Riegle's statements that he did not.
- Grogan says Keating wanted the regulators to go to the meeting so they would see that the senators would hold them "accountable."
- Keating later decided the meeting with regulators was a "terrible mistake" that angered the regulators, Grogan says.
- Grogan claims that Sen. John McCain, R-Ariz., always intended to pay for trips to the Bahamas that he took on Keating aircraft.

Today:

- Grogan is to continue his testimony.

The regulators have claimed that the meetings were improper because the senators were trying to pressure them into going easy on Keating, whose Lincoln was undergoing an intense examination.

They also have said that DeConcini sought to negotiate a deal with them for Keating.

Grogan testified that Keating wanted only to find out when the examination would be concluded.

Keating 'seized moment'

"I never got the impression that these senators were going to somehow negotiate a detailed settlement of an extremely complicated problem," Grogan said.

However, he said that as the meetings drew closer, Keating began to expand their scope and "seized the moment" by sending documents and letters to DeConcini, and calling him to discuss his complaints about the regulators.

"Mr. Keating felt very comfortable picking up the phone and calling Sen. DeConcini," Grogan said.

Grogan also shed new light on a March 24, 1987, meeting between McCain and Keating that took place before the April meetings with regulators. At that session, Grogan said, McCain was "white-hot" with anger because he had heard that Keating had called him a "wimp" for not doing enough to help him.

'A very ugly scene'

Grogan said that the "wimp" remark had been "lighthearted" but that when McCain confronted Keating "it was a very ugly scene."

Keating told McCain then that he did not want him to go to the meeting, but McCain said he would go because it was for a constituent and was the "right thing to do," Grogan said.

Grogan said Keating wanted the meeting because he felt "terribly frustrated" by the regulators, who he thought had "run amok." He believed a show of force by five senators could help his case, Grogan said.

The meetings were held without Senate aides or Keating officials present, and Grogan said he was briefed on them later by Glenn, who once employed Grogan.

Grogan added that Keating later decided the second meeting, which included the regulators who were probing Lincoln, had backfired.

"Mr. Keating came of the view that in fact the meeting with the senators was a terrible mistake, that it had increased the wrath of the regulators, that they were upset that they had been forced to attend the meeting," he said.

Action taken in '89

Before the month was out, the regulators had recommended that Lincoln be taken over by the government. That suggestion was not followed until two years later, on April 14, 1989, when federal agents seized the S&L. Lincoln's insolvency is expected to cost taxpayers $2 billion.

Keating, facing criminal charges in California and a $1.1 billion federal civil suit in Arizona, has refused to testify unless he receives a grant of immunity, something the panel has refused to do.

Contributing to this article were *Knight-Ridder* and *The New York Times.*

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Keating jailed, empire crumbles

Here are the top state stories of 1990 as selected by editors of *The Arizona Republic.*

1. Charles H. Keating Jr.'s month in a Los Angeles jail became the most powerful image of a year when the former American Continental Corp. chairman appeared jinxed in his quest to save his crumbled empire and to clear his name in the nation's savings and loan scandal.

As the nation looked on, the Phoenix financier was shackled and locked up in California in September after the filing of the first criminal charges from the $2 billion failure of American Continental's Lincoln Savings and Loan Association of Irvine, Calif. The failure is expected to be one of the nation's costliest thrift collapses.

In 1990, national attention also focused on intensified hearings by the Senate Ethics Committee, which is probing five U.S. senators over their ties to Keating, including Arizona's Dennis DeConcini and John McCain.

Besides the California charges, 1990 brought major blows for Keating in his war over Lincoln with the federal government, which seized the thrift in April 1989.

Keating lost his most crucial gamble yet in his fight to save his empire; saw the first conviction out of a wide-ranging federal investigation into his business dealings; and watched as attorneys, in resolving Arizona's largest bankruptcy case ever, forged a plan to dismantle the meager remains of the $6 billion American Continental conglomerate Keating spent 14 years building out of Phoenix.

That plan and other developments this year gave American Continental's 25,000 creditors the first promise of recovering some money.

Two law firms agreed to pay $24.3 million to settle their parts of a fraud and racketeering suit against Keating, his executives and business associates. The suit was brought by more than 17,000 American Continental bondholders who lost a total of $250 million.

Fateful, rapid-fire hits that have pummeled Keating since August:

- In a Washington, D.C., lawsuit filed by Keating, U.S. District Judge Stanley Sporkin flatly refused to return Lincoln to Keating's control, terming the operation of the thrift by Keating and his management as a "looting."
- Keating and five of his top American Continental executives then resigned from American Continental.
- In a California indictment, Keating and three of his associates were hit with more than 40 counts of fraud in bond sales, many to elderly Lincoln customers in southern California. Keating, who repeatedly claimed he was broke, spent a month behind bars.
- A guilty plea of a former Keating business associate gave a preview of an expected blitz of federal fraud charges against Keating, his former executives, and possibly his business associates out of Lincoln's collapse. In the first conviction from Lincoln's downfall, Tucson financier Ernie Garcia pleaded guilty to one count of bank fraud in connection with his Lincoln loans.

The Ethics Committee probe of DeConcini and McCain was a dominant theme of state politics in 1990. DeConcini, a Democrat, and McCain, a Republican, were under investigation the entire year because of Keating's campaign fund raising for them and their alleged aid to him in his battles with federal regulators over Lincoln.

— By Sam Stanton and Lisa Morrell

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Sam Jones/The Associated Press

Charles H. Keating Jr. is led away after his indictment in Los Angeles on charges stemming from the failure of Lincoln Savings and Loan. He spent 31 days in jail.

DeConcini aide quits, took $10,000 from Laybe

By Randy Collier and Charles Kelly
The Arizona Republic

A top aide to Sen. Dennis DeConcini, D-Ariz., has resigned after admitting that he took $10,000 from an Arizona legislator later indicted in "AzScam" — who wanted him to launder the money.

Michael Crusa, DeConcini's state director, gave the money to the Maricopa County Attorney's Office after the political-corruption indictments were revealed.

Crusa has told law-enforcement authorities that state Rep. Sue Laybe, D-Phoenix, wanted him to launder the money through a national Democratic fund-raising committee and give it back to her.

Crusa did not return phone calls asking for comment.

Laybe refused to comment.

So far, 18 people, including seven legislators, have been indicted in AzScam, in which an undercover agent for the Phoenix police posed as a sleazy gaming consultant offering bribes to Arizona political figures.

Crusa informed DeConcini at Tucson International Airport on Feb. 8 that Laybe had given him $10,000, DeConcini spokesman Bob Maynes said Tuesday. That was three days after Laybe's indictment was announced.

"Senator DeConcini advised him to give the $10,000 to the proper authorities," Maynes said. "Mike then offered to resign,

— See DeCONCINI, page A2

DeConcini aide took $10,000 from Laybe

— DeCONCINI, from page A1

and the senator accepted his resignation."

A person close to the "sting" confirmed Tuesday that an attorney for Crusa brought $10,000 to authorities Feb. 11.

The Arizona Republic has learned that Crusa spent the money Laybe gave him after keeping it for several weeks. Crusa then borrowed $10,000 and handed over that money to the County Attorney's Office, *The Republic* was told.

"Laybe wanted Crusa to fix it so the money would go from the national committee down to the state Democratic Committee and ultimately back to Laybe," the source said.

Maynes said he had not spoken with Crusa and did not know why Crusa took money from Laybe.

"The only thing that I know is that, apart from his job with Senator DeConcini, Mike was helping the Combined Independent Campaign (a national Democratic fund-raising effort) raise money," Maynes said.

"I heard that Mike told her several times that he could not help her, and I don't know why he had the money. I think he tried to give it back to her, and she wouldn't take it."

Maynes said DeConcini will not comment on the matter.

"It's his policy not to comment on personnel matters," he said.

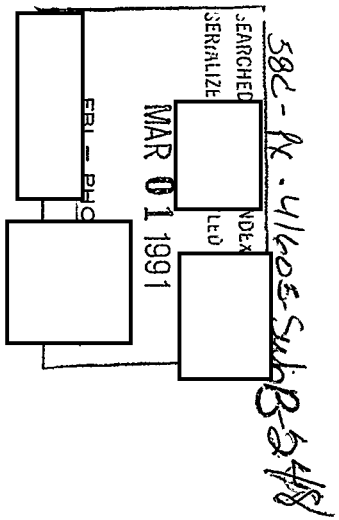
Gary Peter Klahr, who represents Laybe, said Tuesday that a grand jury should have indicted Crusa instead of Laybe.

"My information was that Crusa said he could launder the money for her . . ." Klahr said. "As far as I'm concerned, he will be our defense."

Laybe was indicted with six other legislators after being taped taking money from a police operative who called himself J. Anthony Vincent.

"Vincent," who actually is Joseph Stedino of Las Vegas, was shown on police videotapes giving Laybe $24,960. Laybe is shown on the tape counting the money.

She was charged with 17 counts, including conspiracy to bribery, money laundering, and making false campaign-contribution statements.



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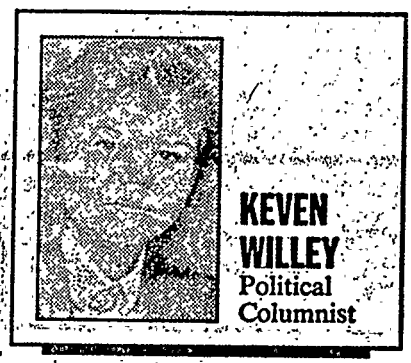
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Senate should care about actions of its own members



KEVEN WILLEY
Political Columnist

In hindsight, the Senate Ethics Committee's ruling Wednesday on the "Keating Five" shouldn't have surprised anyone.

