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FOR IMMEDIATE RELEASE
MONDAY, JANUARY 22, 1991

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SAVINGS AND LOAN PROSECUTION UPDATE

The Department of Justice today issued the following information describing activity in "major" savings and loan prosecutions from October 1, 1988 - December 31, 1990.

Informations/Indictments:	329*
S&Ls Victimized:	507
Estimated S&L Losses:	\$6.458 billion
Defendants Charged:	566*
Defendants Convicted:	403*
Defendants Acquitted:	18
Prison Sentences:	768 years
Sentenced to prison:	232 (79%)
Awaiting sentence:	117
Sentenced w/o prison or suspended:	63
Fines Imposed:	\$4.808 million
Restitution Ordered:	\$231.863 million*
CEO's, Chairmen of the Board and Presidents:	
Charged by indictment/information	70
Convicted	56
Acquitted	6

(MORE)

Directors and Other Officers:

Charged by indictment/information	98
Convicted	78
Acquitted	3

NOTE: All numbers are approximate.

"Major" is defined as (a) the amount of fraud or loss was \$100,000 or more, or (b) the defendant was an officer, director, or owner (including shareholder), or (c) the schemes involved convictions of multiple borrowers in the same institution.

This information is based on reports from the 94 offices of the U.S. Attorneys and from the Dallas Bank Fraud Task Force.

* These amounts have been adjusted due to improved reporting, not necessarily monthly activity.

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FOR IMMEDIATE RELEASE
TUESDAY, JANUARY 22, 1990

AG
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JUSTICE DEPARTMENT RELEASES TWO-YEAR REPORT
ON SAVINGS AND LOAN FRAUD PROSECUTIONS

WASHINGTON, D.C. -- Attorney General Dick Thornburgh today submitted to President Bush and the Congress a two-year report on the accomplishments of the Department of Justice in prosecuting fraud in the nation's thrift industry.

From October 1, 1988 through December 31, 1990, 403 defendants have been convicted in major savings and loan fraud cases. Seventy-nine percent of those convicted have received prison terms, including one as long as 30 years.

"White collar crime -- 'Crime in the Suites' -- has become one of the highest enforcement priorities for the Department of Justice," Thornburgh said.

"Aggressive prosecution of financial institution fraud is aimed at punishing those involved in criminal wrongdoing, providing a powerful deterrent to others, and reassuring the public that the United States will not tolerate persons victimizing federally insured financial institutions," the Attorney General added.

(MORE)

Monthly figures released with the report show that by the end of 1990, the Department of Justice had compiled a 96 percent conviction rate in major savings and loan fraud cases.

"While the complex nature of financial fraud cases means that they are not 'one size fits all' prosecutions," Thornburgh said, "the number of indictments being returned is mounting consistently as investigations come to a head."

In a review of statistics and important cases, Thornburgh identifies a "tragic element" common to many fraud schemes in which sound, first-rate institutions became, "the vehicles for outrageous self-dealing on the part of thrift executives and officers."

"Our U.S. Attorneys, however, have delivered on President Bush's promise to bring the 'cheats and chiselers and charlatans' of the savings and loan industry to the bar of justice."

To date, 566 defendants have been charged in connection with fraud in the savings and loan industry. A total of 768 years of prison incarceration has been ordered as well as the imposition of \$4.8 million in fines and approximately \$231.362 million in restitution.

"The 403 individuals convicted of ripping-off the nation's thrifts are facing ever stiffening prison sentences from unsympathetic judges," Thornburgh said.

(MORE)

"While much has been done, many challenges remain. Our solid record of success, however, allows me to be confident that all those who defrauded financial institutions will be fully prosecuted."

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91-

August 8, 1990

THE S&L CRISIS: MAJOR ADMINISTRATION ACCOMPLISHMENTS

Eighteen days after taking office, President Bush stepped forward with a comprehensive solution to the S&L crisis. In the year since the Congress passed his legislation, the Financial Institution Reform, Recovery, and Enforcement Act (FIRREA), significant progress has been made.

1. The Depositors Have Been Protected.

- o All federally insured depositors have been protected against loss.
 - Six million accounts, representing the savings of millions of American families, have been made whole.
 - Depositors have received protection on \$62.8 billion of deposits that would have experienced losses without federal deposit insurance.
 - The average account protected is about \$10,000.
- o The integrity of the deposit insurance system has been preserved.
 - No insured saver has lost a dime due to the failure of a federally insured savings and loan.
 - The U.S. Government is standing behind its commitment to protect the federally insured savings of Americans.
 - Confidence in the Government's guarantee remains strong.
 - The Government's commitment and the resulting public confidence have kept the financial system operating continuously and efficiently.

2. The System Has Been Reformed.

- o Savings and Loans now have higher, more stringent capital requirements.
 - Real capital requirements have been put in place to require thrift owners and operators to give greater protection to depositors and put more of their own money at risk.

- The key reform in FIRREA -- requiring standards for genuine and substantial capital invested by owners of thrift institutions -- has been implemented.
 - o Regulatory oversight has been tightened.
 - The regulatory function has been isolated from the depositors' insurance fund to provide greater protection and objectivity.
 - The thrift examiners have been absorbed by the Office of Thrift Supervision and placed under the general oversight of the Treasury Department.
 - The thrift insurance funds -- Federal Savings and Loan Insurance Corporation (FSLIC) and the Savings Association Insurance Fund (SAIF) -- have been brought into the Federal Deposit Insurance Corporation (FDIC).
 - o High risk thrift investment practices have been curtailed.
 - Most thrifts that are insolvent and losing money have been identified and placed in conservatorship, or resolved, while protecting depositors.
 - 220 institutions have entered into binding agreements to alter high risk banking practices (a total of 664 in the past three years).
 - The lending activities of thrifts have been refocused on the business they know best-- residential mortgages -- and credit is granted based on economic merit, rather than speculative risk.
 - Thrifts can no longer engage in direct real estate or equity investment without 100 percent capital, and junk bond investments have been prohibited.
3. Unsound Institutions Are Being Cleaned Up Expeditiously.
- o Insolvent institutions have been taken over.
 - The RTC has taken over 472 insolvent thrifts, more than one per day.

- 211 bankrupt S&Ls have been closed or sold. In the latest quarter, 155 institutions -- or a dozen per week -- have been shut down.
- o The cost to the taxpayers is being minimized.
 - The Resolution Trust Corporation (RTC) began business the day the legislation was signed. In less than a year, the Government created the largest financial institution in the country, which involved enormous efforts to staff and to develop appropriate policies and procedures.
 - The assets of the RTC are being liquidated in the most prudent manner to maximize return to the taxpayers by proceeding quickly but in a manner so as to avoid disrupting real estate markets.
 - Regional advisory boards have been established to provide guidance to the RTC on local real estate conditions and aid in maximizing value recovery.

4. The Individuals Responsible Are Being Penalized.

- o Those who engaged in criminal activity are being prosecuted.
 - Since October 1988, the Justice Department has indicted over 328 people involved in fraud and other criminal activity.
 - 231 people have been convicted and ordered to pay \$56.6 million in restitution.
 - Over three-quarters of those sentenced have received prison terms running as high as 30 years.
- o Criminal enforcement capabilities have been strengthened.
 - An incremental \$50 million has been appropriated to prosecute S&L crimes.
 - 148 additional Federal prosecutors have been hired.
 - The FBI has added over 200 new agents to investigate S&Ls.

TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

Embargoed Until 1:00 p.m.
August 8, 1990

Remarks by
Secretary of the Treasury
Nicholas F. Brady
at the
National Press Club

One year ago tomorrow, President Bush signed legislation providing funds to protect insured depositors in insolvent savings and loans and setting tough new rules to ensure safety and soundness in the thrift industry. The enactment of the depositor rescue bill culminated seven-and-a-half months of work by the Congress based on a plan submitted by the President just 18 days after his inauguration.

Now, one year later, the job is getting done. But make no mistake: The problem is immense and the solution is not painless. A problem that was decades in the making cannot be eradicated in one year. But there is tangible progress to report.

However, it's evident to even the most casual observer that the S&L issue has become highly politicized. The staggering size of the cost estimates understandably alarms taxpayers and frightens politicians into finger-pointing and blame-avoiding. The line in the political world goes, "Since I don't make mistakes, someone else must be making them."

But we in the Administration cannot afford that luxury. Our job is to conduct the massive cleanup operation effectively and responsibly, to rise above the political blame-game, and to work steadily and professionally and get the job done. This is what the taxpayers expect, and it is what they deserve. A thousand words of political sophistry will not get the job done; only hard work applied with sound principles will do so. At any rate, that is exactly what we are doing.

In all the political turmoil that surrounds the S&L cleanup, we must not lose sight of the person whose investment we are protecting: the average American saver who put his savings in an S&L -- a wage earner or a retired person with perhaps just a few thousand dollars -- someone who would have no way of recovering from the loss if his or her thrift institution went broke. But the truth of the matter is S&Ls did go broke. Millions of

depositors stood to lose their money, but federal deposit insurance made sure they got their money back. It is for these savers that the government has insisted that this problem, no matter how unpleasant, must be faced, not swept under the rug.

Let me say again, the President presented legislation 18 days after inauguration: No obfuscation, no caving in to industry pressure. He presented the straight story, governed by four principles:

- o First, make sure that the millions of men and women who put their savings into insured thrifts get their money back. No TV shots of people sleeping on cots overnight outside of defunct thrifts, begging to get back their money which should be returned quickly and with a smile.
- o Second, restore safety and soundness to the thrift industry through tougher regulations. Make the entrepreneurs put up real money, so that if there are future losses, they, the owners, lose money long before the taxpayers. This is key. It has and it will change the mindset of S&L management as it operates in the future.
- o Third, close down and sell insolvent thrifts swiftly and efficiently so that taxpayer costs are minimized. No explanation needed here. Don't waste time on the blame game: Just do it.
- o And fourth, aggressively prosecute the criminals and fraudulent operators who stole the taxpayers' money. Hard time for hardened criminals.

These principles were established as a result of a detailed study made in late 1988. It took several months of pick and shovel work to understand how these massive losses were incurred. Our belief was that the facts would lead us to the solution. They did. And the President's legislative proposal in February 1989 put these issues squarely before the Congress.

Perhaps a short history of the industry's problems would be helpful. The early S&L charters restricted activities to fixed-rate, long-term mortgage loans and the acceptance of short-term deposits. This meant that whenever market interest rates rose, thrift institutions had to pay higher interest on their deposits than they received on average from their loans.

The Congress attempted to correct this problem in 1966 by placing a ceiling on the interest rates that banks and thrifts could pay. But in the late 1970s, when inflation and interest rates soared, depositors pulled their money out of banks and

thrifts in favor of investments paying higher market interest rates. Portfolio values declined, operating losses mounted, and a substantial portion of the industry became insolvent.

In 1980, Congress passed and President Carter signed legislation phasing out deposit interest rate ceilings, increasing deposit insurance from \$40,000 to \$100,000, expanding the ability of thrifts to move away from home mortgages and engage in commercial lending, and lowering capital requirements for thrifts. Thrift regulators built on these congressional actions by allowing brokered deposits and loosening other restrictions on thrift operations, hoping thrifts could attract more deposits, make high-return loans, and thereby grow out of their problems.

In 1982, Congress passed legislation further expanding the ability of thrifts to make commercial loans, and at the same time several states broadly expanded the permitted activities of state-chartered thrifts that were supervised primarily by state regulators but were eligible for federal deposit insurance. Attempts by federal regulators to curb abuses by state-chartered savings associations were discouraged by Congress.

The combination of higher federal deposit insurance protection and brokered deposits did in fact give thrifts increased access to a large pool of funds. However, the broader authority for thrift lending encouraged riskier investments. Many thrift operators schooled in handling home mortgages were ill-equipped to engage in the new job of complex commercial transactions. In addition, the cut in capital requirements for operators reduced the entrance fee, opening the way for shoe-string characters who stepped in to exploit the situation for personal gain. With low capital requirements and federal insurance, thrift operators were effectively granted a license to gamble with the taxpayers' money. Heads they win; tails the government loses.

In 1984, the task force on financial regulation headed by Vice President Bush recommended higher capital standards for S&Ls which made risky loans and the elimination of misleading accounting standards. These principles were later incorporated in the FIRREA legislation.

Finally, sharp declines in oil prices and weakness in the agricultural sector contributed to devastating economic declines in the southwest and other regions. Real estate values in those areas headed downward. Large numbers of thrifts that had invested in commercial real estate and other ventures became insolvent -- particularly in the states where state thrift charters were most lax. Federal deposit insurance was required to back inadequately regulated state thrifts, and the merry-go-round was on its way.

When the FSLIC insurance fund ran low because of numerous thrift failures, the Reagan Administration requested \$15 billion to recapitalize it in 1986. The House at first voted only \$5 billion before finally agreeing in conference with the Senate, 18 months later and after a threatened veto, to authorize \$10 billion -- one-third less than requested. Congress also added "forbearance" provisions sought by the thrift industry which forced regulators to allow thrifts to stay open without adequate capital. The condition of the thrift industry continued to worsen.

Faced with failing thrifts and no cash, FSLIC sold a large number of insolvent institutions in 1988 by granting terms because of the lack of funds. These deals, which are currently being reviewed by the RTC, added onto taxpayers additional future obligations.

As President Bush took office, it was apparent that we faced a worsening situation. Hundreds of thrifts had made high-risk loans backed by taxpayer guarantees but little of their own capital. When those loans went bad, the thrifts failed. Mismanagement, fraud and criminal activity exacerbated the problem in many institutions. The inadequately recapitalized FSLIC fund did not have sufficient funds to handle the crisis.

Certain principles can be drawn from this history, and these were incorporated into President Bush's proposal and the FIRREA legislation.

First, the government's deposit insurance guarantee must be honored, whatever the cost. Based on the best information available from the FDIC, GAO, and Federal Home Loan Bank Board, the size of the problem was projected to be \$40 billion to cover deals, the 1988 FSLIC, \$50 billion to resolve then-insolvent institutions over the ensuing three years and another \$23 billion (in present value terms) to fund future thrift failures through 1999.

A year after FIRREA, the government's promise to depositors is rock-solid. The government has paid out \$62.8 billion to protect 6,400,000 accounts -- an average of less than \$10,000 per deposit. Not one single American who trusted in the government's promise to protect his savings has seen that promise violated. To this day, each and every deposit of up to \$100,000 in a federally insured institution remains totally safe -- fully backed by the absolute guarantee of the federal government.

However, as the RTC has gained specific experience, Chairman Seidman has indicated that the costs will be higher than originally estimated. The value of the assets held by insolvent thrifts turned out to be lower than anticipated, and as everyone in this room knows, the real estate markets continued to worsen.

Based on the RTC's actual results and the current state of the real estate markets, I presented to Congress a new range for the total cost of the RTC cleanup: \$90 to \$130 billion in present value terms. These figures include the \$73 billion already authorized by Congress, but not the cost of the 1988 FSLIC deals.

A word of warning as we go forward: No one can be precise about the exact cost of the cleanup. It depends almost entirely on the state of the real estate market at the time the RTC sells the assets it has taken over.

Where is all the taxpayer's money going? It's being used to pay off depositors whose money was lost or stolen by thrift operators who made unwise investments or engaged in fraudulent deals. Clearly, the conditions that allowed this to occur had to be rectified.

That, in fact, was the second principle advanced by the President: To ensure the safety and soundness of the industry, thrift operators must be required to place their own money at risk ahead of the taxpayers', and regulators must be given a stronger hand.

Specifically, the Administration recommended that thrifts be required to meet much tougher capital and accounting standards. Only truly sound institutions should be permitted to continue operating with the federal deposit insurance guarantee.

Following intense debate in Congress over capital standards, the thrift industry position was narrowly defeated and the Administration's tough capital and accounting standards were adopted in FIRREA.

The new law also requires thrifts to maintain 70 percent of their assets in residential real estate and restricts risky investments. Junk bonds, for example, are prohibited and brokered deposits are not permitted for undercapitalized thrifts. Direct real estate or equity investment must be backed by 100 percent capital. And state-chartered thrifts that do not meet these federal requirements can be denied federal deposit insurance.

The practices which led to the thrift disaster have been largely eliminated and the new Office of Thrift Supervision in the Treasury Department has entered into binding agreements with 220 thrifts terminating unsafe and unsound practices. We are

also nearing the final stages of an 18-month effort to assess the overall competitiveness of our financial services system within the context of the deposit insurance study mandated by FIRREA.

The third principle that guided the Administration was that delay in closing down insolvent thrifts would only lead to increased costs later. The Administration therefore determined that we would move quickly to take over insolvent thrifts.

Within a matter of a few months following the enactment of FIRREA, the RTC assembled a financial organization the size of Citibank with more than 3,000 people given the mission of aggressively tackling the thrift cleanup. At the end of the first year, an impressive record of accomplishment has been achieved.

The RTC has taken over 472 insolvent thrifts, more than one per day. It has closed or sold 211 bankrupt S&Ls, one every 48 hours. And the RTC has sold or liquidated more than \$73 billion worth of assets, \$200 million per day. Just last week, the RTC announced plans to dispose of an additional \$50 billion in assets this year. We have been encouraging the RTC to move even faster.

Bill Seidman and the RTC face a tough and thankless job. No matter how well they do, there is no way to do the job perfectly and there will be criticism. But this will be the case whether they move quickly or slowly, so the decision was to get on with it, construct an industry with sound thrifts, and lower the cost of funds to the healthy portion of the industry.

The fourth principle was that tougher penalties and more aggressive prosecution of criminals were needed to deter similar crimes in the future. The Administration proposed and Congress enacted tougher civil penalties -- up to \$1 million per day -- and 20-year jail sentences for S&L fraud.

More recently, the President requested important new authorities, including wiretapping, the ability to seek court orders to freeze the corporate and personal assets of civil defendants and prohibitions on the use of bankruptcy to avoid federal recoveries of assets.

Since October 1988, the Justice Department has obtained 231 convictions for major cases of S&L fraud. In addition, the FBI is currently conducting 530 investigations of fraud in failed banks and thrifts -- an increase of 88 percent from 1987. And settlements and judgments from civil cases during the first half of 1990 will produce recoveries in excess of \$200 million.

Let me review: Protect the depositor. Restore safety and soundness to the industry. Clean up the insolvent institutions. And prosecute the criminals.

A year after stepping forward to tackle this huge task, there are substantial specific accomplishments. The job is getting done. And we will continue to work efficiently and professionally until the job is complete.

Thank you.



Department of Justice

FOR IMMEDIATE RELEASE
TUESDAY, AUGUST 7, 1990

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TEXAS S&L EX-BOARD CHAIRMAN INDICTED ON FRAUD CHARGES

BEAUMONT, Texas -- The Department of Justice today announced that Alan Ross Rothery, a California attorney and former chairman of the board of Trinity Valley Savings and Loan Association (Trinity Valley), has been indicted by a federal grand jury on charges of embezzling over \$4 million from the institution from September 1985 to April 1987.

The 31-count indictment, which was returned and sealed on August 2, 1990, is the result of an 18 month investigation by the Beaumont office of the FBI and U.S. Attorney for the Eastern District of Texas, Robert J. Wortham.

In Washington, Attorney General Dick Thornburgh praised U.S. Attorney Wortham and the FBI agents, "who have spent countless hours fitting together the jigsaw puzzle of evidence that led to the indictment."

Thornburgh also acknowledged the cooperation and work of the Office of Thrift Supervision (OTS) for its criminal referrals related to Trinity Valley and its follow-up assistance during the FBI investigation.

(MORE)

"The alleged scheme whereby Rothery acquired ownership of Trinity Valley and manipulated the institution's loan proceeds to satisfy his own greed, is a textbook example of criminal fraud in our nation's thrift industry," Thornburgh said.

"If we are to begin to restore the public trust in our thrift institutions, law enforcement must continue its methodical, but unrelenting, approach to investigating and prosecuting those responsible for criminal fraud in the collapse of our savings and loan industry," the Attorney General said.

OTS Director Timothy Ryan, added, "It is significant that the Justice Department has obtained yet another indictment in one of the 'Top 100' criminal S&L fraud cases. Federal banking regulators will continue to support the effort to bring to justice those who abuse their public trust."

Rothery is charged with 30 counts of bank fraud, self-dealing, misapplication of bank funds or embezzlement, and giving false information to a federal bank examiner.

U.S. Attorney Wortham said, "The fact that Trinity Valley is in a small town shows that no area or community is safe from savings and loan predators. There is no quick fix to the problems of our savings and loan industry. The solution, quite simply, lies in the pursuit of time consuming investigations and prosecutions by dedicated agents, auditors, and federal prosecutors."

(MORE)

Upon obtaining majority ownership of the stock of Trinity Valley, Rothery operated a wholly-owned subsidiary of the institution in Los Alamitos, Ca. where the bulk of the Texas deposits were loaned out in various real estate ventures.

Losses to the government from Trinity Valley insured deposits and speculative loans are expected to be approximately \$33 million.

The indictment also alleges that Rothery made false statements to a federal bank examiner inquiring into the acquisition of Trinity Valley.

Ten counts of the indictment allege that Rothery received the benefits of loans made by Trinity Valley to entities that he controlled as well as receiving broker's commissions on the loan transactions.

Twelve additional counts of the indictment allege embezzlement and various misapplications of Trinity Valley funds for Rothery's benefit.

The indictment further alleges that Ca. real estate developer John Coughlan, Jr. and his brother Errol Coughlan, of Long Beach and Malibu respectively, aided and abetted the fraudulent diversion of funds loaned by Trinity Valley to their partnership, E & J Medical Properties, to benefit Rothery in his acquisition of the Texas savings and loan.

(MORE)

They also are charged with making false statements on their loan applications to the association as well as another bank fraud scheme to divert funds to their own use.

Additionally, in an unrelated investigation, both John and Errol Coughlan were indicted by another federal grand jury on July 24, 1990, in Los Angeles, Ca., on 17 counts of mail and wire fraud involving schemes to defraud various financial institutions around the country.

The maximum punishment on each count, upon conviction, is five years imprisonment and a \$250,000.00 fine.

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90-320

August 2, 1990

THE S&L CRISIS: MAJOR ADMINISTRATION ACCOMPLISHMENTS

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- o All federally insured depositors have been protected against loss.
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 - The average account protected is about \$10,000.
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 - The RTC has taken over 463 insolvent thrifts, more than one per day.

- 211 bankrupt S&Ls have been closed or sold. In the latest quarter, 155 institutions -- or a dozen per week -- have been shut down.
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 - o Criminal enforcement capabilities have been strengthened.
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 - 148 additional Federal prosecutors have been hired.
 - The FBI has added over 200 new agents to investigate S&Ls.

Briefing Material

THE SAVINGS AND LOAN CRISIS

1. Talking Points -- The Savings and Loan Cleanup.
2. Talking Points -- The S&L Crisis: Major Administration Accomplishments.
3. Backgrounder -- Letter of Deputy Secretary of the Treasury John Robson on the origin of the Savings and Loan crisis (August 2, 1990).

July 29, 1990

THE SAVINGS AND LOAN CLEANUP

THEMES

- o President Bush inherited the S&L problem that was many years in the making.
- o Only 18 days after taking office, President Bush stepped forward with a comprehensive solution to the S&L crisis.
- o The solution is working; the job is getting done.

FOUR PRINCIPLES HAVE GUIDED THE ADMINISTRATION:

1. This is no bailout of S&Ls or owners. We are making sure that insured depositors get their money back.
2. S&Ls are now required to operate under tough new rules to protect safety and soundness.
3. The cleanup is proceeding expeditiously and responsibly.
4. Crooks are being prosecuted.

FOUR PRINCIPLES HAVE GUIDED THE ADMINISTRATION:

1. PROTECT DEPOSITORS.

- o Make sure all government-insured depositors get their money back.
 - The government is not bailing out thrifts; in fact, hundreds of bankrupt thrifts are being closed down.
 - The money goes to millions of Americans who put their savings in insured financial institutions.
 - In the first year, the government has paid out \$62.8 billion, representing 5.8 million accounts.
 - The average account protected is about \$10,000.

2. REQUIRE SAFETY AND SOUNDNESS

- o Reform the system and require a new level of accountability so the mistakes of the past are not repeated.
 - Tough new capital standards require thrift operators to put their own money at risk ahead of the taxpayers'. Two-thirds of the industry now meet those tougher standards.
 - Thrifts were barred from holding junk bonds and required to keep 70% of assets in residential real estate.
 - The Office of Thrift Supervision (OTS) has "guarantined" S&Ls that were not operating in a safe and sound manner, requiring 664 institutions to enter into binding agreements terminating unsafe and unsound banking practices.

3. GET THE JOB DONE EXPEDITIOUSLY

- o Clean up the S&L mess expeditiously and responsibly so that taxpayer costs are minimized.
- o In the past year:
 - Taken over 463 insolvent thrifts, more than one per day.
 - Closed or sold 211 bankrupt S&Ls, an average of one every 48 hours.
 - Sold or liquidated more than \$65 billion worth of assets, a rate of \$178 million per day.
- o By moving quickly and dependably, we have "grounded the unsafe aircraft" to ensure that additional fraud, mismanagement and misuse of depositors' money cannot occur.

4. PUT THE CROOKS IN JAIL

- o Aggressively prosecute the crooks who stole the taxpayers' money.
 - Tougher civil penalties -- up to \$1 million per day -- and 20-year jail sentences for S&L fraud were enacted.
 - Since October 1988, the Justice Department has obtained more than 200 convictions for cases of major savings and loan fraud.
 - The FBI currently is conducting 530 active investigations of fraud in both banks and thrifts. This is an increase of 88 percent from 1987.
 - Settlements and judgments by FDIC/RTC from civil cases during the first half of 1990 will produce recoveries in excess of \$200 million.

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 - The average account protected is about \$10,000.
- o The integrity of the deposit insurance system has been preserved.
 - No insured saver has lost a dime due to the failure of a federally insured savings and loan.
 - The U.S. Government is standing behind its commitment to protect the federally insured savings of Americans.
 - Confidence in the Government's guarantee remains strong.
 - The Government's commitment and the resulting public confidence have kept the financial system operating continuously and efficiently.

2. The System Has Been Reformed.

- o Savings and Loans now have higher, more stringent capital requirements.
 - Real capital requirements have been put in place to require thrift owners and operators to give greater protection to depositors and put more of their own money at risk.

- The key reform in FIRREA -- requiring standards for genuine and substantial capital invested by owners of thrift institutions -- has been implemented.
- o Regulatory oversight has been tightened.
 - The regulatory function has been isolated from the depositors' insurance fund to provide greater protection and objectivity.
 - The thrift examiners have been absorbed by the Office of Thrift Supervision and placed under the general oversight of the Treasury Department.
 - The thrift insurance funds -- Federal Savings and Loan Insurance Corporation (FSLIC) and the Savings Association Insurance Fund (SAIF) -- have been brought into the Federal Deposit Insurance Corporation (FDIC).
- o High risk thrift investment practices have been curtailed.
 - Most thrifts that are insolvent and losing money have been identified and placed in conservatorship, or resolved, while protecting depositors.
 - 664 institutions have entered into binding agreements to alter high risk banking practices.
 - The lending activities of thrifts have been refocused on the business they know best-- residential mortgages -- and credit is granted based on economic merit, rather than speculative risk.
 - Thrifts can no longer engage in direct real estate or equity investment without 100 percent capital, and junk bond investments have been prohibited.

3. Unsound Institutions Are Being Cleaned Up Expeditiously.

- o Insolvent institutions have been taken over.
 - The RTC has taken over 463 insolvent thrifts, more than one per day.

- 211 bankrupt S&Ls have been closed or sold. In the latest quarter, 155 institutions -- or a dozen per week -- have been shut down.
- o The cost to the taxpayers is being minimized.
 - The Resolution Trust Corporation (RTC) began business the day the legislation was signed. In less than a year, the Government created the largest financial institution in the country, which involved enormous efforts to staff and to develop appropriate policies and procedures.
 - The assets of the RTC are being liquidated in the most prudent manner to maximize return to the taxpayers by proceeding quickly but in a manner so as to avoid disrupting real estate markets.
 - Regional advisory boards have been established to provide guidance to the RTC on local real estate conditions and aid in maximizing value recovery.

4. The Individuals Responsible Are Being Penalized.

- o Those who engaged in criminal activity are being prosecuted.
 - Since October 1988, the Justice Department has indicted over 328 people involved in fraud and other criminal activity.
 - 231 people have been convicted and ordered to pay \$56.6 million in restitution.
 - Over three-quarters of those sentenced have received prison terms running as high as 30 years.
- o Criminal enforcement capabilities have been strengthened.
 - An incremental \$50 million has been appropriated to prosecute S&L crimes.
 - 148 additional Federal prosecutors have been hired.
 - The FBI has added over 200 new agents to investigate S&Ls.



THE DEPUTY SECRETARY OF THE TREASURY
WASHINGTON

August 2, 1990

The Honorable Bob Michel
Republican Leader
U.S. House of Representatives
Washington, D.C. 20515

Dear Bob:

This is in response to your request for information regarding the origin of the savings and loan crisis.

This is a question which the Administration, academicians, economists, and the Congress have been exploring for some time. The Treasury Department is pleased to share our information with you because we believe it is important that as many people as possible have a thorough understanding of the events which began long ago and led to the current crisis.

The savings and loan industry was created in the early 1930's through charters which restricted their activities to fixed-rate, long-term mortgage loans and the acceptance of short-term deposits. Without a diversified portfolio, thrifts were, from their very inception, particularly vulnerable to the "ups and downs" of the real estate market and any substantial increases in interest rates. Because the interest rates these savings and loan institutions charged were primarily locked into long-term residential mortgage loans, significant increases in market rates meant thrift institutions would likely be paying out more in interest to depositors than they were receiving in interest payments from loans.

In 1966, Congress attempted to address the industry's particular vulnerability to increasing interest rates by creating "Regulation Q." This regulation imposed ceilings on the amount of interest that S&Ls could pay on deposits. But as market interest rates increased, depositors who had their money in low-rate S&L accounts began to take their money out of S&Ls and put their savings in other financial instruments, which were paying market interest rates (higher than S&L rates). S&Ls were then faced with massive deposit outflows, while their assets were primarily tied up in long-term, fixed-rate, low-interest mortgage loans.