But the fact that it didn't surprise anyone should make it a source of outrage.

The bottom line is that the ethics panel set the stage for formal censure of one senator — Democrat Alan Cranston of California — but just slapped the wrists of the other four, including Arizona Sens. Dennis DeConcini, a Democrat, and John McCain, a Republican.

For this, the committee spent 14 months and more than $1 million.

And the Senate expects voters to believe that it can fairly and objectively discipline its own?

The ruling sends a curious message: Basically that it's OK for senators to write laws that are shaped, at least in part, by special-interest campaign contributions.

The panel denies that's the message it's sending. Its 12-page report talks a lot about how the conduct of several of the senators gave the *appearance* of impropriety, but that the absence of Senate rules on the subject made it difficult to condemn any of them for violations.

Nevertheless, it's certainly the message that's being heard.

It should bother voters that an institution such as the U.S. Senate — one whose effectiveness revolves around public trust — has proved itself patently incapable of cleaning its own house.

And it should bother other elected officials, especially those who are in public service for all the right reasons, because it will only further undermine the public's confidence in our system of government.

This isn't to say that the panel should have necessarily meted out the same punishment to all five senators.

Clearly, the extent of Ohio Democratic Sen. John Glenn's actions in behalf of Charlie Keating are very different from the extent of Cranston's actions. The panel was right to recognize that.

But to lump the conduct of DeConcini and Sen. Donald Riegle, D-Mich., together with that of McCain and Glenn is like putting Arnold Schwarzenegger and Dudley

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Moore in the same room and calling them both musclemen.

True, the actual text of the committee's report draws a distinction. It cites Glenn and McCain for exercising "poor judgment," DeConcini for "inappropriate" conduct with federal regulators, and Riegle for conduct that "gave appearance of being improper."

But the point is, the panel recommended that no further action be taken against any of the four.

As a result, Joe Sixpack Voter can be excused for thinking that McCain's actions in behalf of Keating were no different than DeConcini's. And for thinking that the Senate doesn't care anyway.

Only their actions *were* different. And the Senate *should* care.

McCain intervened with federal regulators in behalf of a guy who poured $112,000 into his campaign coffers. And he "forgot" to reimburse Keating for several years for travel expenses incurred during vacations at Keating's Bahamian estate.

McCain's announcement Thursday that he will now turn over the $112,000 to the U.S. Treasury — money he stubbornly declined to part with before now — does little to aid his cause.

As Paul Eckstein, a Phoenix attorney many Democrats hope will run against McCain next year, put it: "If he's been totally vindicated, he ought to keep the money. Obviously, he thinks he did do something wrong, or he wouldn't need to return the money."

Meanwhile, DeConcini continued to intervene in behalf of Keating — a guy who not only contributed $81,000 to DeConcini but also bankrolled the financial endeavors of two of DeConcini's confidants — even after being told that Keating was about to be referred to the Justice Department for criminal investigation.

And what about Riegle? This is a guy who practically got caught lying to the ethics panel. But the committee decided against further action, saying there was no evidence of any "intent to deceive."

What do you need? A placard hanging your neck with the words "I intend to deceive" in neon lights?

Ironically, Cranston may have thought he was helping himself last year by announcing then that he wouldn't seek re-election in 1992. He probably figured the committee would be reluctant to take action against a colleague who wouldn't be back in office next year anyway.

Actually, Cranston's announcement probably had just the opposite effect. It made him an easy scapegoat. Why not hang the scandal's noose around his neck — after all, he was the most aggressive of the five in defending Keating's interests, and he got the most money for it, nearly $900,000 — because he doesn't have a campaign to be hurt by it anyway?

The bottom line here is that the panel didn't take any stronger action because most of its members were probably saying, "There, but for the grace of God, go I."

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McCain letter tells ethics panel Lincoln meetings not improper

By Sean Griffin
The Phoenix Gazette

WASHINGTON — Sen. John McCain, R-Ariz., in a letter to the Senate Ethics Committee, insists he did nothing improper in meeting with federal regulators in 1987 to raise questions about an examination of Lincoln Savings and Loan Association, and he denies that he was there on behalf of Charles H Keating Jr., whose American Continental Corp. owned the thrift.

"I did not not meet with Mr. Gray or the examiners on behalf of Mr. Keating," McCain said in a 23-page letter to Ethics Committee chairmen Howell Heflin, D-Ala., and Warren Rudman, R-N.H. "I decided to attend the two meetings solely because I thought that it was right for me to do so."

McCain said Keating sought in vain on March 24, 1987, to convince him to negotiate a deal with Federal Home Loan Bank Board chairman Edwin Gray in order to permit Lincoln Savings to continue its non-traditional investments in land, developments and junk bonds. He said his relationship and six-year friendship with Keating, who had pumped more than $112,000 into McCain's senatorial campaign the year before, ended when Keating became furious that McCain refused to broker a deal.

Nevertheless, he said, he decided to attend the two meetings despite the falling out with Keating because of documents Keating gave him to buttress his claim that Lincoln was being treated unfairly by federal regulators, McCain said.

"I believed that the materials — including the Arthur Young review and the Alan Greenspan letter — raised serious questions as to whether the bank board was acting properly," McCain told the committee.

Arthur Young and Co. — now known as Ernst & Young — is one of the biggest accounting firms in the country and provided McCain a letter supporting Keating's position. Shortly after, the author of the accounting firm's letter joined American Continental Corp. at a salary of nearly $1 million year.

Alan Greenspan is an economist who was retained by Keating in 1987 and wrote a report praising Lincoln's direct investment policies. Greenspan now chairs the Federal Reserve Board.

McCain said he did not report to Keating on the results of the meeting with regulators.

Former bank board chairman Edwin Gray has called the April 2, 1987, meeting of Gray with McCain and Sens. Dennis DeConcini, D-Ariz., Alan Cranston, D-Calif., and John Glenn, D-Ohio, an abuse of senatorial privilege and "a display of raw political power." At the April 9 meeting, Lincoln's examination team warned the senators that the thrift was "a ticking time bomb" that was bound to go bankrupt if it did not terminate its business methods.

"I categorically reject any allegation or inference that my conduct or any of my actions were unethical or improper," McCain said.

McCain's office released his filing late Wednesday night as McCain was preparing to leave for a Hawaiian vacation.

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McCain twice urged scrapping S&L curb

Measure limited risky investments within industry

By Anne Q. Hoy and Sam Stanton
Republic Washington Bureau

WASHINGTON — Sen. John McCain, while a member of the House, twice supported scrapping a rule that limited risky investments by savings and loans, records show.

Despite his sponsorship, McCain has cast himself as a bystander when Sen. Dennis DeConcini allegedly asked a thrift regulator to scrap the rule in April 1987.

McCain says he does not remember whether the direct-investment rule was discussed during a meeting between DeConcini, McCain and two other senators, and Edwin Gray, then-chairman of the Federal Home Loan Bank Board.

House records show that two years before the meeting, McCain had helped sponsor a resolution asking that the measure be scrapped. Eliminating that rule would have helped Charles H Keating Jr., then-owner of Lincoln Savings and Loan.

McCain was one of 10 original co-sponsors of the legislation. Within six months, 226 House members had jumped onto the bandwagon.

A year earlier, he and more than 50 other co-sponsors had pushed a similar measure. That measure came up eight months after Keating had bought the thrift in February 1984.

McCain's efforts came after he accepted at least $21,000 in campaign contributions from Keating and his associates. The contributions, which rolled in from October 1983 through January 1984, were each for $1,000.

Two months before backing the first resolution, McCain and his wife, Cindy, vacationed at Keating's private resort on Cat Cay in the Bahamas. That was the first of several such trips for which McCain did not reimburse Keating, as required by Senate rules, until April 1989.

McCain later said he had paid for at least two of the trips, and he reimbursed Keating's American Continental Corp. for the remaining trips in question. The trips and reimbursements were disclosed in October.

At the time that McCain co-sponsored the measures, he did not serve on any committees that oversaw banking or finance matters.

However, many S&L officials in Arizona and across the nation had been lobbying for changes in regulations. McCain said it would be "ludicrous" to tie his support for the resolutions to Keating's contributions.

Keating has said he expected his

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John McCain / Said it would be "ludicrous" to tie his support for thrift resolutions to Charles H Keating's contributions.

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 first resolution was introduced Sept. 25, 1984, by Rep. Kent Hance, D-Texas. A week later, McCain signed on as a co-sponsor of the measure, which called on the bank board to delay implementation of the direct-investment rule.

The Hance resolution failed to go anywhere, despite attracting 51 co-sponsors. A year later, the House took up the cause when Rep. Frank Annunzio, D-Ill., sponsored the measure. This time, however, McCain was one of 10 original co-sponsors whose names were on the measure when it was introduced Jan. 22, 1985. By July 16, more than half of the members of the House supported the measure. It died.

The two resolutions have been raised during the House Banking Committee's probe of Keating's influence on Capitol Hill and of Lincoln's collapse, which was seized April 14.

In sworn testimony a week ago, Gray told the banking panel that the resolutions were meant to "derail and bury the direct-investment regulation."

That regulation, which Gray put into effect, prohibited thrifts from investing in high-risk ventures not related to their primary businesses, and barred S&L investment in such things as vacant land.

Gray said that in a meeting on April 2, 1987, DeConcini pressured him to scrap the regulation and said that if he went along, Keating would agree to have Lincoln extend more home loans. Home loans, the traditional business of thrifts, were virtually suspended by Keating after he acquired Lincoln in 1984.

Gray also said that none of the other senators present, McCain, Alan Cranston, D-Calif., or John Glenn, D-Ohio, objected when DeConcini made his offer.

DeConcini, who has said that Gray perjured himself before the committee and is a "compulsive liar," denies making such a statement.

McCain said he does not recall such an offer being made during the meeting.

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Ex-regulator links senators to Keating aid

Assails 'arm twisting' by lawmakers

By Anne Q. Hoy and Sam Stanton
The Arizona Republic

WASHINGTON — Amid political tensions, the nation's former top thrift regulator described to Congress on Tuesday how Arizona's two senators took extraordinary steps to help Charles H Keating Jr., a major campaign contributor, in his war against federal thrift regulators.

The hearing before the House Banking Committee also included witness Jack D. Atchison, a Keating executive who formerly was a top auditor with a major national accounting firm, refusing to answer questions.

Atchison, who invoked his privilege to have all cameras turned off, said he did not want to aid in numerous probes of Keating, and he invoked his Fifth Amendment right against self-incrimination.

That ended a marathon 10-hour hearing on the collapse of Keating's former thrift, Lincoln Savings and Loan Association. The thrift was a subsidiary of Keating's Phoenix-based American Continental Corp.

Keating is the target of a federal grand-jury investigation in Los Angeles and a securities probe by the Securities and Exchange Commission. He also faces federal racketeering charges in the operation of Lincoln, the nation's costliest thrift failure.

The hearing began Tuesday with Edwin Gray, former chairman of the Federal Home Loan Bank Board, charging that Sen. Dennis DeConcini, D-Ariz., Sen. John McCain, R-Ariz., and two other senators, Alan Cranston, D-Calif., and Sen. John Glenn, D-Ohio, improperly intervened for Keating in actions that he said represented more political arm-twisting than he had been ever been subjected to.

A flurry of charges about what happened in 1987 as regulators began to press for the closure of Lincoln came during an extraordinary hearing punctuated by flaring tempers and charges of political influence-peddling.

The panel also heard testimony that:

- DeConcini pressured Gray to scrap a newly approved rule that restricts the ability of thrifts, including Lincoln, to make direct investments in real estate and other risky ventures.
- The other senators did not object

— See EX-REGULATOR, page A2

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Ex-regulator assails senators

EX-REGULATOR, *from page A1*

ventures.

• The other senators did not object to that during an unusual evening meeting closed to staff members who normally attend such sessions.

• A fifth senator, Democrat Donald Riegle of Michigan, who now heads the powerful Senate Banking Committee, may have been more deeply involved in helping Keating than he has acknowledged.

• Keating tried to offer Gray a $300,000-a-year job to lure him from the bank-board post and its oversight of Lincoln.

• DeConcini allegedly offered to the White House his vote on funding for the Nicaraguan contras in an effort to win the nomination of a Keating business associate to the bank board.

That charge, which Gray said he could not verify, stemmed from a conversation Gray had with a top Washington regulator, whom he would not identify.

Gray said he was told that DeConcini struck a deal with the Reagan White House to support its efforts to renew aid to the contras in exchange for winning the bank-board nomination of Lee Henkel, an Atlanta lawyer with longstanding ties to Keating.

DeConcini later called Gray a "compulsive liar" and said he is trying to smear the reputations of five senators, a refrain heard from Banking Committee members who questioned Gray's integrity at length.

"If these four senators were here today and could defend themselves, they would say to the whole world, 'Who do you believe, us or this man, Ed Gray?' " said an agitated Rep. Carroll Hubbard, D-Ky.

DeConcini, who said he hoped that Gray would be charged with perjury, flatly denied the assertion, raised in a question by Banking Committee Chairman Henry Gonzalez, D-Texas, that he had traded a critical vote in exchange for winning Henkel's appointment.

Gray also claimed that McCain pressed for Henkel's appointment by calling the White House.

McCain, who made the call when he was still in the House, said he called only to check on the status of the nomination. He angrily denied that he took undue steps to help Henkel, claiming that one call to the White House from a sophomore member of the House would have had little sway.

The spotlight Tuesday focused on two meetings between senators and federal regulators over their treatment of Keating's thrift.

The first, on April 2, 1987, was attended by Gray and Sens. DeConcini, McCain, Alan Cranston, D-Calif., and John Glenn, D-Ohio.

It was at that meeting that Gray said he was pressured to scrap a regulation limiting thrifts' direct investments, which which Keating had sued the bank board over two weeks earlier.

Gray said he refused, even though he believed all four senators agreed that it should go.

He said DeConcini consistently said "we" in making his points, leading Gray to assume that DeConcini was speaking for all the senators because none of the others objected.

During a break in the hearing, Gray said he considered all of the senators equally culpable of "improper" action.

Labeling it a "quid pro quo," Gray said DeConcini pledged that he would ensure that "our friend" Keating would make Lincoln extend more home-mortgage loans if Gray stymied enforcement of the regulation.

"No one has ever asked me to withdraw a regulation that had already been adopted, and I had four senators in a room, Sen. DeConcini asked me to withdraw a regulation, duly adopted, and which Lincoln had sued on against the bank board before this meeting," Gray said.

The senators, all of whom accepted large contributions raised by Keating, have denied making any such request and have heatedly rejected Gray's portrayal of the hourlong session.

But Gray produced a copy of a confidential DeConcini memo, first revealed by *The Arizona Republic*, that he said proved his point.

McCain also denied taking improper action during the meeting, and Gray testified that McCain had begun the meeting by telling him that he didn't want to do anything improper.

Gray, in comments to reporters, said the fact that McCain and the other senators did not object when DeConcini spoke made McCain and the others equally responsible.

The second meeting occurred a week later, on April 9, among those four senators, Riegle and San Francisco regulators examining Lincoln.

Those regulators were pushing for Lincoln's closure but later were rebuffed by their bosses, and Lincoln remained open until April, when the government seized it and filed a $1.1 billion law suit against Keating and his associates.

The testimony came as pressure for the senators to appear before the panel appeared to increase.

All have previously indicated they would appear if asked, but a Cranston aide said Tuesday that the California senator will not appear while the Senate Ethics Committee is considering whether their actions were improper and prompted by hefty political contributions.

McCain said later that he would be "happy" to appear, and DeConcini said he would, too, if asked. But, DeConcini added, "I'm not going to walk over there and say, 'Here I am.' "

Rep. Toby Roth, R-Wis., reciting a litany of charges of political influence-peddling leveled at the five senators, called on Gonzalez to subpoena them.

Gonzalez said compelling members of the other body to testify would be "an exercise in futility." But he appeared to try to boost pressure on the senators to appear by saying "there would be no denying" requests by the senators to testify voluntarily.

Keating is the target of probes in Washington, Arizona and California, and his attorneys have denied that their client did anything wrong. Keating is expected to appear before the panel in two weeks, and Gonzalez said he hoped Atchison's refusal to testify was not a sign of things to come.

Atchison worked for the Arthur Young accounting firm and supported the contention that Lincoln was being treated unfairly. A year later, he went to work for Keating at a salary of nearly $1 million a year, officials have claimed.

Others with ties to Keating were more forthcoming at the hearing.

Henkel, the bank-board member whose ties to Keating led to his resignation in April 1987, said he never tried to use his position to help Lincoln, despite claims to the contrary.

Henkel had ties to businesses that had received millions of dollars in loans from Lincoln, and he testified that he had drawn $280,000 on a $300,000 line of credit.

And former California Savings and Loan Commissioner Larry Taggart, who approved $800 million in risky investments for Lincoln and then went to work for a firm that Keating had large investments in, also said he had done nothing improper.

His testimony led one panel member to say sarcastically that Taggart's testimony was "the most extraordinary" he had ever heard and that he planned to create an annual "Larry Taggart Award" for future witnesses.

Gray testified that Keating used connections with former chief of staff Don Regan in the Reagan White House to try to get him fired.

Gray said Keating even tried to hire him away by offering him a job. Gray turned information about the offer over to the Senate Ethics Committee. He said Keating was willing to pay him $300,000 a year just to get him off the board.

The panel also pointed to previously released documents that it said indicated Riegle may have been more heavily involved in helping Keating than he has admitted.

One document, a letter from Atchison to Riegle, referred to a Feb. 28, 1987, meeting between the two to discuss Lincoln. That meeting would have taken place more than a month before the senators met with Gray and the regulators. But Riegle has denied that it ever took place, saying he was in Michigan that day.

Amid the hours of politically damaging testimony aimed at the senators who have become known as the "Keating Five," committee members erupted into several heated exchanges.

One prompted Rep. Doug Barnard, D-Ga., to mimic Gonzalez after the chairman said, "We must proceed." Barnard looked up and said to no one in particular, "Yes, we must proceed, so I can prosecute, persecute."

Another panel member, Rep. Richard Lehman, D-Calif., looked toward reporters and said, "Getting a little test?, isn't it?"

Hubbard, D-Ky., in the most vigorous defense of the senators, turned the tables on Gray and sought to discredit him by reciting $26,000 worth of personal trips and other items he claimed on government expense accounts when he was chairman of the board. Before leaving his position, Gray reimbursed the government for $26,000 after questions were raised about the charges.

Hubbard said he has been a longtime friend of DeConcini, McCain, Cranston and Glenn.

With particular words of praise, he said McCain was a war hero and "a man who might someday be the Republican nominee for president."



Pete Souza/Special for The Arizona Republic

Edwin Gray, former chairman of the Federal Home Loan Bank Board, relaxes after hours of politically damaging testimony before the House Banking Committee on the record collapse of Lincoln Savings and Loan.

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

(Mount Clipping in Space Below)

Sen. Riegle admits wider Lincoln role

Met with thrift officials, regulator

By Sam Stanton and Anne Q. Hoy
Republic Washington Bureau

WASHINGTON — Michigan Sen. Donald Riegle, chairman of the Senate Banking Committee, changed his story Thursday and admitted deeper involvement in the Lincoln Savings and Loan affair.