In the late 1970's, inflation and interest rates soared, and eventually the prime interest rate skyrocketed as high as 21 percent. The combination of high inflation and high interest rates, along with Regulation Q, put extreme financial pressure on the thrift industry. During the period 1978-80, thrifts suffered significant declines in deposits, and their capital positions deteriorated to the point where a substantial part of the industry was bankrupt on a mark-to-market basis.

In 1979, President Carter formed a special Task Force to study the problem. The Task Force recommended deregulation. In 1980, the Congress passed and President Carter signed, the Depository Institutions Deregulation and Monetary Control Act (DIDMCA). The principal features of that Act included:

- Providing for the phased elimination of Regulation Q, allowing thrifts to attract more deposits with higher interest rates.
- Raising deposit insurance from \$40,000 to \$100,000 per account, an increase of 150 percent, which increased the government's liability should an institution fail.
- Expanding the ability of federally-chartered thrifts to engage in commercial lending, including commercial real estate loans.
- Lowering capital requirements for thrift institutions.

From 1980-82, the regulator of the S&Ls, the Federal Home Loan Bank Board (FHLBB), an independent regulatory agency, was also attempting to find ways to permit some expansion of thrift industry activities. The intention was that thrifts could "grow" their way out of their financial crisis. For example, in 1981, the FHLBB loosened restrictions on the ability of S&Ls to use brokered deposits. Taking advantage of the huge increase in deposit insurance coverage and this new ability to aggregate deposits on a nationwide basis, S&Ls gained access to large pools of money.

In 1984, the FHLBB reversed itself and proposed regulations limiting the use of brokered deposits. However, the courts overturned the FHLBB regulations, and Congress refused to provide the authority needed for FHLBB to proceed with the regulations limiting brokered deposits.

Higher interest rates continued to cause more thrifts to become unprofitable and seriously depleted their capital, but they were allowed to stay in business. Thrifts with low capital had a perverse incentive to make riskier investments, without risking their own capital, in order to gain higher returns. Any profits from the riskier investments could be used to shore up their capital, while any losses from these investments would be absorbed by the taxpayer because of the higher insurance coverage. The huge pools of money -- made available through brokered deposits and deposit insurance -- added to the motivation for thrift operators to expand their risk of loss.

However, even with interest rate deregulation, increased deposit insurance, and brokered deposits, thrifts continued to struggle because the bulk of their assets were still held in low-interest mortgage loans.

In response, Congress passed the Garn-St Germain bill in 1982. The bill allowed federally-chartered thrifts to become more like banks and further expanded authority granted in the 1980 act to make commercial loans. It also continued the 1980 practice of lessening capital requirements. Many believed these actions were necessary in order for thrifts to make higher returns on investments to offset lower returns on mortgage loans. Prior to the passage of Garn-St Germain, states began to greatly broaden the powers of state-chartered, but federally-insured, thrifts to make direct equity investments in speculative ventures, from windmill farms to precarious real estate developments.

As early as 1984, the FHLBB attempted to curb abuses by state-chartered savings associations. The FHLBB was opposed by many in Congress, and in particular by the House of Representatives. For example, in 1985, a resolution calling on the FHLBB to delay its tighter regulation of direct real estate and equity investment by state-chartered institutions was co-sponsored by over one-half of the House of Representatives. In 1987, amendments in the House Banking Committee to regulate these aggressive real estate practices of state-chartered institutions were defeated by overwhelming margins.

In 1982, the FHLBB was losing examiners because their pay rate was low compared to other financial examiners, and the FHLBB believed that more examiners were needed. In 1985, the FHLBB was finally successful in adding additional, higher-salaried examiners by funding them out of the Federal Home Loan Bank system, which was not under the budgetary control of either the Congress or the Office of Management and Budget (OMB).

Now S&Ls could attract more deposits because they could pay higher interest rates on those deposits, offer higher insurance levels, and attract depositors from across the country. And thrift institutions, particularly state-chartered thrifts, could invest those deposits in highly risky ventures, particularly commercial real estate ventures. And all the time, the U.S. Government's promise to insure every depositor's savings up to \$100,000 kept looming as a larger and larger potential liability.

From 1982-1984, then-Vice President Bush led an Administration task force on regulation of financial services. The task force recommended comprehensive reform of the financial regulatory system, including:

- Higher capital and accounting standards for S&Ls making riskier loans and elimination of phony accounting standards.
- More effective regulation through the elimination of archaic and overlapping regulatory structures.

The task force recommendations were endorsed by the Reagan Administration's Cabinet Council on Economic Policy in 1985 and forwarded to the Congress.

Meanwhile, sharp declines in oil prices and weakness in the agricultural sector contributed to devastating economic declines in certain regions, particularly the southwest. Real estate values plunged. Large numbers of thrifts that had invested in commercial real estate and other ventures became insolvent, requiring deposit insurance protection from the federal insurance (FSLIC) fund. When the FSLIC insurance fund ran low, the Reagan Administration requested \$15 billion to recapitalize FSLIC in the spring of 1986.

The request encountered strong opposition on Capitol Hill. Some Members of Congress feared that providing \$15 billion in deposit insurance funding would encourage S&L regulators to close down more unsafe institutions. The savings and loan industry forcefully lobbied the Congress in opposition to this legislation, and it was killed at the end of 1986.

Finally, in 1987, Congress passed a bill which provided \$10 billion to recapitalize the insolvent FSLIC fund -- a year and a half after the Administration requested \$15 billion. The final amount authorized was only two-thirds of the amount requested by the Administration. In addition, Congress added forbearance provisions making it harder for regulators to close down high-flying S&Ls. Specifically, those provisions permitted additional questionable accounting techniques which allowed thrifts in trouble to make their levels of capital look better than they were. They also allowed thrifts to count "goodwill" toward meeting capital requirements.

The delay in funding the FSLIC prevented regulators from closing insolvent institutions when the cost of protecting depositors would have been much less. Instead, the problem continued to grow, and so did the U.S. Government's liability to make good on its promise of insurance coverage for deposits.

In February 1989, just 18 days after taking office, President Bush proposed a comprehensive solution to the savings and loan industry crisis -- The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). Four principles have guided the Administration in developing and implementing the savings and loan cleanup effort:

- Protecting the savings of Americans who made deposits in thrift accounts, relying on the U.S. Government's promise of deposit insurance.
- Restoring safety and soundness to the thrift industry, especially through tougher capital requirements.
- Aggressively prosecuting the crooks who stole the taxpayers' money through fraud and mismanagement.
- Cleaning up the S&L mess as expeditiously and responsibly as possible.

After seven months of debate, Congress passed FIRREA, and President Bush signed the bill into law on August 9, 1989.

FIRREA provided not only the initial funds for remedying the current crisis in the thrift industry and protecting depositors' savings, but the legislation also put into place the mechanisms needed to prevent similar occurrences in the future. Of those mechanisms, we consider the most important to be those which provide a buffer between the deposit insurance fund and possible risky practices of individual institutions.

Tougher capital requirements which mandate that savings and loans must meet the same capital requirements as banks will require thrift operators to put their own money at risk ahead of the taxpayers. New authority for the federal government to deny federal insurance coverage to state-chartered S&Ls allows the federal government to protect taxpayer dollars from riskier ventures which may be allowable under individual state regulations. In addition, a study of deposit insurance, required by the legislation and currently being drafted by the Treasury, will provide additional proposals to deal with one of the critical causes of the current crisis.

With these protections in place, as well as provisions proposed by the Administration to enhance the Government's ability to prosecute those guilty of financial fraud and mismanagement, we believe we have the basic framework necessary to clean up the savings and loan crisis in an expeditious and responsible manner.

In the year since FIRREA was enacted, the government has paid out \$62.5 billion in deposit insurance obligations, representing 5.8 million accounts -- about \$10,000 per account. The RTC has seized 463 insolvent thrifts -- more than one per day; closed or sold 211 bankrupt thrifts -- one every 48 hours; and sold or liquidated more than \$65 billion of assets -- \$178 million per day. By moving expeditiously and responsibly to quarantine sick thrifts, the Administration has stemmed the losses and given the healthy segment of the industry an opportunity to succeed.

Since October 1988, the Justice Department has obtained more than 200 convictions for savings and loan fraud. Settlements and judgments from civil cases during the first half of 1990 will produce recoveries in excess of \$200 million.

Let me reiterate that the purpose of the cleanup effort is not to bail out financially unsound S&Ls or S&L executives responsible for the crisis. The sole purpose is to protect the savings of those Americans who have insured deposits in savings and loan institutions. The U.S. Government made a promise to insure those deposits, and the Government is now living up to that promise.

We hope this is useful in tracing the causes of the thrift crisis and describing the considerable progress made under FIRREA to address the problem and prevent its recurrence.

Sincerely,

A handwritten signature in dark ink, appearing to read "John Robson". The signature is fluid and cursive, with the first name "John" and last name "Robson" clearly distinguishable. Below the signature, the name "John E. Robson" is printed in a standard serif font.

John E. Robson



OFFICE OF THE VICE PRESIDENT
WASHINGTON

July 31, 1990

NOTE TO THE VICE PRESIDENT

FROM: BILL KRISTOL *WK*

Here's a good, brief editorial on S and L's from National Review that summarizes the issue quite well, concluding with the observation that "Deregulation didn't do it. The Democrats did."

cc: Ed Rogers ✓
Ed Rollins
Charles Black
Mary Matalin

linguistic restrictions have been outlined. Really, it's not at all surprising: the only thing not protected by the First Amendment these days is speech.

■ "The market is not an invention of capitalism. It has existed for centuries. It is an invention of civilization." Thus spoke Mikhail Gorbachev, at a live, televised news conference, arguing that the creation of a market economy was "essential" to the Soviet Union. We hope this advice reaches such uncivilized backwaters as Washington, D.C.

■ In case you were wondering, 2 Live Crew's *As Nasty as They Wanna Be* uses the F word 226 times, or once every 21.4 seconds; rhymes-with-rich 163 times, once every 300 seconds; and assorted references to genitalia 117 times, once every 42.8 seconds. All told there are 6.2 obscenities per minute, or one every 9.67 seconds.

■ The wonder is that 2 Live Crew was overlooked for a grant from the NEA.

■ Fred Leuchter, the nation's leading engineer of capital-punishment devices, is on a crusade to create systems that will spare those who are executed unnecessary suffering. His innovations include a sleeve that fits around the hangman's noose so as to prevent rope burn. He's working on a similar device for taxpayers.

S&L for Scandal

THE NON-AGGRESSION pact is history. The Democrats and their allies in the media have invaded the formerly nonpartisan S&L turf with their patented brand of bombast. George Bush is now the "S&L President." This is his "Waterloo," if not his Watergate. And the strategy seems to be working: the latest poll shows twice as many Americans blaming the Republicans as blaming the Democrats.

The Republicans are indeed responsible, but not in the way the Democrats would have us believe. Ronald Reagan's landslide victory in 1980 convinced Democratic politicians that they needed vast sums of money to counter the conservative tide. The S&L industry, already in financial trouble, was only too eager to help. Within a few years S&L PACs were established to funnel millions of dollars to key members of Congress. The former House Banking Committee chairman, Fernand St Germain (D., R.I.), made out particularly well. He, Jim Wright, Tony Coelho, and the Keating Five (four Democrats, one Republican) fell over each other to do favors for their new banker friends.

Financial deregulation was, and is, a good idea. A Republican idea. By allowing banks to offer market interest rates the Republicans put an end to the recurring credit crunches that stymied economic growth during the Seventies. Without this freedom the thrift industry would have died of starvation. Deregulation would have been debacle-free but for two Democratic-inspired mistakes. During the last year of the Carter Administration the ceiling on deposit insurance was raised from \$40,000 to \$100,000. This created a new breed of depositor: Wall Street money brokers. For a fee they were happy to place \$100,000 chunks of money in whatever thrift was offering the highest rate that day, usually the one closest to insolvency. Street-corner institutions with no experience in big-time finance doubled or tripled their deposits in months.

A market economy's success depends as much on the discipline of failure as on the rewards of success. The structure of deposit insurance made failure impossible for depositors; it subsidized failure for the S&Ls by charging them identical premiums no matter how risky their loans or incompetent their management. The hazards of doing this were well known, but the deposit-insurance increase was never debated publicly. According to eyewitnesses, four members of Congress at that time—Senator William Proxmire (D., Wis.), Senator Alan Cranston (D., Calif.), Senator Jake Garn (R., Utah), and Representative St Germain—decided on the deposit-insurance increase in a back room during a temporary adjournment. It was never debated publicly.

A few years later the S&Ls turned to Congress again. Their beef: you deregulated our liabilities (deposits) but didn't deregulate our assets. A legitimate complaint, and in 1982 the thrifts were allowed to diversify into commercial loans, office buildings, even businesses like fast-food restaurants. But the irrepressible Mr. St Germain couldn't leave well enough alone. His bill also encouraged S&Ls to lend up to 100 per cent of an asset's appraised value, even if the actual purchase price was lower. S&Ls could now lend \$2 million on a \$1-million project so long as an

Why Democrats Are Discreet

They can't, like folks on New Year's Eve,
Don party hats, hiccup, and heave
While toasting Mr. Bush's lips;
So, silently, they sample nips
In back rooms where a boozy wink
Won't lead constituents to think
They're sneaking off to have a blast
And celebrate pork barrels past.

W. H. VON DREELE

accommodating appraiser could be found. Speculators and swindlers moved in. Their motto: "Heads I win, tails FSLIC loses."

The S&L industry was technically bankrupt the day the Reagan Administration took office: 3,300 of the 3,800 then-existing S&Ls lost money in 1981. In retrospect the Reagan Administration should have closed down many of these institutions immediately. But the S&L lobby effectively blocked this option. Regulators were leaned on to issue "special certificates" and other illusory assets to sick S&Ls, enabling them to stay in business. When Reagan regulators began to blow the whistle on Capitol Hill in 1984 and 1985, they were bullied by legislators on both sides of the aisle. In 1986 and 1987 then-Treasury Secretary James Baker's \$15-billion bailout plan was sabotaged by Democrats Wright and St Germain along with their friends from the U.S. League of Savings Institutions, the largest thrift lobby. The delay added billions to the eventual cost.

Deregulation didn't do it. The Democrats did.

The U.S. and Europe: Change Partners

IT IS ONLY 13 months since the previous NATO summit in Brussels was debating whether NATO's short-range missiles, stationed in West Germany and targeted against East Germany, should be modernized to deal with the threat from the Warsaw Pact. Since then the world has been turned upside down. East and West Germany are fast becoming one country; the short-range missiles are being scrapped; the Warsaw Pact is on its death bed; and the remaining question at NATO's London summit was how best to keep a united Germany within the Alliance. Everything in NATO's "Declaration of London"—the affirmation that Moscow was no longer regarded as an enemy, the acceptance of the Soviet proposal for a non-aggression pact, the ambiguous description of nuclear weapons as "of last

resort"—was designed to make that outcome palatable to Gorbachev, to the Red Army, and to the hardliners at the Soviet Party Congress, which was meeting simultaneously in Moscow.