Riegle had contended that he was essentially a bystander while Arizona's senators intervened in April 1987 in Lincoln's behalf with federal thrift regulators. But on Thursday, he acknowledged meeting privately on Feb. 26, 1987, with officials of Lincoln's Phoenix-based parent firm, American Continental Corp., and on March 6, 1987, with the nation's top federal thrift regulator.

The latest version contradicts the story Riegle offered through a top aide, Kevin Gottlieb, in July in response to questions by *The Arizona Republic*. At the time, Gottlieb insisted that the only meeting Riegle attended regarding Lincoln was on April 9, 1987 with four other senators and the San Francisco-based regulators overseeing Lincoln.

— See MICHIGAN, page A7



Donald Riegle / His meetings relating to the Lincoln Savings affair were "routine," an aide says.

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Michigan senator admits wider role in Lincoln affair

MICHIGAN, *from page A1*

The other senators were Dennis DeConcini, D-Ariz.; John McCain, R-Ariz.; Alan Cranston, D-Calif.; and John Glenn, D-Ohio.

That meeting, and another a week earlier that Riegle did not attend, have become important to a congressional probe of Lincoln's collapse.

The role of the senators in behalf of Lincoln also is the subject of a preliminary inquiry by the Senate Ethics Committee because the five senators received more than $1 million in campaign contributions through Charles H Keating Jr., American Continental's chairman.

Keating, a Phoenix developer and financier, was battling the thrift regulators over Lincoln's operations and had sought the senators' help. In April, after a two-year delay, the regulators seized Lincoln. In September, regulators filed a $1.1 billion racketeering suit contending the thrift was looted.

The senators' intervention in Keating's behalf has been blamed for the delay and for causing the loss of federally insured deposits in excess of $2 billion.

Riegle made no mention of his Feb. 26 and March 6 meetings with the Lincoln officials and Gray when he wrote a detailed letter two weeks ago to the Senate Ethics Committee to explain his actions in Keating's behalf.

Riegle's aide Karolyn Wallace said the meetings were not divulged because they were "routine" and "are not relevant" to the ethics panel's request for information.

Riegle did disclose to the panel, however, that less than a month after he met with the American Continental officials, and two weeks before the April 9 meeting, Keating held a fund-raising dinner for Riegle at Keating's Hotel Pontchartrain in Detroit. The event attracted 200 people and raised $66,000. Riegle returned the money after controversy erupted about the April 9 meeting.

Riegle's letter said that he attended the April 9 meeting with the other senators because of oral invitations from DeConcini and McCain, and that he went only because of his expertise in banking. At the time, he was the ranking Democrat on the Senate Banking Committee.

However, Edwin Gray, then-chairman of the Federal Home Loan Bank Board, told *The Republic* that Riegle on March 6, Riegle suggested that he meet with McCain and DeConcini to discuss Lincoln's claims that it was being mistreated by thrift regulators.

"He said that the senators out in Arizona were quite concerned about the bank board's regulation of Lincoln Savings, and he said he thought it would be a good idea for me to go and talk with them," Gray said. "I protested this, that it was the same old vendetta business that we were getting (from Lincoln). He said that I would be getting a call. That's all he said."

Riegle's Feb. 26, 1987, meeting, according to his staff, was with an unidentified American Continental official and Jack Atchison, who headed the audit team for the accounting firm of Arthur Young & Co., which was conducting an examination of Lincoln and American Continental.

Atchison, who was hired by Keating a year later as a senior vice president for nearly $1 million a year, is considered a key witness in the House Banking Committee probe of Lincoln's collapse. But Tuesday, he invoked his Fifth Amendment right against self-incrimination and refused to answer questions from the committee. Atchison also declined to comment Thursday to *The Republic*.

A spokesman said Riegle is standing by his story that McCain, a first-term Republican, showed up uninvited at his office door in the spring of 1987 to ask him to attend meetings with regulators to ask them why their examination of Lincoln was taking so long.

McCain has vigorously denied Riegle's story and said he was "astounded" at the new revelations of Riegle's involvement.

McCain was so insistent that the new information on Riegle be made public that he angrily telephoned reporters about it numerous times Wednesday and Thursday to make sure it was published.

DeConcini has acknowledged inviting Riegle, and Riegle has provided a letter that DeConcini sent asking him to go to the meeting.

That letter indicated that DeConcini was making the request in behalf of himself and McCain, but McCain said he does not recall giving DeConcini permission to use his name.

Bob Maynes, a DeConcini spokesman, included McCain's name without his permission.

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THE SENATOR AND THE S&L

Michigan Sen. Donald Riegle's role in the Lincoln Savings affair:

Early 1986: Sen. John Glenn, D-Ohio, tells Riegle that Phoenix developer Charles H Keating Jr. will renovate Detroit's Hotel Pontchartrain.

March 1, 1986: Riegle and wife, Lori, attend Pontchartrain grand opening, flying there at Keating's expense.

Feb. 26, 1987: Riegle meets with representatives of Keating's American Continental Corp. and its subsidiary, Lincoln Savings and Loan.

Spring 1987: Sen. Dennis DeConcini, D-Ariz., asks Riegle's advice about Lincoln's disputes with Federal Home Loan Bank Board.

March 6, 1987: Riegle meets with bank board Chairman Edwin Gray and suggests he meet with Arizona's senators about Lincoln.

March 11, 1987: Keating and wife contribute $4,000 to Riegle re-election campaign.

Mid-March 1987: Riegle suggests to DeConcini that a meeting between senators and Gray be held.

March 23, 1987: Keating holds fund-raiser for Riegle at Ponchartrain; 200 people attend, raising $66,000.

April 2, 1987: Gray meets with DeConcini, McCain, Cranston and Glenn.

April 9, 1987: Riegle receives letter from DeConcini inviting him to another meeting. Riegle attends session with thrift regulators and DeConcini, McCain, Cranston and Glenn.

March 10, 1988: Riegle returns checks for $66,100 to 73 Keating-related contributors after public disclosures of the April 9 meeting.

July 26, 1989: Riegle aide, quoting Riegle, denies Feb. 26, 1987, meeting with American Continental and March 6, 1987, meeting with Gray took place.

Sept. 14, 1989: Riegle aide, quoting senator, says McCain invited him to April 9, 1987, meeting with regulators. McCain denies Riegle claim.

Oct. 18, 1989: Riegle writes Senate Ethics Committee to explain his involvement with Keating. Does not mention meetings in 1987 with Gray or American Continental.

Tuesday: Gray tells House Banking Committee about meetings with Riegle.

Thursday: Riegle admits meeting with Gray and American Continental officials.

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

(Mount Clipping in Space Below)

DeConcini contributor's note hints firm illegally gave funds

By Jerry Kammer and Andy Hall
The Arizona Republic

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Campaign contributions from at least one home-building executive to Sen. Dennis DeConcini may have been illegally funded by his employer, Emerald Homes, documents indicate.

Federal Election Commission records show that William P. Junge was one of five Emerald executives in the Phoenix-based firm's northern California office who, on May 7, 1987, contributed $600 each to the Arizona senator's campaign fund.

However, a note from Junge to DeConcini two months ago — a copy of which was obtained by *The Arizona Republic* — says that Emerald "actually made this contribution."

DeConcini notified the election commission of Junge's note on Nov. 1 after an inquiry by *The Republic*.

Under federal election laws, it is illegal for a corporation to make political contributions or to reimburse a contributor in order to, in effect, hide the true source of the funds. Penalties can include negotiated agreements, fines of up to

— See DECONCINI, page A8

Edwin Gray / Five senators dispute his statement that they sought to negotiate favorable treatment for Lincoln Savings at an April 1987 meeting.

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DeConcini contributor's note hints firm illegally gave funds

DECONCINI, *from page A1*

$25,000 and up to a year in prison.

Emerald officials denied any impropriety and said all contributions from employees were their own and were not reimbursed.

Besides the California contributors, four Phoenix-based Emerald executives gave $1,000 each during 1987. An additional $3,000 was contributed by Philip J. Polich, Emerald's president and chief executive officer, and his wife, Cynthia.

Emerald, with operations in the Phoenix, Houston, San Diego and San Francisco areas, was identified in a $1.1 billion federal racketeering lawsuit as participating with Charles H Keating Jr. and others in fraudulent real-estate transactions involving Keating's Lincoln Savings and Loan.

Ethics questions

Keating's campaign contributions to DeConcini and four other U.S. senators are the subject of a preliminary Senate Ethics Committee investigation. The committee is attempting to determine whether the contributions prompted the senators to intervene in April 1987 in Keating's behalf in a battle against federal thrift regulators. Lincoln, a California thrift, has been placed in federal receivership in what apparently is the nation's worst thrift failure.

Emerald's largest transaction with Lincoln was in September 1987, when the company paid $9.6 million for 580 acres in Keating's master-planned community of Estrella, 20 miles southwest of Phoenix. On the same day that it made the purchase, Emerald received a $25 million line of credit from Lincoln.

Once known as Dietz-Crane, the firm was bought in 1982 by a group of Dietz-Crane executives led by Philip Polich. They changed the name to Emerald and in 1986 made it a master limited partnership.

Emerald's vice president and chief financial officer, Eugene L. Baker, said, "On a regular basis, we do request our executive officers to make contributions to political officials, but those are not required contributions, and they are not tied to reimbursements in any way."

'Not making any comment'

But DeConcini spokesman Bob Maynes, said Junge's note "raises the question of whether or not the law was broken" by Emerald.

Junge declined last week to discuss his contribution or explain his note.