At the Congress, Gorbachev's foreign policy was treated with a biting contempt never before directed at a Soviet leader in any Communist Party forum. The withdrawal from Eastern Europe and the reunification of Germany were depicted as enormous defeats for Soviet power, which they are. But there was no tactical retreat by Gorbachev and his allies to a harder ideological line. Instead, three quite opposite developments occurred in quick succession. The Communist Party was weakened still further when Boris Yeltsin departed [see below, "Yeltsin: Lighting Rod or Leader?"] and when radical democrats split off to form their own new party. Gorbachev, plainly moving to establish his power as Soviet president rather than as Party secretary, ended the Party's media monopoly. And finally, in a meeting with Chancellor Kohl of West Germany, he reversed himself and accepted NATO membership for a united Germany. If that comes to pass, as now looks likely, the West will have won a diplomatic and strategic victory almost unimaginable a year ago.

Observers at that time were impressed by the Soviet leader's diplomatic maneuvering. He was thought to be advancing, through a dazzling combination of stealth and popularity, toward a neutral Europe, decoupled from the United States and overawed by Soviet military nuclear power. Even after the former satellites obtained their freedom, a lopsided European neutrality still seemed possible, with Soviet tanks just across the border and U.S. tanks across the Atlantic. When that possibility faded, the Soviets proposed a continentwide security system built around the Conference on Security and Cooperation in Europe in place of the two alliances. But the CSCE was whittled down in the NATO communiqué to a "more formal" and in effect marginal role. America and Europe remain coupled in NATO. Soviet diplomacy appears to have gained none of its objectives.

For alliances, however, moments of success are also moments of peril. Less than a week after London, the Western powers disagreed strongly at the Houston economic summit over financial assistance to the Soviet Union and the reduction of agricultural subsidies worldwide. These disagreements were eventually smoothed over by unsatisfactory compromises which left the U.S. looking isolated and reduced in influence.

What is worse, the problems were not accidents but reflected deep structural flaws in the present economic arrangement of the Atlantic Alliance. As Jeane Kirkpatrick pointed out, "the process of compromising differences within the European Community can deprive America of good friends on contro-

New York in '92

Like moths to a lightbulb, the Democrats come,
Though columnists say the selection was dumb,
Since memories fester around the Northeast
When Carter, like someone already deceased,
Assaulted the rostrum as Kennedy fled—
Himself a cadaver among the undead.
But Gotham it is, so light up and relax
As, like Lizzie Borden, Bush readies his whacks.

W. H. VON DREELE



Republican
National
Committee

OFFICE OF THE CHAIRMAN
FACSIMILE TRANSMISSION COVER SHEET

TO ED ROGERS / DAVE CARNEY / DEB AMEND

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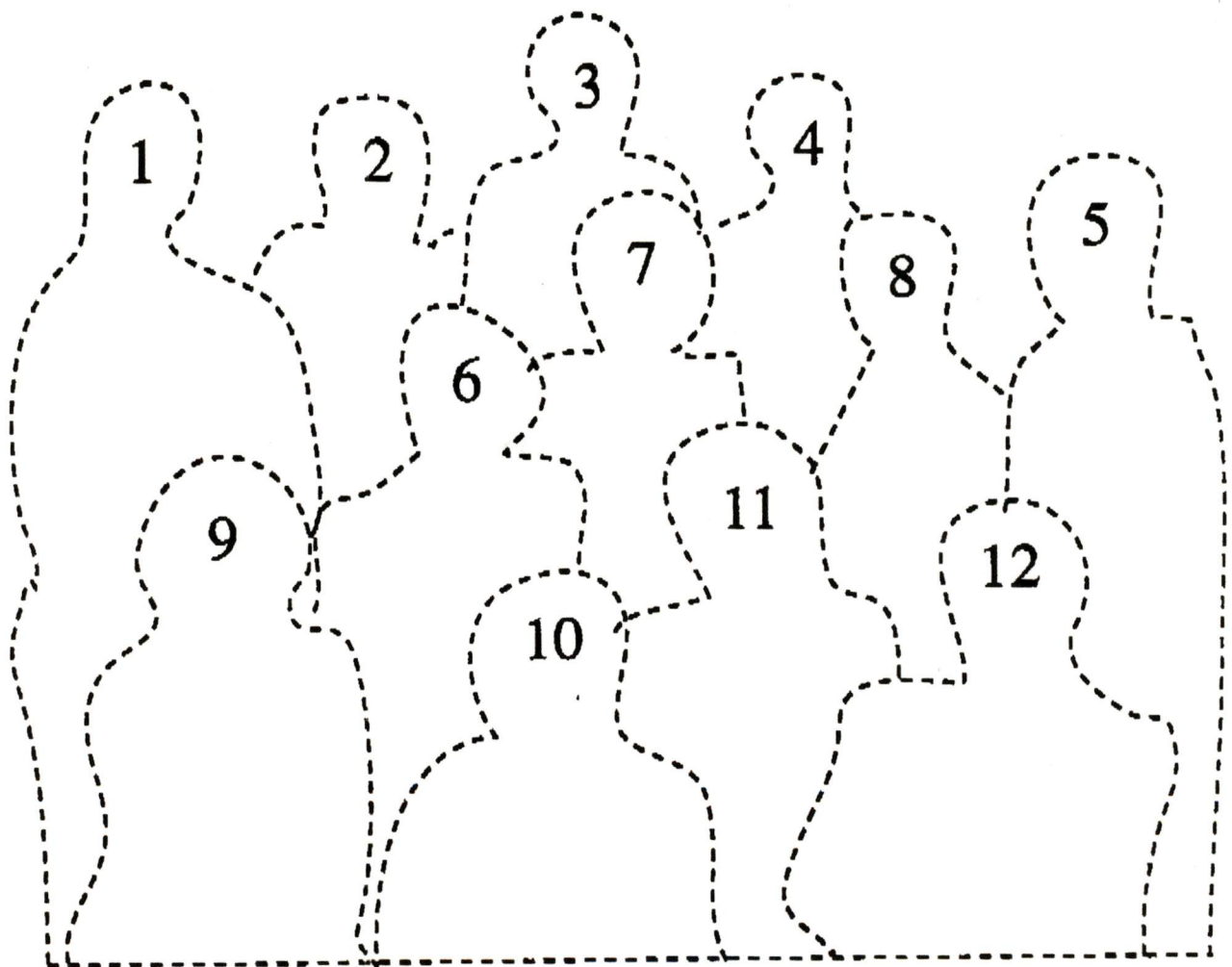
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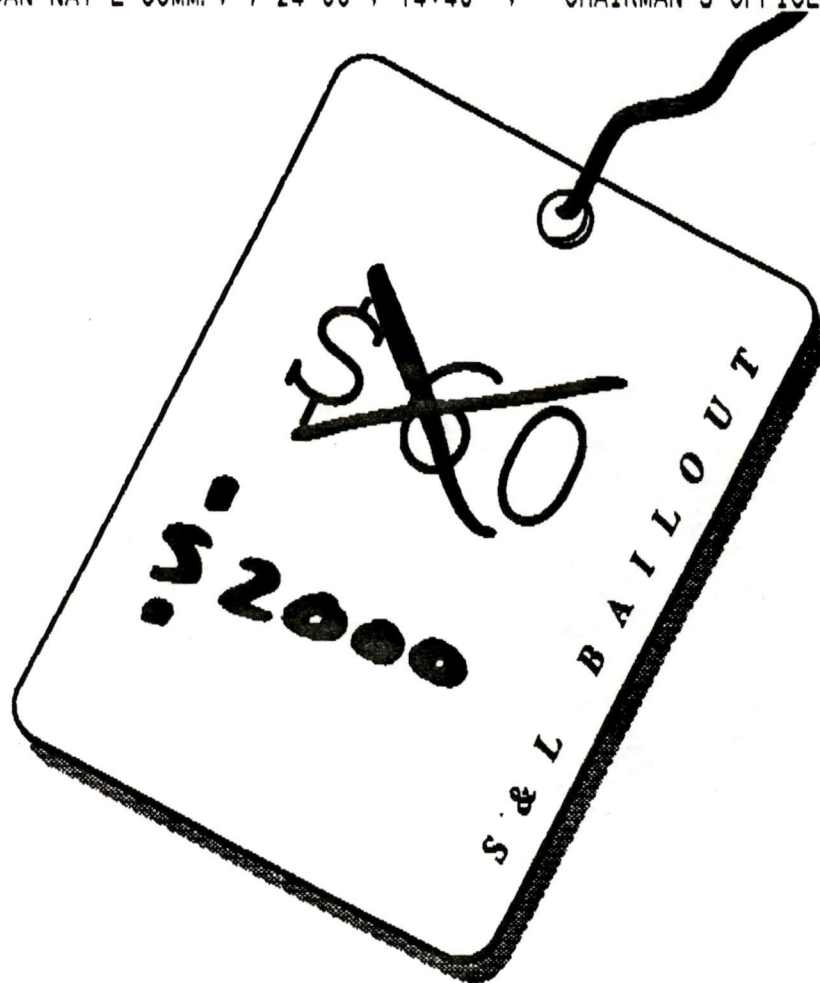
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They're the powerful Democrats who escalated
the S&L problem into a national crisis.

- 1 — Former House Speaker Jim Wright — added \$30 billion
- 2 — Former House Whip....
- 1 — ddrfsd House sdf Jim asdf — added \$20 billion
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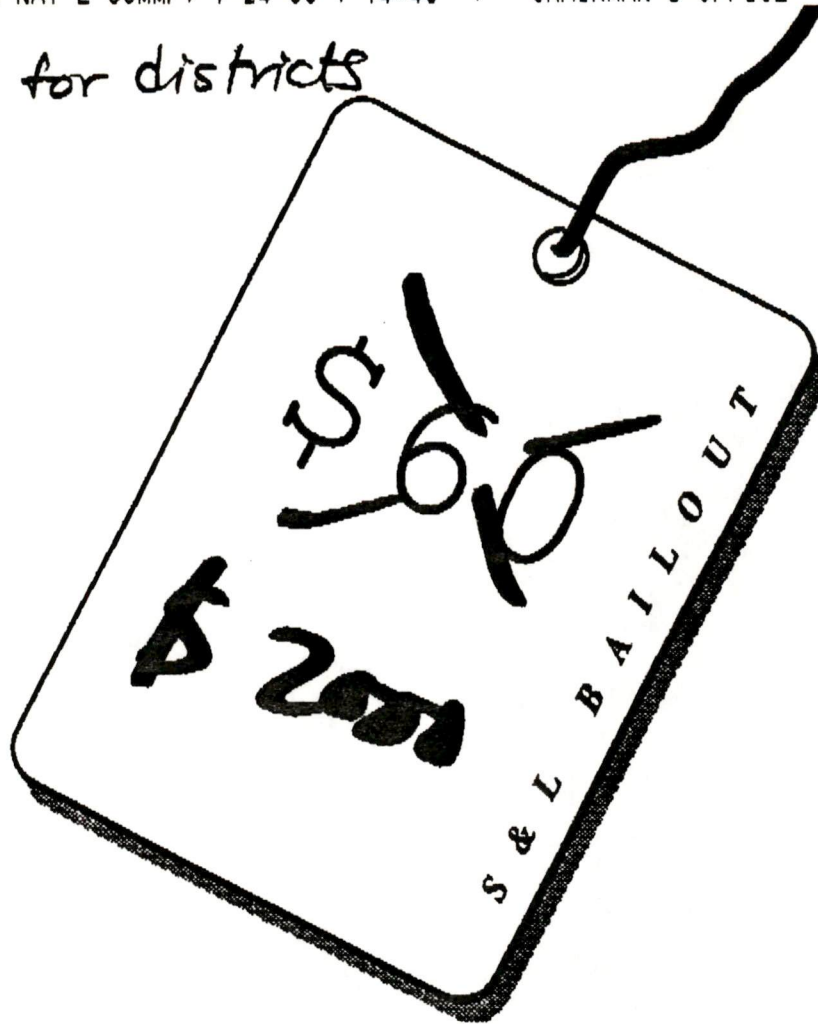
The Democrats call this a bargain.

In 1986, Republicans tried to stop the S&L problem with legislation that would have cost \$15 billion — about \$60 per taxpayer. The Democrats in Congress blocked them.

Today the estimates...

Follow-up for districts

3



Frank Annunzio calls this a bargain.

Beginning in 1986, Republicans tried to stop the S&L problem with legislation that would have cost \$15 billion — about \$60 per taxpayer. But Democrats and Frank Annunzio blocked them at every turn.

Today the estimates...



AP/Wide World

BIRTH OF A BAILOUT: Banking, politics, and the economy felt the aftereffects of the law President Bush signed last August.

Despite Flaws, Slow Start, Bailout Is Picking Up Steam

By ROBERT M. GARSSON
First of a Series

WASHINGTON — When President Bush walked into the Rose Garden on a sun-filled day last Aug. 9, the world seemed bright with promise. He was about to sign a landmark savings and loan bill that not only would make huge sums of money available for the costly cleanup, but would also bring authentic reform to an industry long accustomed to lax supervision and phony accounting.

That heady moment proved short-lived, however, as the Bush administration hit the ground crawling in the days that

followed. The first eight months of the bailout were characterized by bureaucratic infighting and little action in dealing with the hundreds of insolvent institutions that dotted the financial landscape.

Size of Problem Unanticipated

Today, as the Financial Institutions Reform, Recovery, and Enforcement Act nears its anniversary, the bailout appears to have been overtaken by cash shortages, political bickering, and a growing realization that the thrift problem was much deeper than anyone ever imagined.

Yet for all the law's apparent flaws, many observers believe that its reform elements are working exactly as intended and that the cleanup, despite its

painfully slow start, is finally on track.

"FIRREA has imposed healthy living on thrifts," said Jonathan Gray, a thrift industry analyst for Sanford C. Bernstein & Co.

In particular, he said, it has established sensible accounting, capital, and regulatory standards for the industry, and it has taken savings associations out of high-risk businesses and forced them to concentrate on home lending.

Checkered History

"The history of the industry is that it makes money on financing homes and loses money on everything else," Mr. Gray said.

Bert Ely, an Alexandria, Va.-based analyst, believes the Resolution Trust Corp., the agency created to oversee the cleanup, reached a turning point on April 12 when its oversight board approved a new plan to begin disposing of failed thrifts rapidly.

Now, said Mr. Ely, "the next two years are absolutely critical. If they maintain the pace, they can dispose of the banking segment — the deposits and good assets. They will still have a pool of bad assets, but at least they can make a start."

For the RTC to forge ahead, however, it will need a fresh infusion of cash.

Cleanup Cost Escalates

The cost of the bailout is proving higher than projected last year, and the agency will run out of money as early as the next cal-

Lawmakers sense

voters are looking

for someone

to blame.

endar quarter if it maintains its present pace. Funding for the bailout is likely to play a major role in the budget summit between the White House and Congress.

The Thrift Bailout Law



In the meantime, Mr. Ely worries that too many people are giving up on the RTC too quickly and ignoring the real progress the agency has made.

The agency's image is likely to continue to deteriorate in the next few weeks as a spate of anniversary stories appear. Mr. Ely believes most will be highly critical.

Industry Tarnished

The savings and loan industry's image has also deteriorated. Lawmakers routinely denounce "S&L kingpins" with the vehemence once reserved for drug lords or organized crime chieftains, and bankers and S&L executives alike fear that the ugly mood could lead to punishing legislation. Already, Congress is on the verge of passing a bill that would set life sentences for some types of S&L crime.

If lawmakers are in an angry mood, it is probably because they sense voters are looking for someone to blame for the burgeoning cost of the bailout.

"It comes up in every town meeting, every single forum," said Rep. Floyd Flake, D-N.Y. "It comes up more than any issue I remember, and the comments are always negative. The taxpayers are fed up with having to pay for it."

"The escalating cost just boggles the mind," added Rep. Carroll Hubbard, D-Ky.

For the 2,500 thrifts that have thus far survived the bailout, life has never been more difficult.

Some industry leaders argue that the bailout law dooms the industry by limiting investment alternatives and hiking already brutal deposit insurance premiums. "It's hard to think of anyone east of the Mississippi, over \$3 billion in assets, that has a chance to be a survivor, unless they are owned by a commercial or industrial parent," said Patrick Forte, president of the Association of Thrift Holding Companies.

"The profitable commercial are heavy in credit cards and consumer loans," he said. "And that isn't available to thrifts anymore. It's very troubling."

The bailout law has clearly changed the way savings institutions do business, both for better and for worse, according to S&L executives.

"It has eliminated the weak competitors, and that has had a healthy effect," said Robert Adelizzi, president and chief executive officer of HomeFed Corp., San Diego. As a result, "there certainly has been a moderation of the rates we have to offer" to pull in deposits, he added.

But Mr. Adelizzi believes the ill effects of the law far outweigh the benefits, at least for the industry's survivors. In particular, he said, the bill set draconian limits on the industry's ability to invest directly in real estate development.

The bill requires thrifts to divest real estate development activities - a business that in the past has accounted for more than a quarter of HomeFed's profits - by 1994. "And it punishes us every step of the way," said Mr. Adelizzi, noting that institutions are required to take charges against capital each year it takes to exist the business.

And the timing could hardly be worse, coming as it has on the heels of a softening real estate market. "It's just very hard to get out of that business in this real estate market," said David Sullivan, president and chief executive office of Mechanics and Farmers Savings Bank, Bridgeport, Conn.

But it is the cleanup, estimated to cost \$125 billion in present value terms, that has generated the most heated controversy.

Results Slow in Coming

The size of the problem is proving larger than anticipated, and the solutions that once seemed so simple - letting the Federal Deposit Insurance Corp. dispose of the mountain of bad assets with relentless efficiency it applied to insolvent banks - has not yet worked.

Despite the flurry of activity at the RTC since April, Atlanta lawyer John Aldridge worries that "very little has been done to deal with the tumor - the defaulted commercial loans."

Most of the agency's deals so far have involved the sale of a deposit base plus good assets - one- to four-family mortgages, for example, that are current on their payment. But it is the bad assets, repossessed real estate and nonperforming commercial real estate loans, that the RTC was created to deal with.

What the RTC needs now, Mr. Aldridge said, is a victory, a big victory that would show the world it can dispose of assets in blocks of \$250 million to \$500 million at a clip.

"But even if they hit a home run, if they knocked one out of the park and were able to do 10 deals of \$500 million each, what about the next \$395 billion of assets? People just don't realize the magnitude of the problem."

RTC Adds to Problems

While the RTC's problems have been compounded by the softening real estate markets in once strong regional economies such as that of New England, it appears that the thrift law and the RTC itself have exacerbated the problems in commercial real estate.

"It's certainly had an impact on the market," said Joseph E. Robert, president of J.E. Robert Cos.. "When you are driving along at 65 miles an hour and you break suddenly with people behind you, there are going to be accidents."

Mr. Robert said that the bailout law is not the cause of the downturn in the real estate markets, but that it has deepened the problem. Tough new capital rules, for example, have forced thrifts to slim down. "A vast amount of real estate has been put on the market all at once, and that has had a depressing effect" on values, he said.

The RTC has also been hurt, Mr. Aldridge said, by the reluctance of some investors to jump into what they fear will prove a "political fishbowl," in which participants are scrutinized closely through the process of partisan politics.

Many investors believe the same properties will still be available years from now, when values have fallen still further

and the RTC is feeling increased pressure to unload assets, even at bargain-basement prices.

Outside the thrift industry, the bailout law has had a considerable impact. Commercial banks, for example, have been subjected to higher deposit insurance premiums. This is one major reason that Kenneth Guenther, executive vice president of the Independent Bankers Association of America, believes the negative effects of the bill outweigh its positive attributes.

Also worrisome, he said, is the highly charged political atmosphere that is building as the cost of the bailout rises.

"This attitude of 'Don't let it happen again' is leading to a tightening of the regulatory screws," Mr. Guenther said.

But the fallout from the bailout is affecting the entire political process, said James Butera, a Washington-based lawyer and thrift lobbyist. "It has created regional tensions, class tensions, and tensions between Republicans and Democrats," he said.

Thus, lawmakers in the Northeast are angry that their constituents are paying taxes to bail out institutions in the Southwest. Rep. Joseph P. Kennedy 2d, D-Mass. has introduced a bill that would assess new taxes on the wealthy to pay for the bailout. And almost daily, lawmakers stand up on the floors of the House and Senate to point fingers at the other party for its role in bringing on the crisis.

In the end, it is on the progress of the bailout that the thrift law ultimately will be judged.

The RTC "has made a hell of a lot more progress than most of us think," said Mr. Robert of J.E. Robert Cos. Realistically, he added, the agency faces a problem that will take seven to 10 years to work out. "Look how long it took to work out the REITs," he said, referring to the real estate investment trusts that started to go bust in the 1970s. □



THE DEPUTY SECRETARY OF THE TREASURY
WASHINGTON

July 28, 1990

The Honorable John Ashcroft
Governor of Missouri
State Capitol
Jefferson City, MO 65101

Dear Governor Ashcroft:

This is in response to your request for information regarding the origin of the savings and loan crisis.

This is a question which the Administration, academicians, economists, and the Congress have been exploring for some time. The Treasury Department is pleased to share our information with you because we believe it is important that as many people as possible have a thorough understanding of the events which began long ago and led to the current crisis.

The savings and loan industry was created in the early 1930's through charters which restricted their activities to fixed-rate, long-term mortgage loans and the acceptance of short-term deposits. Without a diversified portfolio, thrifts were, from their very inception, particularly vulnerable to the "ups and downs" of the real estate market and any substantial increases in interest rates. Because the interest rates these savings and loan institutions charged were primarily locked into long-term residential mortgage loans, significant increases in market rates meant thrift institutions would likely be paying out more in interest to depositors than they were receiving in interest payments from loans.

In 1966, Congress attempted to address the industry's particular vulnerability to increasing interest rates by creating "Regulation Q." This regulation imposed ceilings on the amount of interest that S&Ls could pay on deposits. But as market interest rates increased, depositors who had their money in low-rate S&L accounts began to take their money out of S&Ls and put their savings in other financial instruments, which were paying market interest rates (higher than S&L rates). S&Ls were then faced with massive deposit outflows, while their assets were primarily tied up in long-term, fixed-rate, low-interest mortgage loans.

In the late 1970's, inflation and interest rates soared, and eventually the prime interest rate skyrocketed as high as 21 percent. The combination of high inflation and high interest rates, along with Regulation Q, put extreme financial pressure on the thrift industry. During the period 1978-80, thrifts suffered significant declines in deposits, and their capital positions deteriorated to the point where a substantial part of the industry was bankrupt on a mark-to-market basis.

In 1979, President Carter formed a special Task Force to study the problem. The Task Force recommended deregulation. In 1980, President Carter proposed, and the Congress passed, the Depository Institutions Deregulation and Monetary Control Act (DIDMCA). The principal features of that Act included:

- Providing for the phased elimination of Regulation Q, allowing thrifts to attract more deposits with higher interest rates.
- Increasing deposit insurance from \$40,000 to \$100,000 per account.
- Expanding the ability of federally-chartered thrifts to engage in commercial lending, including commercial real estate loans.
- Lowering capital requirements for thrift institutions.

The huge increase in deposit insurance coverage -- a leap of 150 percent -- increased the U.S. Government's liability should an institution fail.

In another significant decision in 1981, the Federal Home Loan Bank Board (FHLBB), an independent regulatory agency, loosened restrictions on the ability of S&Ls to use brokered deposits. This provided S&Ls with new access to large pools of money formed by aggregated deposits. In 1984, the FHLBB reversed itself and proposed regulations limiting the use of brokered deposits. When the courts overturned the FHLBB regulations, Congress refused to provide the authority needed for FHLBB to proceed with the regulations.

Higher interest rates caused more thrifts to become unprofitable and seriously depleted their capital, but they were allowed to stay in business. Thrifts with low capital had a perverse incentive to make riskier investments in order to gain higher returns. Any profits from the riskier investments could be used to shore up their capital, while any losses from these same investments would be covered by the higher insurance coverage. Huge pools of money -- made available through brokered deposits and deposit insurance -- added to the motivation for thrift operators to expand their risk of loss.

However, even with interest rate deregulation, increased deposit insurance, and brokered deposits, thrifts continued to struggle because the bulk of their assets were still held in low-interest mortgage loans.

In response, Congress passed the Garn-St Germain bill in 1982. The bill allowed federally-chartered thrifts to become more like banks and further expanded authority granted in the 1980 act to make commercial loans. It also continued the 1980 practice of lessening capital requirements. Many believed these actions were necessary in order for thrifts to make higher returns on investments to offset lower returns on mortgage loans. Prior to the passage of Garn-St Germain, states began to greatly broaden the powers of state-chartered, but federally-insured, thrifts to make direct equity investments in speculative ventures, from windmill farms to precarious real estate developments.

As early as 1984, the FHLBB attempted to curb abuses by state-chartered savings associations. The FHLBB was opposed by many in Congress, and in particular by the House of Representatives. For example, in 1985, a resolution calling on the FHLBB to delay its tighter regulation of direct real estate and equity investment by state-chartered institutions was co-sponsored by over one-half of the House of Representatives. In 1987, amendments in the House Banking Committee to regulate these aggressive real estate practices of state-chartered institutions were defeated by overwhelming margins.

Now S&Ls could attract more deposits because they could pay higher interest rates on those deposits, offer higher insurance levels, and attract depositors from across the country. And thrift institutions, particularly state-chartered thrifts, could invest those deposits in highly risky ventures, particularly commercial real estate ventures. And all the time, the U.S. Government's promise to insure every depositor's savings up to \$100,000 kept looming as a larger and larger potential liability.

In 1984, then-Vice President Bush led an Administration task force on regulation of financial services. The task force recommended comprehensive reform of the regulatory system:

- Higher capital and accounting standards for S&Ls making riskier loans and elimination of phony accounting standards. (The task force report noted that low capital levels encouraged insured institutions to engage in high-risk speculative activities.)

- More effective regulation through the elimination of archaic and overlapping regulatory structures.
- Strengthened ability for the FDIC to oversee deposit insurance, and authorization for FDIC to institute risk-based insurance premiums. (The task force report noted that the current flat-rate premium system forced prudently managed institutions to subsidize high risk institutions.)

The task force recommendations were endorsed by the Reagan Administration's Cabinet Council on Economic Policy in 1985 and forwarded to the Congress.

Meanwhile, sharp declines in oil prices and weakness in the agricultural sector contributed to devastating economic declines in certain regions, particularly the southwest. Real estate values plunged. Large numbers of thrifts that had invested in commercial real estate and other ventures became insolvent, requiring deposit insurance protection from the federal insurance (FSLIC) fund. When the FSLIC insurance fund ran low, the Reagan Administration requested \$15 billion to recapitalize FSLIC in the spring of 1986.

The request encountered strong opposition on Capitol Hill. Some Members of Congress feared that providing \$15 billion in deposit insurance funding would encourage S&L regulators to close down more unsafe institutions. The savings and loan industry forcefully lobbied the Congress in opposition to this legislation, and it was killed at the end of 1986.

Finally, in 1987, Congress passed a bill which provided \$10.8 billion for recapitalization of the insolvent FSLIC -- a year and a half after the Administration requested \$15 billion. The final amount authorized was only two-thirds of the amount requested by the Administration. In addition, Congress added forbearance provisions making it harder for regulators to close down high-flying S&Ls. Specifically, those provisions permitted additional questionable accounting techniques which allowed thrifts in trouble to make their levels of capital look better than they were. They also allowed thrifts to count "goodwill" toward meeting capital requirements.

The delay in funding the FSLIC prevented regulators from closing insolvent institutions when the cost of protecting depositors would have been much less. Instead, the problem continued to grow, and so did the U.S. Government's liability to make good on its promise of insurance coverage for deposits.

In February 1989, just 18 days after taking office, President Bush proposed a comprehensive and permanent solution to the savings and loan industry crisis -- The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). Four principles have guided the Administration in developing and implementing the savings and loan cleanup effort:

- Protecting the savings of Americans who made deposits in thrift accounts, relying on the U.S. Government's promise of deposit insurance.
- Restoring safety and soundness to the thrift industry, especially through tougher capital requirements.
- Aggressively prosecuting the crooks who stole the taxpayers' money through fraud and mismanagement.
- Cleaning up the S&L mess as expeditiously and responsibly as possible.

After seven months of debate, Congress passed FIRREA, and President Bush signed the bill into law on August 9, 1989.

FIRREA provided not only the initial funds for remedying the current crisis in the industry and protecting depositors' savings, but the legislation also put into place the mechanisms needed to prevent similar occurrences in the future.

With these protections in place, as well as additional provisions proposed by the Administration to enhance the Government's ability to prosecute those guilty of financial fraud and mismanagement, we believe we have the basic framework necessary to clean up the savings and loan crisis in an expeditious and responsible manner.

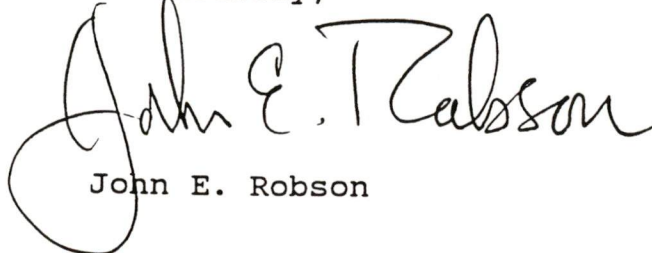
In the year since FIRREA was enacted, the government has paid out \$62.5 billion in deposit insurance obligations, representing 5.8 million accounts -- about \$10,000 per account. The RTC has seized 463 insolvent thrifts -- more than one per day; closed or sold 211 bankrupt thrifts -- one every 48 hours; and sold or liquidated more than \$65 billion of assets -- \$178 million per day. By moving expeditiously and responsibly to quarantine sick thrifts, the Administration has stemmed the losses and given the healthy segment of the industry an opportunity to succeed.

Since October 1988, the Justice Department has obtained more than 200 convictions for savings and loan fraud. Settlements and judgements from civil cases during the first half of 1990 will produce recoveries in excess of \$200 million.

Let me reiterate that the purpose of the cleanup effort is not to bail out financially unsound S&Ls or S&L executives responsible for the crisis. The sole purpose is to protect the savings of those Americans who have insured deposits in savings and loan institutions. The U.S. Government made a promise to insure those deposits, and the Government is now living up to that promise.

We hope this is useful in tracing the causes of the thrift crisis and describing the considerable progress made under FIRREA to address the problem and prevent its recurrence.