"Maybe I'll talk to somebody with some authority if they want to press the issue, (but) I'm not making any comment to the newspaper," said Junge, who resigned from Emerald in May and now operates his own development company in the San Francisco Bay area.

CONTRIBUTIONS TO DECONCINI

1987 contributions to DeConcini from Emerald officials based in northern California.

Neil Anzalone	May 7	$600
Curtis J. Henderson	May 7	$600
William P. Junge	May 7	$600
Tom A. Mendelke (spouse)	May 7	$600
Sam Vanderpool	May 7	$600

1987 contributions to DeConcini from Emerald officials based in Phoenix.

Eugene L. Baker	May 7	$1,000
Philip J. Polich	May 18	$1,000
James F. Wehmueller	May 27	$1,000
Jon M James	May 28	$1,000
Randall P. Birdwell	June 5	$1,000
Cynthia Polich	Dec. 31	$1,000
Philip J. Polich	Dec. 31	$1,000

Junge's note was written on a form letter mailed by DeConcini's office to contributors in early summer explaining that DeConcini's campaign treasurer, Thomas F. Karlsen, apparently had embezzled funds and that they could request a partial refund.

Karlsen was indicted in October by a federal grand jury in Phoenix on five counts of mail fraud stemming from the theft of about $500,000 from DeConcini's election funds since 1982.

The form asked contributors to check a box indicating whether they wished to receive a refund, did not desire a refund or wanted to contribute additional money.

Junge marked the box indicating he wanted no refund and wrote in capital letters on the "Comments" line: "I am no longer with Emerald Homes — the company that actually made this contribution." He underlined the word "actually."

'Under confidential cover'

Maynes said that 1,376 forms were returned in July and August and that campaign workers apparently overlooked Junge's note until *The Republic* asked for a copy.

DeConcini's staff then retrieved the note from their files and sent it on Nov. 1 to the Federal Election Commission with a letter from DeConcini saying it "raises questions that I find necessary and advisable to call to your attention."

FEC press officer Fred Eiland said he could not comment on the DeConcini request for a probe of the Junge contribution.

"If someone writes to the commission indicating there may have been a violation of the law, that could turn into . . . an enforcement action," Eiland said.

"By law, that would be under confidential cover until the commission was completed with it."

Emerald's Baker said the company asked its California employees to contribute to an Arizona senator because "it's an Arizona-based company and we just feel that, in general, Mr. DeConcini has been favorable toward Arizona-based companies in terms of trying to assist those companies in generating legislation which is positive for the Arizona economy, and we were trying to ensure that Mr. DeConcini was re-elected."

DeConcini, a Democrat, was elected to a third Senate term last November.

Senator 'very helpful'

Baker said Emerald supported DeConcini out of gratitude for his efforts in behalf of a "builder bonds" program that helped home builders provide low-cost mortgages in the early 1980s, during a time of high interest rates.

Baker said the program "was very instrumental back in the early '80s in getting the housing business going here in Arizona again."

"Mr. DeConcini was very helpful in that regard. As a result, we felt he was good for Arizona and good for Emerald Homes," Baker said.

Another contributor, Curtis J. Henderson, the head of Emerald's northern California operations, said he "made a contribution to a politician who was supportive of our industry." He refused to say whether he had been reimbursed for his $600 contribution.

Neil Anzalone, also a $600 contributor, said he had not been reimbursed.

"I resent anybody asking about my political contributions," he said heatedly.

Tom A. Mendelke, who also contributed $600 and is shown in FEC records as an Emerald employee, said that he does not work for Emerald but that his wife, Cherel, does. She would not comment.

Tom Mendelke said that his wife has received bonuses but that he does not believe they constituted reimbursement for the contribution.

Mendelke said that he thinks he made the contribution to DeConcini at the suggestion of Emerald officials, even though he and his wife knew little about DeConcini.

"I know who he is and the fact he's the senator from Arizona," Mendelke said.

"I'm not sure exactly of anything else about him. I know Emerald Homes does a lot of business in Arizona."

The fifth California contributor, Sam Vanderpool, did not return phone calls.

Contributing to this article were researchers John Doherty and Philip Curdy of *The Arizona Republic.*

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(Mount Clipping in Space Below)

FBI asked to probe loan to DeConcini aide

$30 million deal called beyond ability to repay

By Sam Stanton and Anne Q. Hoy
Republic Washington Bureau

WASHINGTON — A $30 million loan from Charles H Keating Jr.'s Lincoln Savings and Loan to Sen. Dennis DeConcini's campaign manager was "so strange" that the FBI was asked to investigate it earlier this year, a California thrift regulator testified Tuesday.

That loan to Tucson-based R.A. Homes and other loans, totaling as much $100 million, were "appalling" because they dwarfed the ability of R.A. Homes to repay them, and because of links among DeConcini, his former campaign aide, R.A. Homes Vice President Ron Ober; and Keating, said Richard E. Newsom, senior savings and loan examiner for California.

"It seemed like it was beyond comprehension," Newsom told the House Banking Committee as it continued its probe Tuesday of Lincoln's collapse and Keating's involvement in the California thrift's failure.

The committee is attempting to determine why taxpayers are going to have to come up with about $2 billion to cover federally insured deposits that apparently have been lost because of failed investments by Lincoln.

R.A. Homes is Arizona's ~~25th larg~~ est privately held corporation, with $97 million in revenues in 1988 and 55 employees. The company was formed in 1975 and has projects in Arizona and Nevada.

Ober was involved in all three of the senatorial campaigns of DeConcini, an Arizona Democrat. Ober left the senator's paid staff in 1983 to become an officer in R.A. Homes. DeConcini's chief fund-raiser, Earl Katz, also had a business relationship with R.A. Homes from 1986 to 1988.

Records show that R.A. Homes, which is controlled by Ober's father, Harold, and Harold Cole, is among the largest recipients of Lincoln loans.

Newsom said he gave information about the R.A. Homes loans to the FBI on March 3, about the same time that DeConcini, the recipient of $48,000 in campaign funds raised by Keating, was making strong efforts to help Keating sell Lincoln before the government seized it.

The loans, which Newsom said actually totalled about $100 million, including $30 million that was not secured, exceeded the net worth of Lincoln's parent firm, Phoenix-based American Continental Corp.

"The R.A. Homes transaction was so strange in its magnitude, in terms of strictly on credit a $30 million unsecured loan to a company with liabilities off the chart," Newsom said.

"We felt that the link ~~to a U~~.S. senator who is linked to this should be

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Dennis DeConcini / Has said he knew nothing about an FBI investigation into a loan to his campaign manager.

brought to the attention of the appropriate officials, the FBI."

Newsom added later that his "threshold of findings" to send to the FBI was "low" but that he felt it was the appropriate thing to do.

The FBI referral came at the same time that DeConcini was making a concerted effort in Keating's behalf, including lobbying the nation's most powerful federal regulators to allow Keating's thrift to be sold rather than seized by regulators.

DeConcini said he knew nothing about an FBI probe and had not been contacted by anyone about the matter. He also said that he had nothing to do with Ron Ober's receiving the loans, saying that he did not even know of their existence until December, when Ober called him and told him he had business dealings with Keating.

At the time, Ober warned DeConcini that continued efforts to help Keating could be politically damaging.

Nevertheless, DeConcini continued trying to help get approval for the sale of the thrift, seeking help from Federal Deposit Insurance Corp. Chairman L. William Seidman, Federal Home Loan Bank Board Chairman M. Danny Wall, bank-board member Roger Martin and California's top thrift regulator.

The senator, a former Pima County prosecutor and former finalist to head the FBI, said that he would not have made his efforts if he had known there was an FBI probe. He has since returned the campaign contributions to Keating.

DeConcini's efforts in Keating's behalf have been the subject of previous testimony before the Banking Committee, particularly two 1987 meetings with other senators to ask federal regulators why they were taking so long to audit Lincoln's books.

Banking Committee Chairman Henry Gonzalez, D-Texas, is considering calling the five senators, including Republican John McCain of Arizona, to explain their actions.

After Tuesday's session, Gonzalez said the R.A. Homes loan indicated that Ober's ties to DeConcini may have helped him get the loan.

"Well, you don't get that kind of loan unless you have some pretty good connections, a pretty good in with the individual making the loan," he said.

FBI spokesman Charles Steinmetz said he would not be able to determine until today whether there is an ongoing investigation into the matter. Ober did not return telephone calls.

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(Mount Clipping in Space Below)

Sleeping Watchdog

How Regulatory Error Led to the Disaster At Lincoln Savings

Charles Keating Had History Of Alleged Abuse but Still Was Allowed to Run S&L

The Five Senators in His Camp

By Brooks Jackson
Staff Reporter of The Wall Street Journal

WASHINGTON—How could Washington have been so stupid?

The nation's top thrift-industry regulator say Charles Keating Jr. as a "pillar of his community." So apparently did five U.S. senators, assorted House members, a White House chief of staff and even Alan Greenspan, currently chairman of the Federal Reserve Board.

But now the government contends that Mr. Keating, under the very noses of federal regulators, operated his Lincoln Savings & Loan Association as a massive scam that fleeced taxpayers of as much as $2.5 billion. Rep. Charles Schumer, a New York Democrat on the Banking Committee, called him a "financial Blackbeard" at a congressional hearing.



Charles Keating Jr.

With Mr. Keating scheduled to testify tomorrow in a Congressional investigation of the matter, many here see the Keating affair as much a scandal for Congress as for Keating: Public attention is focused mainly on the five senators who took $1.4 million in donations arranged by Mr. Keating while pressing his case with regulators. But while much has been made of their intervention—which, in and of itself, was extraordinary—their actions alone can't account for the magnitude of this regulatory disaster. Instead, a systematic breakdown of government supervision pervaded the Lincoln Savings crisis. A detailed account—drawn from recent testimony, interviews and thousands of pages of previously secret government documents—portrays an often timid bureaucracy wrapped up in petty internal turf wars while the White House and Congress looked the other way.