Sincerely,

A handwritten signature in cursive script that reads "John E. Robson". The signature is written in dark ink and is positioned above the printed name.

John E. Robson

07. 19. 90 04:22 PM *SPEAKER WRIGHT

P01

By former Speaker Jim Wright

LET'S SEEK SOLUTIONS, NOT SCAPEGOATS

The glee with which some of my fellow Democrats have seized upon the involvement of the President's son, Neil Bush, in a failed Colorado savings and loan company is symptomatic of a sickness in our political society. That malady is contagious. It has invaded both of our political parties. It is every bit as pervasive and destructive as the human weaknesses which underlie the virtual collapse of the nation's thrift industry.

The most prominent symptom of the illness is the incessant search for scapegoats -- not for causes and solutions but for villains on whom to personalize blame. A year ago I called this tendency "mindless cannibalism." We see it in the growing eagerness of party flaks to scandalize leaders in the opposition party by attacking not their philosophy but their personal character.

We see it also in the prevalence of negative campaign advertisements which pollute the airwaves and degrade the political process. Slander begets slander, and this begets public disgust. One obvious result is a marked decline in voting. The Texas gubernatorial primaries last spring drew an all-time low turnout.

Of Neil Bush's problems I know very little. From all I have read I infer that his sins if any were mainly of omission rather than commission. Gullibility rather than culpability. Inattentiveness rather than fraud. If his name were Neil Jones, there would be no public outcry. Surely no call for a special prosecutor.

Perhaps I can sympathize with Mr. Bush better than most.

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While Speaker, my name became a target for various charges in the finger-pointing frenzy involving the S&L industry. While most of those charges were either untrue or grossly exaggerated, I do hold myself to account that I -- like many others -- failed to see the scope of the looming crisis in time to head it off.

The obsession with scapegoating is worse than childish. In this case, it is dangerously distractionary. It diverts attention from the economic failures and policy misjudgments which caused the savings and loan industry's downfall.

People understandably resent the gargantuan price tag of bailing out millions of innocent depositors. Much of that cost, now estimated at \$500 billion, will have to come from the pockets of taxpayers. No wonder people are angry. But it is escapist folly to suppose that any major part of this tragic cost is due to "crooks" and political charlatans in either party. For all our human greed, Americans did not set out to steal a half trillion dollars from fellow Americans.

In truth, the causes of the monumental collapse were more economic than moral. There were plenty of human errors and mistakes of the head on all sides. Lenders and borrowers made flawed business judgments. Public officials in both political parties erred in policy judgments.

The most obvious error was the headlong rush in both Administration and Congress to deregulate an industry whose deposits are insured by the public and to cut it loose from its fundamental public purpose. The thrifts were created to perform

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a very basic and necessary service -- to make home loans available to average American families at interest rates they can afford.

In 1982 when interest rates rose to an unhealthy level and S&L's were stuck with a lot of old mortgages paying traditional rates, both White House and Congress took the easy way out. At the enthusiastic urging of President Reagan, and by vote of big majorities in both parties, Congress deregulated the thrifts. The new law openly encouraged them to abandon their historic mission to family homeowners and look instead for speculative borrowers who would pay them higher rates of interest.

The result should have been predictable. Spurred by forty years of steadily rising land values, speculators borrowed and thrifts scrambled to loan at high interest rates on every sort of land and real estate venture -- office buildings, shopping centers, apartment high rises, commercial subdivision. Then came the fall.

My state, Texas, was the first to feel the pinch. For the first time in fifty years, land prices dropped. Office buildings stood vacant. Rentals fell. Entrepreneurs who put the deals together could not meet their payments. Bankruptcies rose to the highest level since the Great Depression. Lending institutions held paper based on old, inflated values. Foreclosures would no longer pay off the debts. Most of this was not the result of fraud but of greed and over-reaching by businessmen and bad judgment by public officialdom. We should not have deregulated the thrifts.

Another major factor was the skyrocketing increase in home foreclosures which began in the mid 1980s. An epidemic in

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foreclosed homes was precipitated by the adjustable rate mortgage and its pernicious handmaiden, negative amortization. The Home Loan Bank Board should never have authorized that. Congress should never have permitted it! For sitting by and letting this happen, people in both parties are guilty.

A lot of naive borrowers, particularly young families, were lured into the quicksands of insolvency by deals with low down payments and graduating rates of interest. Disillusioned purchasers discovered to their dismay after a couple of years that they owed more than when they started. Their monthly payments meanwhile had escalated far beyond their ability to pay. Left no alternative, they walked away from their obligations in great numbers, leaving the once-eager lenders holding their abandoned properties.

There was some outright fraud, to be sure. The guilty must pay the price of their misdeeds. But most of the loss was not due to theft or fraud or criminal activity, and it is a great disservice to the public to pretend that it was.

Most of the bailout cost for which the public will have to cough up money is the result of bad policy judgments. The taxpayers will be served not by a strident political finger-pointing contest but by a rectification of those policy errors.

Government can start by putting a premium on solvency and setting the example. It should show the courage to raise taxes and pay as we go.

With a balanced budget, government can and should insist on

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steadily declining rates of interest. The goal must be to make it possible for people to get out of debt.

The thrift industry should return to the historic role in which it and the taxpayers suffered no losses for 50 years -- helping America's families to own homes.

And surely we must put brakes on the mania to deregulate. If government is to guarantee deposits, it owes it to the citizens to make sure that publicly-insured institutions are serving the public weal.

7/16/90

A Colorado Senate Candidate Turns Neil Bush's Trouble to Political Gold

By MARTIN TOLCHIN

Special to The New York Times

DENVER, July 17 — Neil Bush's entanglement in the nation's savings and loan scandal not only is a staple of local news reports here but also has become a focus of Colorado politics in this election year.

Both developments surrounding the President's 35-year-old son and his brief troubled tenure as a director of the Silverado Banking, Savings and Loan Association, which failed in late 1988, owe something to a five-member investigative team working for Carlos Lucero, a Democratic candidate for the United States Senate. Mr. Lucero has used the team's findings to keep the Bush story in the headlines and to lift his candidacy out of the long-shot category.

"For us, Silverado isn't an issue — it's the only issue," said Dan Calisher, Mr. Lucero's campaign manager. "We can't fund the Democratic agenda because of these guys. There's no money for health care, education or the elderly."

A Campaign Centerpiece

Mr. Lucero, 49, a lawyer who has represented farmers and farm workers in lawsuits against large corporations, has made news conferences about Mr. Bush and Silverado the centerpiece of his campaign for the seat being vacated by Senator William L. Armstrong, a conservative Republican. Political experts say Mr. Lucero, who got barely enough votes at last month's Democratic state convention to qualify for a spot on next month's primary bal-

lot, has used the Silverado issue to pull even with Josie Heath, a former Boulder County Commissioner who had been the front-runner for the Democratic nomination.

"Lucero was declared all but dead prior to last month's Democratic state convention," said Dick Wadhams, campaign manager for Representative Hank Brown, the Republican nominee. "Everybody told him to get out of the race. He has revived his campaign on

'For us, Silverado isn't an issue — it's the only issue.'

the Silverado issue, and now it's a toss-up."

Ms. Heath, 52, concedes that "Silverado and health care are the two top issues wherever we go," according to Sue Casey, her campaign manager. Yet Ms. Heath has so far taken a more restrained approach on Silverado than has Mr. Lucero, a circumstance that some political experts here attribute to her desire not to embarrass numerous Democratic office holders, including Gov. Roy Romer, who, like Republi-

cans, received campaign contributions from Silverado directors, preferred-stock holders and major customers.

Indeed, the Silverado saga is spiced by the fact that there is scarcely a major politician here, Democratic or Republican, who has not received campaign contributions from someone connected with Silverado. There has even been speculation that Neil Bush was urged to move to Colorado in 1980 and was brought into Silverado as a director because its flamboyant chairman, Michael Wise, wanted to use an alliance with the President's son to strengthen his own chances in a run for the United States Senate.

Pawn, or Embodiment of Greed?

Mr. Bush has been accused by Federal regulators of failing to disclose adequately his business relationships with people who became major borrowers of Silverado. In local news accounts, he is alternately portrayed as a luckless pawn and as the embodiment of Republican greed. But there is general agreement that the Lucero campaign researchers have kept the issue on the front burner.

For example, Mr. Lucero held a news conference last week to announce that Mr. Bush had placed in his wife's name a \$550,000 home bought last August from a company belonging to Larry Mizel, a Silverado stockholder.

Mr. Lucero charged that Mr. Bush's aim was to protect his assets against a possible lawsuit by the Federal Deposit Insurance Corporation. Mr. Bush said he had merely taken his lawyer's advice to put the property in his wife's name for "estate planning purposes." Ed Graham, a member of the Lucero investigative team, countered by saying that "estate planning purposes" is just a lawyer's term for protecting your assets.

Among the other disclosures of the Lucero campaign is that Mike Norton, the United States Attorney investigating the Silverado scandal, received campaign contributions from Mr. Mizel when Mr. Norton ran for Congress in 1986. Yet another is that Mr. Bush proposed a line of credit that Silverado subsequently extended to a businessman, Ken Good, for a joint oil exploration venture with Mr. Bush.

'A Desperate Politician'

Mr. Bush's lawyer, James E. Nesland, has insisted that all of Mr. Bush's dealings at Silverado were of the highest ethical and legal standards. He describes Mr. Lucero as "a desperate politician trying to find some issue."

The investigative team that provides Mr. Lucero with his disclosures, is headed by Mr. Graham, 43, who once worked for Army intelligence at the Pentagon and is now a direct-market-



Photographs by Emmett Jordan for The New York Times

Carlos Lucero, a candidate for the United States Senate in Colorado, used Neil Bush's problems to lift his candidacy out of the long-shot category. Mr. Lucero, center, attended a meeting on Monday in Denver.

ing consultant. A major ally and tipster is his brother-in-law, Medill Barnes, 51, who published the Straight Creek Journal, an alternative weekly newspaper, now defunct, and is now a corporate consultant on banking and other industries.

The two, who rely heavily on informers and public documents, said that they are obsessed by the scandal and that it was their need for a mouthpiece, rather than political motivations, that brought them to Mr. Lucero.

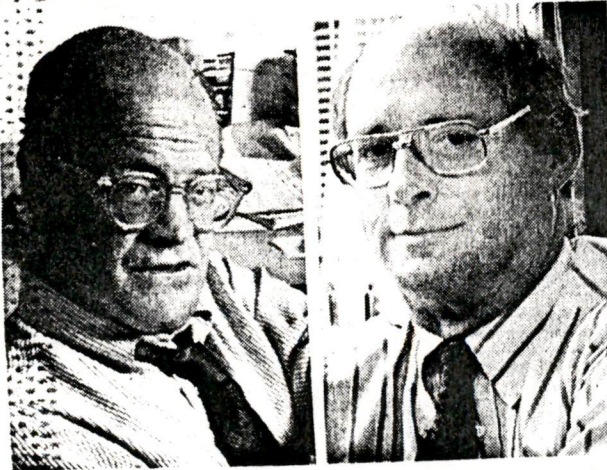
"It's an outrage," said Mr. Graham,

who is almost a permanent fixture in the public library's document section. "They can't undo what they've done, and if you look hard enough, you find it."

Last winter, the brothers-in-law looked for a Senate candidate who would focus on the Silverado issue. At that time, the front-runners were thought to be Ms. Heath and Buie Sealwell, the Democratic state chairman, who subsequently made a poor showing in the county caucuses and dropped out of the race.

Mr. Graham and Mr. Barnes selected Mr. Lucero last April because he was such a long shot. "Here was a guy in dire enough straits that he won't back off," Mr. Graham said.

Asked whether Mr. Bush himself deserved this kind of scrutiny, Mr. Barnes said, "Neil Bush is important as a symbol of privilege." It is important, he said, that the President's son not be allowed to ease through the Silverado case as a beneficiary of a "dual standard."



Ed Graham, left, and his brother-in-law, Medill Barnes, are part of an investigative team that works for Mr. Lucero, who has used the findings of the team to keep the Bush story in the headlines.

New York Times 7/18/90

PLEASE CREDIT ANY QUOTES OR EXCERPTS FROM THIS ABC NEWS TELEVISION
PROGRAM TO "ABC NEWS' THIS WEEK WITH DAVID BRINKLEY."

ABC NEWS

THIS WEEK WITH DAVID BRINKLEY

Sunday, July 15, 1990

GUESTS:

RICHARD THORNBURGH
Attorney General of the United States

DAVID COOKE
Executive Director, Resolution Trust Corporation

SENATOR HOWARD METZENBAUM (D-Ohio)
Senate Judiciary Committee

REP. JIM LEACH (D-Iowa)
Ranking Minority Member, House Banking Committee

INTERVIEWED BY:

Sam Donaldson - ABC News

George F. Will - ABC News Analyst

Cokie Roberts - ABC News

EXECUTIVE PRODUCER:

David Glodt

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MR. DONALDSON: Mr. Cooke, welcome, thanks for coming in.

MR. COOKE: Thank you, it's a pleasure to be here.

MR. DONALDSON: Here with me in the studio to join in the questioning are George Will and Cokie Roberts of ABC News. All right, Mr. Cooke, what's the latest estimate, how much is it going to cost?

MR. COOKE: Well, for the institutions that the RTC will have to take charge of, we estimate somewhere between \$90 to \$130 billion in terms of present-value dollars.

MR. DONALDSON: Present value, there's the rub, as Shakespeare would say. Now, let's make clear, the RTC--you don't decide which thrifts get shut down; once they're shut down you try to recover the assets so the taxpayers' part of the debt is reduced. So the question to you is, as you sell off assets in a slumping real estate market, how much are you getting on the dollar?

MR. COOKE: Well, it depends on what assets we're selling off. The first step, whenever we go into any one of these institutions, is we go in and appraise the assets and try to set a fair asking price. And in many cases we have to mark down the assets substantially from what they were carried on the books--30, 40 percent.

But one thing to understand is the majority of the assets are financial assets--mortgage loans and investment securities; the real junk--excuse me, the real estate that we're going to be saddled with counts for about 10 percent of the assets in the institutions.

MR. DONALDSON: That was a Freudian slip, I take it: the real junk.

MR. COOKE: That's--yes.

MR. WILL: What are the other 90 percent?

MR. COOKE: A lot of these thrifts, as you know, started out as residential mortgage makers, and so residential mortgages, one- to four-family mortgages, make up about 25, 30 percent of these thrifts. And investment securities, investment grade securities, count for another 10 percent.

If you look at what's real estate, what's commercial loans that nobody wants or that are delinquent, and what are investment securities that are very difficult to sell, you're probably talking 30, 40 percent of the assets. The rest, mortgages and stuff, that we can sell in time--and in fact we sell most of those assets when we close down the institution.

MR. WILL: You say in time. Is there a case to be made for a radical cauterizing of this wound--to sell things very quickly? And if you sell things very quickly, you flood the market and depress prices, do you not?

MR. COOKE: That's the argument--if we move too fast. I would say, though, that all property is sold--all property that we have is sold: as soon as we get title to it, as soon as we get appraisal for it, we do put it on the market to sell.

MR. WILL: You gave Sam an answer a moment ago to the question about how big is this problem we're dealing with. Let's assume, probably optimistically, that it's not going to get any bigger, that there aren't going to be any more failures.