Mistakes were committed from the outset. Regulators passed over a record of alleged banking abuses that might have prevented Mr. Keating from taking control of Lincoln in the first place. Examiners for years failed to spot a ploy that allegedly allowed him to illegally siphon off $94 million from Lincoln.

Those who raised alarms were viewed by higher-ups as incompetents or zealots. Top-level regulators, meanwhile, put too much trust in outside auditors opinions that turned out to be highly questionable. Mr. Keating, threatening lawsuits at every turn, repeatedly faced down timorous officials in Washington. Even M. Danny Wall, the top thrift regulator, now concedes in an interview that he should have been more forceful in dealing with Lincoln.



M. Danny Wall

For his part, Mr. Keating says he has been unfairly maligned by all the allegations. "It's all innuendo," says his spokesman, Bradley Boland. While the investigations continue, Mr. Keating is counterattacking with three separate lawsuits accusing the government of illegally seizing his business and of blackening his name with news leaks.

And indeed, what has come out so far isn't a pretty sight.

The tale begins in February 1984, when state and federal regulators allowed Mr. Keating to buy Lincoln even though only 4½ years earlier he had been accused of fraud. In a 51-page complaint filed in U.S. District Court in Washington, the Securities and Exchange Commission said he and an associate authorized or permitted Provident Bank of Cincinnati, Ohio, to make $14 million in preferential loans to insiders—including Mr. Keating himself—often without collateral or the usual credit checks.

The SEC accused him of "untrue statements" and "fraud or deceit." Mr. Keating settled the charges by signing a consent decree without admitting or denying liability, an action he now says he regrets.

Nowadays a blemish like that would keep Mr. Keating out of the S&L business, unless he could show why it shouldn't disqualify him. But in 1984 the rules were looser—and in any case, nobody in Washington seems to have noticed. Alvin Smuzynski, an official at the Federal Home Loan Bank Board who handled Mr. Keating's application, says today he didn't know about the consent decree at the time. "It would have made a difference," he says.

Within days of getting control, Mr. Keating began to strip Lincoln of its conservative lending officers and internal auditors, even though he had told regulators he would keep them. He installed as board chairman his 28-year-old son, Charles Keating III, an Indiana University dropout who only a few years earlier had been working as a country club busboy.

Lincoln plunged — sometimes profita-

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Sleeping Watchdog: How Regulators' Errors Let Lincoln Savings & Loan Become a $2.5 Billion Crisis

Continued From First Page

bly—into high-risk speculation in currency futures, junk bonds, corporate stock, hotels and vast tracts of desert land in Arizona. It bought $11.8 million in junk bonds of Circus Circus, the Las Vegas casino operation, and put $132 million into stock of Gulf Broadcasting Co. during a takeover fight, according to government memos filed in U.S. District Court in Washington.

Why should that matter to federal regulators? Because Mr. Keating was playing with what was ultimately taxpayers' money: government-insured deposits.

With wild speculation sweeping the thrift industry, Edwin Gray, chairman of the Federal Home Loan Bank Board, became alarmed. He pushed through new regulations prohibiting federally insured thrifts from putting more than 10% of their assets into so-called direct investments—such as the 600-room luxury hotel that Mr. Keating had begun to erect near Phoenix, Ariz.

Mr. Keating declared war on the regulatory establishment. One of his first allies was Alan Greenspan, then president of the consulting firm Townsend, Greenspan & Co. and a former chairman of the president's Council of Economic Advisers. On Feb. 13, 1985, Mr. Greenspan wrote a letter supporting Mr. Keating's application for permission to put 40% of Lincoln's assets into direct investments. Mr. Greenspan praised Lincoln's new management as "seasoned and expert," with a "long and continuous record of outstanding success in making sound and profitable direct investments."

Unanticipated Problems

Mr. Greenspan also said that Mr. Keating and his team had "succeeded . . . in reviving an association" whose home mortgage portfolio had "been forcing large losses . . . pushing it nearer the brink of insolvency." In fact, Lincoln had made $3 million in profits the year before Mr. Keating took control of it. Years later, after the thrift had collapsed, Mr. Greenspan said, "I never anticipated the types of problems Lincoln would ultimately create."

In his campaign to preserve direct investment, Mr. Keating also enlisted allies in Congress. Mr. Gray, the former Bank Board chairman, recalls being lobbied "very hard" against the rule by Rep. Chip Pashayan, a California Republican who later introduced a bill that would have overturned the rule. At the time, a Pashayan aide was quoted by United Press International as saying the congressman personally introduced the bill, without consulting his staff, at the behest of a lobbyist for Mr. Keating. Later Rep. Pashayan received $26,000 in campaign contributions from Mr. Keating, his family and Lincoln officials. The congressman says the donations were at least partly motivated by his opposition to pornography, which Mr. Keating also strongly opposes.

Regulators denied Lincoln's request for exemption from the 10% direct-investment rule, and held tough when Lincoln appealed the decision. The Federal Savings and Loan Insurance Corp., which insured thrift deposits, simply couldn't take the risk, they determined. "Under new management, Lincoln has engaged in several serious regulatory violations," Norman Raiden, the Bank Board's general counsel, wrote in a memo released during Congressional hearings. He said these included overvaluing real estate and failing to get proper appraisals—"the same type of violations that have led to some of the worst failures in FSLIC's history."

Mr. Keating then tried a new tactic: removing his antagonist Mr. Gray by hiring him. He made the offer personally to Mr. Gray's chief of staff, Shannon Fairbanks, over breakfast at Washington's Four Seasons Hotel on Nov. 22, 1985. "There seems to be a problem in our ability to have our message heard" by regulators, she recalls him saying. He was offering to hire Mr. Gray to lobby against the very regulation he had put in place. Ms. Fairbanks says she cut off further discussion.

No Credit Checks

On March 12, 1986, federal regulators began a new examination of the thrift. Quickly, they found that Lincoln was making property loans in the millions without conducting appraisals. It also wasn't conducting elementary checks of the financial condition of the borrowers, the auditors found. "There's nothing to indicate they're doing anything but giving money to developers to do what they want," one regulator said in an interview.

But Mr. Keating wasn't going to take such attacks lying down. "Any attempts to take enforcement actions against Lincoln would be severely resisted," he said at a meeting with regulators, according to a government memo. Mr. Keating engaged platoons of lawyers—ultimately, 77 law firms in all. Two regulators would testify that Mr. Keating told them in 1987 he had spent $50 million fighting regulators in San Francisco and Washington. For a time, Lincoln insisted that examiners route all their requests through a law firm in New York, 3,000 miles away.

Still, the examiners pressed ahead. In August they reported to Washington that among other violations, Lincoln had made $600 million more in direct investments than the investment limits allowed.

Even at that, the examiners didn't question everything they should have. Lincoln was sending millions of dollars to its parent company, American Continental Corp., headed by Mr. Keating, to cover federal income taxes, even though the parent didn't have a federal income tax liability. Regulators approved the arrangement, but now say it was illegal and that they approved it because of misrepresentations by Lincoln's lawyers. The issue is in litigation and the government has demanded that American Continental repay Lincoln. The amount of funds at stake totals $94 million.

Mr. Keating was using the thrift to raise more than $200 million for the parent company in another way: by selling subordinated debentures in American Continental, mostly to elderly people, through Lincoln's branch offices, where many of the buyers assumed that the securities were federally insured. Federal thrift regulators blithely gave blanket permission for American Continental to issue such debt. "We all must have been smoking dope," the Bank Board's Mr. Smuzynski said in a 1987 memo.

Taking Action

Even though the examiners failed to grasp the danger of Lincoln's transactions with its parent, regulators in the San Francisco district thought it was time to move in, for Lincoln was showing a pattern of risky investments and sloppy business practices.

Thus, on May 1, 1987, the San Francisco office sent Washington a 285-page document recommending that the Bank Board seize Lincoln and appoint the FSLIC to run it. At about the same time, regulators asked the Federal Bureau of Investigation to look into possible criminal actions by Lincoln officials; some undated documents had been created, the regulators believed, to make it appear that Lincoln had conducted proper investment analyses before plunging into junk-bond investments.

Washington, however, didn't act. Lincoln remained in business. Mr. Keating remained in control. And losses—all of them ultimately financed by the taxpayers—began piling up.

Why? Could the "Keating Five" have kept him afloat for those two years?

Certainly, Mr. Keating exercised great influence in Washington. Mr. Gray, the former Bank Board chief, recalls that on March 6, 1987 Sen. Donald Riegle, a Michigan Democrat who now heads the Senate Banking Committee, said his colleagues from Arizona were unhappy about the handling of Lincoln. Then, on April 2, Mr. Gray met for about an hour with the two Arizona senators, Democrat Dennis DeConcini and Republican John McCain, as well as with Democratic Sens. John Glenn of Ohio and Alan Cranston of California. Mr. Gray testified that Sen. DeConcini seemed to speak for the rest. "He said he and the other senators were there on behalf of their friend at Lincoln Savings," Mr. Gray recalled.

On April 9 four top regulators from San Francisco met for more than two hours with Sens. DeConcini, McCain, Glenn and Riegle, and, for only a moment, with Sen. Cranston. According to extensive notes taken by William Black, one of the San Francisco officials, Sen. DeConcini complained about the direct-investment rule. Sen. McCain complained that the examiners were being too tough in evaluating Lincoln's real-estate holdings. Sen. Glenn urged regulators to quit drawing out their investigation. Sen. Riegle insisted, "These people saved a failing thrift," repeating Mr. Keating's inaccurate claim.

But the regulators weren't moved. James Cirona, the top San Francisco official, told the senators, "This is a ticking

time bomb." Michael Patriarca, another top official, told the senators, "I've never seen any bank or S&L that's anything like this."

If the intervention by the the Keating Five came to no result, then what of Mr. Keating's clout with the White House? Mr. Keating boasted of lobbying Chief of Staff Donald Regan to get a business associate, Georgia businessman Lee Henkel, appointed to the Bank Board in November 1986. But Mr. Henkel and others say Mr. Keating exaggerated his role. In any case the appointment did him little good. Mr. Henkel did propose a modification of the direct-investment rule that would have benefited Lincoln, but the modification wasn't adopted and Mr. Henkel's action provoked such an uproar that he resigned from the board amid an FBI investigation. The Justice Department declined to prosecute him after a two-year review of his case.

It is true that the White House passively allowed the Lincoln fiasco and the larger thrift-industry crisis to run out of control, but apparently without much prompting from Mr. Keating. For a time in 1986 the White House allowed two vacancies on the three-member Bank Board to go unfilled, leaving Mr. Gray powerless to act.

The most important player in Mr. Keating's continued control of Lincoln was M. Danny Wall, who succeeded Mr. Gray as chairman of the Bank Board in 1987. When Mr. Wall assumed his position he found the staff bickering over how to proceed, and Lincoln pressing a lawsuit that claimed regulators had been leaking damaging information about the examination to news organizations.

Complicating matters further, Rosemary Stewart, head of the office of enforcement in Washington, had a long-running feud with the San Francisco staff, which she suspected of committing the leaks. She also argued that San Francisco hadn't produced enough evidence to make a seizure of Lincoln, or even a cease-and-desist order, stand up in court. Ms. Stewart was lined up against the chief of regulation and supervision, William Robertson, who told Mr. Wall in a July 30, 1987, that Lincoln ought to be put into receivership. Within days, Mr. Wall told Mr. Robertson he would be replaced.

Mr. Wall moved slowly. On Sept. 24, 1987, he met personally with Mr. Keating. "He was a businessman that appeared to be very successful. He appeared to be a pillar of his community," Mr. Wall recalls. He says he also found his business style "freewheeling" and recalls thinking that he was "not a person who belongs in the thrift business."

Mr. Keating put on his tough exterior, saying he would refuse to allow any more San Francisco examiners into Lincoln without a court order. Washington then effectively stripped San Francisco of its authority over Lincoln, according to testimony by Mr. Black.

No examiners called on Lincoln for the next 10 months. "Lincoln dropped into a regulatory black hole," Mr. Black says.

Mr. Wall promised Mr. Keating his Washington staff would review San Francisco's handling of Lincoln. Months of wrangling ensued, during which Lincoln complained of an additional news leak and asked to be relieved permanently of San Francisco's supervision.

Meanwhile, some in Washington continued to press for strong action. But while Mr. Robertson had urged a receivership for Lincoln, his successor, Darrel Dochow, urged caution. He and Mr. Wall say they were swayed in part by the fact that Lincoln was reporting a healthy net worth and that it had received clean reports for 1986 and 1987 from its independent auditor, Arthur Young & Co. (later merged into what is now Ernst & Young).

Arthur Young would later resign the account in a messy public dispute over Mr. Keating's insistence on booking millions in profits from some questionable transactions. Mr. Keating also hired the Arthur Young partner, Jack Atchison, who had headed the 1986 and 1987 audits, for a salary of near $1 million a year. Mr. Atchison recently invoked his Fifth Amendment privilege against possible self-incrimination when the House Banking Committee asked him to testify about the affair.

Mr. Dochow remained cautious even though his staff was telling him that Lincoln was going under. Kevin O'Connell, an aide assigned to the Lincoln case early in 1987, said in a recent interview, "When I came here I said, 'This shop is going to fail.' " Another of Mr. Dochow's aides, Mr. Smuzynski, told Mr. Dochow in an Oct. 16, 1987, memo that Lincoln "presents excessive risk" and "is operating in an unsafe and unsound manner."

But Mr. Dochow remained optimistic. "Darrel thought that Lincoln could be saved," Ms. Stewart, the enforcement chief, recalls.

Ultimately, Mr. Wall signed a negotiated "memorandum of understanding" with Lincoln, bowing to Mr. Keating's demands that he be removed from San Francisco's jurisdiction. Board member Lawrence White dissented in the 2-1 vote approving the move. "San Francisco was on the right track," he said earlier this year.

Indeed, a new audit team, recruited from other districts, last October concluded that Lincoln's problems were even worse than San Francisco had initially reported.

Among other things, they said the thrift was generating phony profits through a complex series of sales of barren desert land. An accounting firm hired by the regulators, Kenneth Leventhal & Co., looked at 15 transactions accounting for $135 million in pre-tax income—half of what Lincoln had booked since Mr. Keating acquired it—and concluded that none of the profits should have been allowed. "Seldom in our experience have we encountered a more egregious example of the misapplication of generally accepted accounting principles," Leventhal said.

"It [Lincoln] created profits by making loans. Many of the loans were bad. Lincoln was manufacturing profits by giving money away." Most of the questionable transactions were completed while Mr. Wall and his deputies anguished over whether to move in.

"One of the things you can say in hindsight is that action should have been taken more promptly," Mr. Wall acknowledges. If he had it to do over again, he adds, he would have sent San Francisco examiners back into this institution despite Mr. Keating's threats to sue. "I would have forced the issue in the courts, and blamed the courts if they delayed us," he says.

—Roy J. Harris Jr. in Los Angeles contributed to this article.

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(Mount Clipping in Space Below)

Keating son fails to show in probe

Official assails 'cavalier attitude' of thrift family

By Anne Q. Hoy
Republic Washington Bureau

WASHINGTON — House Banking Committee Chairman Henry Gonzalez lashed out at the son of Charles H. Keating Jr. for failing to appear before the panel Tuesday, branding it a "sad, sad commentary on a family that has cost the American taxpayers at least $2.5 billion."

Gonzalez, D-Texas, said the absence of Charles H. Keating III unmasks a "cavalier attitude."

"We see the Keatings on selected television programs," Gonzalez said. "We read the stories peddled by high-priced lawyers and public-relations firms."

He accused the family of engaging in "a well-orchestrated campaign to dupe the American public about the shenanigans at Lincoln, to dupe the American public that is paying the bills for the Keating disasters."

Gonzalez said the younger Keating, who held several positions with Lincoln and AmCor Investments Corp., a subsidiary of Lincoln, was not compelled to testify because the committee for weeks has been unable to assemble a majority to approve issuing a subpoena.

Brad Boland, the Keatings' spokesman, dismissed Gonzalez's charges, saying lawyers had informed the committee "a long time ago" that the

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Keating son fails to show, 'attitude' of family assailed

— KEATING, *from page A1*

younger Keating would not appear voluntarily.

"It infuriates me," Boland said. "They're trying to make a spectacle of this thing, and (Gonzalez) is just trying to grandstand."

The Banking Committee is investigating the collapse last year of the elder Keating's Lincoln Savings and Loan, which is expected to cost taxpayers $2.5 billion.

Gonzalez issued his rebuke after a federal thrift examiner testified that Sen. Dennis DeConcini, D-Ariz., had received thousands of dollars in donations from key employees of a Phoenix-based home builder linked to sham real-estate transactions with Lincoln Savings.

Christopher Seefer of the federal Office of Thrift Supervision said he was informed in June by a California regulator that the contributions were funneled to DeConcini a week after the senator had been the host for the first of two controversial 1987 meetings to pressure federal regulators to get off Keating's back.

Regulator unveils memo

The two meetings, attended by four other senators, including Arizona Republican Sen. John McCain, have prompted a Senate Ethics Committee probe of the five senators, who received about $1.4 million in Keating-related contributions.

Seefer provided the committee with a copy of a typewritten memo given to him by Richard Newsom, a bank examiner with the California Department of Savings and Loans.

Seefer said the memo alleged that employees of Emerald Homes, a Phoenix-based home builder, pumped $3,000 and then an additional $12,000 into DeConcini's coffers a week after the senator's meeting.

The memo says, "Within a week of the meeting with the 'Gang of Five' in D.C., our good friend DeCan (sic) received five $600 gifts from persons at Emerald Homes and other gifts totaling over $12K from Emerald people."

But Newsom, in a telephone interview, said he did not recall where he got the memo and could not vouch for its accuracy.

DeConcini spokesman Bob Maynes discounted Seefer's testimony.

"I am not going to respond to a ridiculous insinuation raised in a memo from a source that no one can even remember," said Maynes, quoting DeConcini. "I might add that printing such insinuations simply compounds this outrage."

Seefer said he was not accusing DeConcini of any impropriety.

The Arizona Republic reported in November that five Emerald Homes executives contributed a total of $3,000 to DeConcini on May 7, 1987, a month after the first meeting.



Rep. Henry Gonzalez / Accuses the Keatings of trying to "dupe the American public."

The story, based on Federal Election Commission records, reported that Emerald employees gave him an additional $7,000 later in 1987.

'Crime pays' for thrifts

Seefer also told the panel that his investigation of Keating's master-planned communities, Estrella and Hidden Valley, taught him that "at least in the savings and loan industry, crime pays, and it pays well."

Tuesday's hearing focused on a what Seefer called a series of "sham" real-estate transactions between Lincoln and real-estate speculators in Estrella and Hidden Valley, about 20 miles southwest of Phoenix.