How far along are you--10 percent, 20 percent, 30 percent--toward liquidating these assets?

MR. COOKE: Well, we have resolved 209 institutions. We've taken control of 456.

MR. WILL: These were the smaller ones.

MR. COOKE: No, there were some pretty large ones in there as well. Some pretty large institutions have been sold off-- Centrust and Gibraltar and Gill.

So I think we've made substantial progress considering the fact that we've had to organize and get procedures and people in place. So how far along we are? Probably 25 percent if you look at it in terms of assets as well that we have to unload.

MS. ROBERTS: Is George's assumption right? Will there not be more failures before this day is done?

MR. COOKE: Unfortunately--well, we know this much. We've taken control of, like I said, 450. We know that there are a total of 700 and some with \$400 billion worth of assets.

MS. ROBERTS: So what's going to happen to all this stuff? You're talking about real estate all over the Southwest. You're talking about--I mean what are you going to do with it? Are you going to board up these buildings and say: too bad, Houston?

MR. COOKE: No, we're going to sell it. We're going to put it on the market, get it appraised and try to sell it in an orderly fashion. And we're not going to sell it at fire sale prices and take it at any price.

So we have to be conscious of the real estate markets we're dealing in. But we're moving forward to sell those assets. And they're selling.

MR. DONALDSON: Well, you sell the franchises also. Now, in the news, of course, the big case of James Fail, who bought 15 Texas S&Ls--before your time, I recognize that--for \$1,000 of his own money, and a lot of government money to back up.

Are any of those deals still being made?

MR. COOKE: No, not at all. In fact, all the deals--we'll put up any of our 207 deals to the test of time. They're all competitive deals--I don't even want to say "deals." They're competitive transactions.

MR. DONALDSON: Well, if I want to buy a failed S&L, what do I have to prove, what do I have to come up with?

MR. COOKE: Well, the first thing you got to do is you got to pass the eligibility requirements

imposed by the regulatory agency. So if you want to buy and set it up as a thrift, you got to make sure that the Office of Thrift Supervision, the FDIC, say that you're okay as an individual.

MR. WILL: Could Mr. Fail pass those eligibility requirements today?

MR. COOKE: I don't know.

MR. WILL: You hesitate.

MR. COOKE: I just don't know. The evaluation would have to be made.

MS. ROBERTS: Mr. Cooke, on another matter, one of the things we're hearing on the Hill is a lot of calling for prosecution of the president's son, Neil Bush. And one of the things that we're hearing is from those who are saying, well, it's too fast to go, is that the regulators have not sent over information about Neil Bush.

Do you plan to do that?

MR. COOKE: Well, again, Silverado, the Silverado failure was pre-RTC. So RTC's not involved with the Silverado case. But I would tell you to go in and investigate--every institution we go into we send in a team of investigators to see if there's any basis for a suit against the officers, directors, accountants, what have you. And if we see anything that looks shakey we'll refer it over to Justice for a criminal referral.

That process is a time-consuming process in and of itself. And the decision on whether or not you will go forward and actually initiate a lawsuit against the officers or directors--it's a deliberate process; it has to be--because we try to assess on our side whether it's cost-effective, and so does the FDIC.

MS. ROBERTS: So that when you say cost-effective, does that mean some of the crooks are getting away?

MR. COOKE: Not the crooks. In all cases we'll refer the criminal--we'll make criminal referrals to the Justice Department. Our decision is whether or not we will sue for civil damages and that decision will be based on what we're likely to recover and what our chances are of success in that litigation.

But in all cases criminal referrals--and we will work with the Justice Department in pursuing any criminal claims it wants to make.

MR. WILL: Just to let you end on a bleak note, how big can this get? Assume we have a recession, a turndown. Are there a number of marginal S&Ls that might easily wind up in your lap?

MR. COOKE: There's another couple hundred institutions that, you know, and another couple hundred billion dollars in institutions that, if the economy took a downturn, that are okay, should not need federal assistance, but they're marginal.

MR. WILL: \$130 billion you mentioned a little while ago, that's not the real cost, is it? The

real cost in terms of the cost of the money involved is closer to \$400 or \$500 billion now?

MR. COOKE: Again, we look at it and say what are we likely to--how much money will we have to put out, and what is the value of any money we're likely to get back when we get it back. And that's where we come up with \$130 billion.

It's sort of like when you buy a house. You know, you spend \$100,000 for a house, but if you add up the interest payments that you've made over the life of the mortgage--

MR. WILL: What does it come to in this case?

MR. COOKE: Well, it may be three times that, if you add in all the interest paid over the life.

MR. DONALDSON: Okay, thank you very much, Mr. Cooke. I think on that note, we better stop before you get up to 750.

MR. COOKE: That's fine.

MR. DONALDSON: Coming next, congressional reaction to the S&L mess with Senator Howard Metzenbaum, Democrat, an outspoken critic of how the clean-up has been handled, and a member of the Senate committee which will oversee prosecution. And Representative Jim Leach, Republican, of the House Banking Committee. And, shortly, U.S. Attorney General Richard Thornburgh. In a moment.

(Announcements)

MR. DONALDSON: Senator Metzenbaum, Representative Leach, good to see you.

REP. LEACH: Nice to be here with you.

SENATOR METZENBAUM: Yes, sir.

MR. DONALDSON: Well, you know, the latest--I guess the latest conventional wisdom in Washington is that there's plenty of blame to go around; both parties share in it.

But will the voters really see it that way? Somebody's going to get re-elected and somebody's not. Are they going to be Republicans or Democrats? Senator Metzenbaum.

SENATOR METZENBAUM: I don't know where the blame is going to be assessed. It certainly was--much of what occurred was on President Reagan's watch. It was in a period of deregulation: let the savings and loans do what they want to do.

But at the same time it was a Democratic Congress that was in office passing the legislation that was passed, or failing to pass some of the others that maybe should have been passed.

So I would guess that you and I can't sit here at this moment and decide where the blame is going to be placed. I think our responsibility: get to the bottom, find out the facts, let the people know what's going on, then let them make their own decisions.

MR. DONALDSON: Well, that's an even-handed approach. I hope I didn't give you the idea. Mr. Leach, do you take the same live-and-let-live view?

REP. LEACH: Well, I think there is a disproportionality of responsibility, but a shared one. That is, from the executive branch's perspective, some of the Reagan people should be tarred and feathered. From the legislative branch's perspective, it's a little more Democratic than Republican, but it's both parties.

But I would simply say this is the largest gaffe of public judgement in this century in the economic arena. It's an economic Vietnam.

MR. DONALDSON: You used the word "public" I know in another sense. But it wasn't the public that made the mistake. I mean somebody did it.

REP. LEACH: If you really look at it carefully, loose laws led to the loose regulation, which then led to the loose banking practices. It was congressional kind of law that put the cookie jar out there, and that really caused the invitation to the high flyers to reach in, and frankly then some of the crumbs were then spread back into the political process.

MR. WILL: Senator Metzenbaum, let's continue with recrimination time here. Democrats have more seats in Congress than Republicans, and one of the culprits here, is it often said, is the U.S. League of Savings Institutions, a tremendous money-giving lobby.

Do you think there's a lesson from this about the power of lobbies, the whole issue of public financing? I mean, does this go back to the undue influence of a lobby?

SENATOR METZENBAUM: Absolutely. I don't think there's much question that the lobbies and the political action committees do indeed have too much impact on the conduct of the Congress, Democrats and Republicans as well. And I don't think it bodes well for the political system.

The question is, what do you do about it? And if you eliminate all PACs, does that mean all working people cannot participate because all they give is \$5 or \$10 because they happen to be in a labor union PAC?

On the other hand, some PACs of the big savings and loans, the insurance companies, the banks, they're the heavy hitters, but--it's a problem.

MR. WILL: Well, let me ask you point-blank. Had there been no heavy giving by savings and loan representatives, would this not have happened, or would it have been much smaller?

SENATOR METZENBAUM: I think it would have happened anyhow. I don't think you can make that direct tie. I think it perhaps accelerated and pushed the process forward.

But I don't think you can just say if you didn't have the political action committees you wouldn't have had the scandal and the problems. What you had here is a failure on the part of the regulators to do their job. The regulators were boys--the area that I've investigated has to do with the deals that were made at the end of December 1988 when the law was changing. And they were just fighting, fighting, fighting, to get these deals out the door before the law was to change. They thought it was going to end on December 31st, '88; it actually didn't.

But, as a consequence, you had people, maybe of good intentions, maybe some of not such good intentions, sitting across the sharpest lawyers, the sharpest accountants, the sharpest businessmen in the country, and they gave away the store.

We know one instance where they figured the value of real estate in Texas, thousands of acres of real estate with a zero value. Impossible.

We know of another instance where they made a mistake of a billion dollars. Unbelievable. And yet that's what occurred in making these deals.

MR. WILL: Mr. Leach, you're a Republican, Republicans have been in power in this town in the executive branch, the tone-setting branch of government for a decade now.

Do you think it's fair, as some people are going to say, that a style of governance is being discredited here, and the ethos of a decade is being discredited here, something about the high flying, anti-government, government-is-the-enemy kind of spirit that infected the regulatory process that brought this on?

REP. LEACH: Well, I think there was a misperception of the need for regulation in the financial community versus other parts of the American fabric. And I think the ethos, agreed, did characterize the '80s.

On the other hand, if you look at what propelled that ethos, it's hard to say it didn't begin in Congress. I mean, it's hard to say that alleged defenders of the little guy in American politics didn't transform an industry designed to serve the little guy into an industry that became a private piggy bank for the high flyers of American public life.

I think Ronald Reagan will be criticized for this in any historical long-term or short-term perspective. But this symbolizes a sickness in Congress, bending to the small interest group instead of recognizing the public concern.

MS. ROBERTS: But isn't there a fundamental problem here of deregulating an insured industry? I mean, wouldn't any businessman or woman in this country love to be in that position where they can make any investments they want to make and then it's insured by the federal government?

REP. LEACH: I fully agree with you. And Senator Metzenbaum is of course right, his Fail example, that is the gentleman named Fail; he has a 2-million-to-1 leveraging situation, invested \$1,000, got a \$1.85 billion federal commitment--rather extraordinary.

But what we had in the S&L industry was a heads the investor won, tails the public lost. They could make high flying investment with publicly insured deposits without adequate supervision.

Now there is a distinction between regulation and supervision. Regulation can imply what are the rules that apply, supervision whether or not those rules are followed through with.

In the S&L industry we had almost no supervision at the state level or at the federal level, state level and the growth states. And the only other thing I would stress here is that there is a distinction in regions of the country--the Midwest, Northeast, have traditional regulation, or at least supervision. The growth states did not.

MS. ROBERTS: But now what's happening is those very states that neither one of you is from are now getting the bulk of the money from the bailout.

SENATOR METZENBAUM: Moving billions of dollars from the East and the Midwest into the Southwest, and I mean billions of dollars.

But, Cokie, let me add something else to this question of deregulation that hasn't been addressed, and I think is a hidden factor that the American people ought to know about.

In order for Mr. Fail to make his deal, he borrowed \$25 million from Banker's Life Insurance Company in Illinois, he borrowed \$35 million from his own company.

Frankly, the insurance regulators, who I think are decent people in the main, didn't know what was happening, probably would not have permitted it had they known that it was happening. And what concerns me in part in this whole matter is this insurance industry that is so-called regulated at the state level, but frankly the state regulators don't have the capacity or the resources in order to regulate the industry.

MR. DONALDSON: May I come back to an individual? Neil Bush, the president's son--are you convinced that he didn't do anything wrong, and are you convinced that the federal government will pursue that question with the appropriate zeal? Mr. Leach?

REP. LEACH: I think Neil may well have made a mistake. But I think we ought to stress that--

MR. DONALDSON: You mean mistakes were made, that famous phrase?

REP. LEACH: Well, beyond that. Neil was an outside director of one institution. One Democrat suggests this is a metaphor of the times--I think it's probably a little more of a footnote. The real metaphor of the times is what's happened in Congress where we as an institutional body have become increasingly susceptible to very narrow segments, both industrial as well as geographic.

MR. DONALDSON: That was the point I understand you made. What about Neil Bush, Senator Metzenbaum?

SENATOR METZENBAUM: I have made it a point to let others direct their attention to Neil Bush.

MR. DONALDSON: Why? You are one of the--you're one of the most partisan of Democrats on Capitol Hill. Why wouldn't you jump on?

SENATOR METZENBAUM: I understand. But I'm conducting an investigation of these deals that were made at the end of '88. I don't want it to be a political investigation. I don't want it to have a political overtone. If we happen to hit a Democratic lobbyist or Republican lobbyist, we're going to do it.

But I have made it clear that I'll let others address themselves to the Neil Bush matter.

MR. DONALDSON: Okay, we have one coming up that we'll ask that question of him. Thank you very much for joining us today.

When we come back, we will be joined by the attorney general of the United States, Richard

(Announcements)

MR. DONALDSON: Mr. Attorney General, good to see you.

ATTORNEY GENERAL RICHARD THORNBURGH: Thank you, Sam, good to be here--I think.

MR. DONALDSON: Glad you came in today. Well, let's start with Neil Bush, the president's son.

Now, members of the House Judiciary Committee, Democratic members, called on you last week to appoint an independent counsel, a special prosecutor, to look into Neil Bush.

Are you going to do that?

ATTORNEY GENERAL THORNBURGH: Well, there seems to be some confusion about the letter that we received. People are scurrying around to take their names off the letter.

MR. DONALDSON: One person.

ATTORNEY GENERAL THORNBURGH: And we're going to have to take a look at that and see what the consequences are. But let me get to the real issue.

We are in the law enforcement business. We deal with allegations of criminal violations, and we deal with them, I think, thoroughly and in a fair and effective way.

I'm not aware of any evidence or any allegation from a credible source that Neil Bush has participated in any criminal activity. There have been a raft of allegations with regard to civil liabilities. There have been reports that have been leaked with regard to administrative or regulatory action.

So that's the context within which we have to look at our responsibilities. Let me assure you, however, that in this case, as in any other, if there are credible allegations of criminal conduct, we'll pursue them.

MR. DONALDSON: Mr. Attorney General, you know the history of this town. You've been around a long time. You've served in previous administrations that have had a problem with this. And do you think the American public will accept the fact that the Justice Department of President Bush can fairly make that statement about the son of President Bush? Wouldn't it be fairer to the Bushes to say, all right, we're going to turn this over to someone who the public will trust from the standpoint of a final report?

ATTORNEY GENERAL THORNBURGH: I don't think it would be fair to anyone, any citizen in the United States, to appoint an independent counsel or special prosecutor where there are no allegations of criminal misconduct.

And you have to look at two things here. One, is there any allegation of criminal wrongdoing, and, secondly, is there a conflict of interest? We will address both those questions at the proper time.

MR. WILL: I'm evidently even more slow-witted than usual this morning. Suppose there were

criminal allegations against Neil Bush. What has that to do with an independent counsel? Is there any precedent for an independent counsel appointed for a private citizen? I thought that was to do with the misdeeds of government officials.

ATTORNEY GENERAL THORNBURGH: There is, in the statute, a mandatory obligation to seek the appointment of an independent counsel with respect to an enumerated list of individuals. That does not include family members of those individuals.

But there is a discretionary power on the part of the attorney general to seek the appointment of an independent counsel where, with respect to the individual involved, there is a personal, financial, or political conflict of interest.