Seefer said Lincoln made a series of phony land sales in the areas that allowed its Phonenix-based parent, American Continental, to book inflated profits to fend off regulators, justify "excessive salaries and bonuses" to Keating's family, and to prop up American Continental stock.

Seefer said the Hidden Valley and Estrella projects left Lincoln, a federally insured institution seized by regulators last April, holding more than $200 million in losses from bogus profits, loans that were never repaid and inflated appraisals.

Reps. Jim Leach, R-Iowa, and Joseph Kennedy, D-Mass., exploded in frustration after being told by federal regulators that Keating's lawyers again have fended off their efforts to examine American Continental.

Calling the elder Keating a "crooked son of a gun" and criticizing regulators who "can't come up with a way to investigate the guy and put him in the can," Kennedy suggested that Keating is being improperly shielded by federal Bankruptcy Court proceedings in American Continental's Chapter 11 case in Phoenix.

"At this stage of the game, months after these investigations have taken place, years after they should have taken place, Mr. Keating is still flying around the world with his friends, still living a very grand lifestyle, still basically using depositors' funds that we've heard so much about," he said.

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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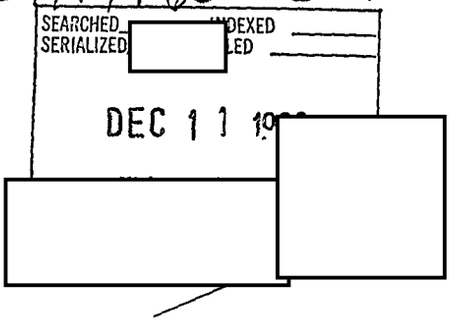
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58 PX 41605 C -2

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FBI — PHOENIX

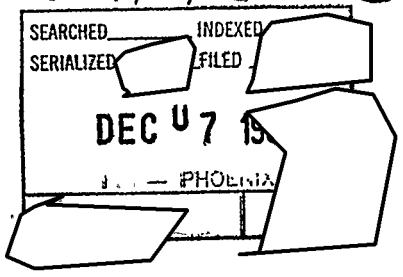
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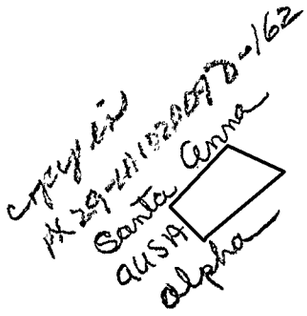
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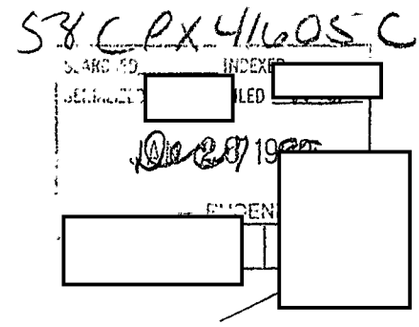
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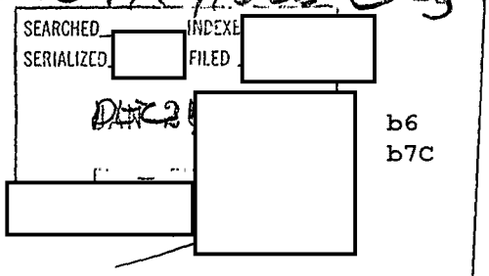


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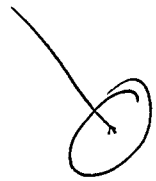
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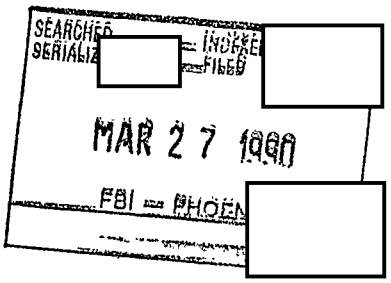
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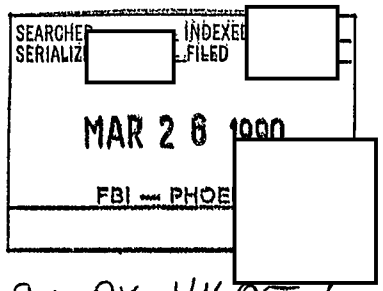


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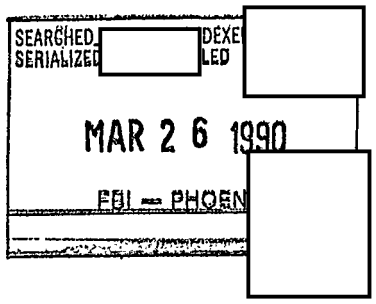


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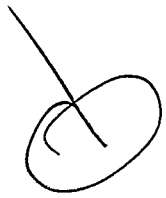
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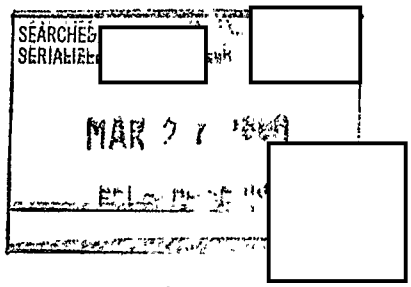
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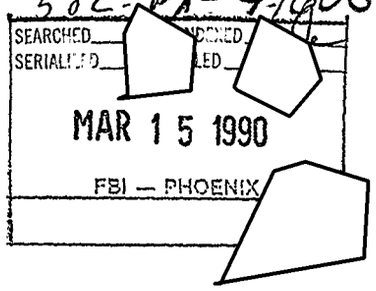
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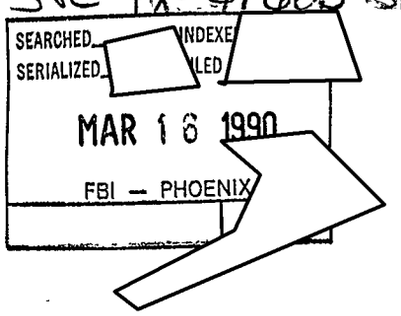
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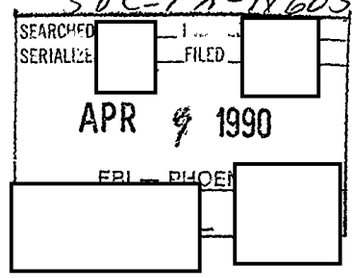
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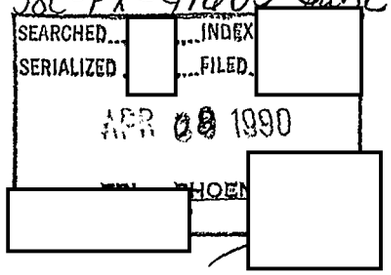
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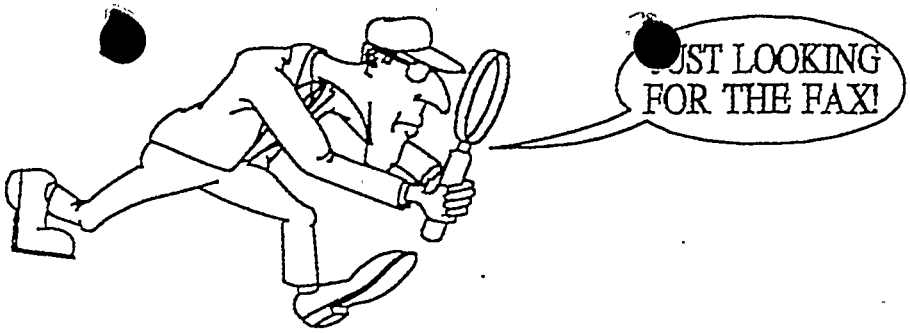
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FD-448 (Rev. 3-7-88)

Transmit attached by Facsimile

PRECEDENCE:
- ☐ Immediate
- ☐ Priority
- ☐ Routine

CLASSIFICATION:
- ☐ TOP SECRET
- ☐ SECRET
- ☐ CONFIDENTIAL
- ☐ UNCLAS E F T O
- ☐ UNCLAS

To: ADIC, New York

From: SAC, Phoenix (58C-PX-41605) (P)

Subject: ALLEGATIONS CONCERNING UNITED STATES SENATORS, ETAL; BRIBERY; OO: Phoenix

Date 5-29-90

9:00 A.M.

18

☐ Fingerprint Photo ☐ Fingerprint Record ☐ Map ☐ Newspaper clipping ☐ Photograph

☐ Artists Conception ☐ Teletype ☒ Other FD-302 [redacted]

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Special handling Instructions: Attn: - SA [redacted] (Sq. C-14 x-3792)

Re SA [redacted] telcal to Phoenix, 5-23-90

Approved: [redacted]

FBI/DOJ

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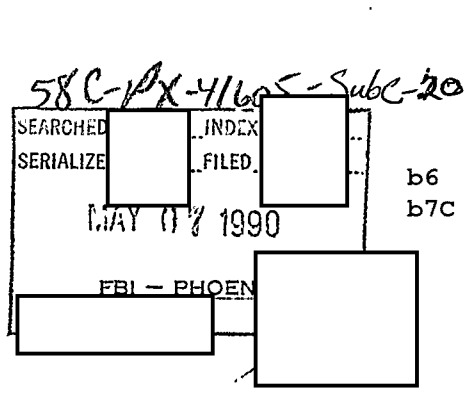
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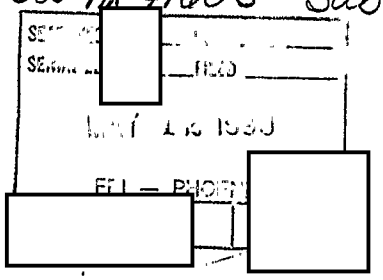

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