MS. ROBERTS: Well, you say it just drops here then, if you don't have any criminal allegations, and you just leave the whole case alone?

ATTORNEY GENERAL THORNBURGH: Well, we are in the business of investigating criminal allegations.

MS. ROBERTS: So are you investigating the case?

ATTORNEY GENERAL THORNBURGH: Well, there have been no allegations of criminal misconduct made to my knowledge.

MS. ROBERTS: So the Neil Bush case is dead as far as the Justice Department is concerned?

ATTORNEY GENERAL THORNBURGH: Not at all. As I said, if allegations of criminal misconduct arise and they're referred to us, we'll handle them.

MS. ROBERTS: Where would they come from? We just heard the regulator, Mr. Cooke, say this all happened before his time. So he's not going to be referring it to you. Where would it come from?

ATTORNEY GENERAL THORNBURGH: Well, it could come from any number of investigations that are involved in our ongoing activity. We have some 1,200 criminal referrals that we're looking at very closely now. We've been very actively indicting, convicting and jailing those who are involved in this kind of fraud. That's our principal priority.

MR. DONALDSON: Maybe it would help--it would certainly help me--if you explain the law on one point.

As I understand it, there are allegations that Neil Bush may not have made the proper disclosures of his connections as a director of Silverado.

Are you saying that if those allegations were true, they would not be a criminal matter?

ATTORNEY GENERAL THORNBURGH: Those matters relate to his civil liability, or his failure to comply with regulatory requirements.

MR. DONALDSON: And the failure to comply with a regulatory disclosure is not in any way

a criminal matter, is that what you're saying?

ATTORNEY GENERAL THORNBURGH: I'm saying that nothing has been brought to our attention that indicates any credible--

MR. DONALDSON: Well, could you just answer that particular question?

ATTORNEY GENERAL THORNBURGH: Sam, these are involved, complicated cases.

MR. DONALDSON: I know.

ATTORNEY GENERAL THORNBURGH: And I'm not going to give you a curbstone opinion on something as important as this. What I'm telling you is that at the present time we are not aware of any allegations or criminal misconduct.

And that would occasion our investigation of anyone as a triggering act. We don't just investigate people, and we would be roundly criticized if we were to do so on general grounds of misconduct. Criminal misconduct is what the Department of Justice or an independent counsel have the responsibility to pursue.

MR. WILL: You say you're investigating 1,200 criminal referrals. There have been, I think, 21,000 criminal referrals to your department.

ATTORNEY GENERAL THORNBURGH: Well, let me deal with that 21,000 figure right up front, because the gross distortion of these statistics has finally focused people's attention on what we in the Department of Justice have been doing.

That 21,000 figure, which is noised about by our critics, has to do with every garden variety kind of bank fraud and embezzlement that exists down to the bank teller who slips five bucks out of the cash till into his or her pocket at the end of the day.

We've identified as a priority a hundred major cases. We have prosecuted, in a little less than two years, 329 persons, convicted 213, many of those are going to jail. There is not a major fraud case in the United States that isn't under active investigation by the FBI at this point.

MR. WILL: When the president holds essentially a political rally saying no stone will be unturned and we're going to look under all the rocks to find the crooks, isn't he suggesting, falsely, that criminality is at the heart of this problem? I mean Americans may think that under capitalism stupidity ought to be a crime. But isn't stupidity the explanation for a lot of what happened?

ATTORNEY GENERAL THORNBURGH: I think that's a good point, George. And I think you can look at the great mass of these failures, and I would estimate that at most a third of them involve criminal conduct. A third of them may involve some wrongdoing that we simply don't have evidence or can't prove. And a third of them are just sheer stupidity. And in that case, it is not a criminal offense and is not any business of ours to investigate.

MS. ROBERTS: George talks about the president holding basically a campaign rally at the Justice Department. You have been in other administrations, you've been a governor, you are a

Republican. We've just had these two lovey-dovey members of Congress unwilling to be partisan on this issue.

Isn't this likely to be a problem for the Republican Party just because--and clearly they were concerned about it this week, we've just seen the Republican National Committee have a meeting where Ed Rollins was blaming the Democrats for this, trying to go on the offensive, seeming to feel like the blame was on him. Polls are showing that.

Isn't there a perception here anyway that the Republican Party is the party of the rich, and that there are a lot of rich, fat cats getting away with murder on the S&L scandal, and isn't that the problem that you have at the Justice Department in terms of having to investigate these people?

ATTORNEY GENERAL THORNBURGH: Cokie, we're not in the political business. We're in the law enforcement business. And the notion that fat cats are getting off without having to pay their share of the price would be news indeed to the 213 people who were convicted within less than the last two years.

Our number one priority is to put the crooks in jail and recover as much of the money that they've stolen as we can. And we're devoting, thankfully, after the Congress finally got around to giving us the necessary resources--we're devoting about double the resources we are now as when the Bush administration started.

MR. DONALDSON: Let me ask you about William Seidman, who at the moment is still in charge of the clean-up. But he has said this morning, I understand, that he's not going to serve out his full term, because he says there are people in the administration who want me out.

Are you one of them?

ATTORNEY GENERAL THORNBURGH: I have no position on William Seidman's status. He's accountable to the president. We're in the prosecution business, Sam. We don't get involved in the Resolution Trust business, we don't get involved in the clean-up operation. Our job is to put crooks in jail. And I suggest that our U.S. attorneys are doing a darn good job in that respect.

MR. WILL: Let me switch the focus of this just a moment.

A charge was made this week by Benjamin Hooks at the NAACP convention that you may be in the prosecution business, but you're disproportionately interested in and in effect are harassing with prosecution black public officials, Barry and others.

Would you care to respond?

ATTORNEY GENERAL THORNBURGH: I do. It is absolute nonsense. I have told Dr. Hooks that personally and publicly. And I defy anyone to show that the Department of Justice uses any criterion other than legally admissible evidence of wrongdoing to pursue those persons who we investigate and prosecute.

I would be the first one to be disturbed if I were to find any investigator or prosecutor within the Department of Justice using racial grounds for pursuing an investigation or prosecution.

On the other hand, I will say this: no one acquires immunity from prosecution because of their race or religion, or political party.

One thing about the law--the criminal law is neutral. If there's evidence, we'll pursue it.

MR. DONALDSON: Well, you okayed the sting operation against Mayor Barry at the Vista

Hotel. Have you okayed similar sting operations against other mayors?

ATTORNEY GENERAL THORNBURGH: We have a procedure within the Department of Justice whereby those are carefully reviewed by career prosecutors.

MR. DONALDSON: But you okayed it?

ATTORNEY GENERAL THORNBURGH: I didn't okay it personally, no.

MR. DONALDSON: You didn't? Let me just check on that. The prosecutor did it without your okay?

ATTORNEY GENERAL THORNBURGH: He went through the standards we've set up. We have a committee of professional career prosecutors who review these operations. They don't come to the attorney general in every case.

MR. WILL: Do you have a statistical basis for refuting Mr. Hooks, that is out of so many thousand prosecutions against public officials--

ATTORNEY GENERAL THORNBURGH: No, strangely enough, George, we don't keep records of people we prosecute by race, religion, or political affiliation.

MR. WILL: Well, it is strange.

ATTORNEY GENERAL THORNBURGH: And I think that's probably a good thing. Crime is color blind, crime is not a respecter of political--

MR. WILL: But the law is not color blind these days. The government keeps track of Americans on the basis of race for all kinds of things.

ATTORNEY GENERAL THORNBURGH: I understand that. And I think it would be a sorry thing where we established quotas for criminal prosecutions.

The evidence that we use does not take into account what the race or religion or political affiliation is of the prospective defendants.

MR. DONALDSON: Mr. Attorney General, thank you for joining us. I wish we had more time. Thanks for being here.

ATTORNEY GENERAL THORNBURGH: Glad to be here, thank you.

MR. DONALDSON: Come again.

STATEMENT FOR THE HONORABLE FRANK ANNUNZIO
THURSDAY, JULY 12, 1990

11.32 The collapse of Silverado Banking, Savings and Loan in Denver may well end up costing the taxpayers \$1 billion. The actions of the officers and directors of Silverado were so questionable, that the Office of Thrift Supervision (OTS) made 11 referrals to various government agencies asking for civil or criminal prosecution of the wrongdoers. Included in those referrals were five criminal referrals made to the Justice Department.

When officials of the Office of Thrift Supervision met with the Banking Committee staff several weeks ago to brief the staff on the Silverado closing, the OTS officials explained that in addition to making the five criminal referrals to Justice, these officials met with the Justice Department to explain not only how to get indictments against the Silverado crowd, but also how to obtain convictions. "We spelled it out 'ABC', we wrapped up the whole case for them" was the way one OTS official explained it.

11.33 It is almost two years since Silverado was shut down following a highly questionable delay in the closing. That should be adequate time to at least bring indictments against those responsible for the Silverado scandal. Particularly, when the Office of Thrift Supervision has handed the Justice Department indictments on a Silverado platter.

Not only has Justice not acted on Silverado, but that agency has prevented the Office of Thrift Supervision from disclosing to the Banking Committee the dates of the criminal referrals--much less the names of those involved. No one but the Justice Department knows the real reasons for the delays, but in reviewing records on Silverado, I came across some striking information that raises more questions than answers.

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12/34 On November 2, 1988, just six days before the Presidential election, Kenneth M. Good, a business partner of Neil Bush, who had defaulted on some \$32 million worth of loans to Silverado, made a \$10,000 campaign donation to the Republican National Committee (RNC). Although Mr. Good contributed to many political figures in both parties, the 1988 contribution to the Republican National Committee was his largest and final 1988 campaign contribution. I think Mr. Good and the Republican National Committee have some very important questions that need to be answered. There have been reports that Mr. Good may actually have made \$100,000 in campaign contributions to the RNC, and I am continuing to check out that information.

12/34.30 What was the purpose of Mr. Good's contribution, particularly when it came only days before the election? Could it possibly be that it was a donation of hush money?

I have already stated that Office of Thrift Supervision officials made five criminal referrals to the Justice Department concerning Silverado. Is it possible that one of those criminal referrals dealt with Mr. Good, and that the reason the information is not being made public is that the referral came at about the same time of the \$10,000 campaign contribution to the RNC? Is it also possible that officials of the RNC used their influence to block any investigation of this major campaign contributor?

When Mr. Good appeared before the Committee on Banking, Finance and Urban Affairs recently, he testified in response to questions from me that he at one time had a net worth of some \$100 million, but currently he had limited financial means.

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Here is a man who comes before the Banking Committee, and when I asked him about trying to repay some of those defaulted loans out of his net worth, takes a vow of poverty, but was able to hand over \$10,000 to the Republican National Committee.

One of the major reasons for the collapse of Silverado were the defaulted loans made to Good's partnership. Any extra cash or property owned by Mr. Good should be donated to the taxpayers to help pay for the Silverado mess, not to the Republican National Committee, which is trying to coverup the Silverado scandal.

Why hasn't the Justice Department taken any action against Silverado? And why haven't the bank regulators brought suit against Mr. Good to collect the defaulted loans? Did the campaign contribution have any bearing on those decisions?

I have today written Attorney General Thornburgh asking that his agency provide copies of the criminal referrals made by OTS to the Justice Department, to the Financial Institutions Subcommittee, which I chair. The coverup has gone on long enough.

11:37

FACT SHEET

Financial Institution Fraud Resources

In Fiscal Year 1988, the Administration proposed increases in FBI and United States Attorney resources to battle financial institution fraud and white collar crime. Congress responded by:

- o Denying enhancement of FBI resources (37 positions)
- o Cut Base Funding for U.S. Attorney despite Administration request for \$1.5 million increase for white collar crime.

In Fiscal Year 1989, Congress either denied additional resources to the FBI, United States Attorney, and Fraud Section of the Criminal Division or delayed appropriating urgently needed funds:

- o Congress denied FBI request for 60 positions, including 40 special agents.
- o Cut \$1 million from the Criminal Division, Fraud Section.
- o Refused to Approve the Administration's March 1989 Supplemental Request of \$36.8 million.
- o Supplemental Request included start-up costs for anticipated FIRREA legislation and initial salary for positions in the FBI, Fraud Section, Criminal Division and U.S. Attorneys.

In testimony as early as February 1989, Attorney General Thornburgh told the Senate Banking Committee of the urgent need of \$50 million as requested by the Administration, "to address all the serious criminality called to the attention of the Department of Justice.

- o House Appropriations process provides no funding for Financial Institutions Fraud Initiative through August 1, 1989.
- o FIRREA is passed by Congress -No Money Is Appropriated.

- o Attorney General appeals House action to Senate, urging support for the \$50 million package.
- o Not Until Mid-November 19890 has Congress appropriated the money to fund FIRREA positions

NEWSLETTER TO DEPOSITORS OF
COMMONWEALTH SAVINGS, STATE SECURITY SAVINGS
AND
AMERICAN SAVINGS

In early September, 1989, three depositors of both Commonwealth Savings, State Security Savings and American Savings made the decision to use their own financial resources to hire a group of qualified investigators to examine all available documentation which related to the failures of the three named financial institutions.

Literally thousands of documents, news articles, investigative testimony, and banking documentation was gathered by the three men and handed over to the investigators to piece together the facts prior to and following the failures of these institutions. It was the hope of the three depositors to finally bring to the front the truth surrounding the failures of the three institutions.

By early December, 1989, the three depositors were notified by the investigators that the documents had been examined and the truth regarding the failures had been found.

The depositors requested that the findings be put in the form of a report and that the report be mailed to each senator attending the 1990 Legislative Session.

On December 28, 1989, the first of three reports was mailed to each senator. The second report was mailed March 4, 1990, and the third report was mailed April 3, 1990. Each of the three reports were signed and submitted by Reuben Worster and Mr. Worster was also designated custodian of the documents which verified all statements made in the reports.

Due to time constraints and because of the high cost of reproduction, the reports were not mailed to each depositor. These reports are now available, however, upon request.

On March 29, 1990, the Nebraska Legislature voted to repay the depositors one half of the remaining principal loss.

It is our belief that as a result of the research and findings put into these reports, along with the news articles written by one

time Journal editorial writer, Jack Hart, in 1988, and the hundreds of hours of picketing which was done by many dedicated depositors, we were successful in achieving the passage of LB 272A for the partial repayment of our lost deposits.

The information found in each of the reports is inconceivable, disheartening, and maddening...and the factual information in the reports would be absolutely unbelievable if not for the knowledge that all the facts are backed up with solid documentation.

With a heavy heart we write this letter to inform you that the following facts were discovered and reported to the Nebraska Legislature;

1. That Governor Robert Kerrey and others knew many months prior to November 1, 1983, that the Commonwealth Savings was experiencing financial difficulties and that these individuals devised a plan to take over the assets of the Commonwealth.
2. That from May through August, 1983, Kerrey's banker associates, James Stuart (NBC) and William Wright (State Security Savings) secured millions of dollars in previously unsecured Copple loans knowing Kerrey would announce publicly that the Commonwealth was being monitored by the State, that there would be a run on the deposits, and the depositors would initiate lawsuits against the Copples personal property. By securing the previously unsecured Copple loans, the bankers would have all Copple property, leaving little or nothing for the depositors.
3. That on October 31, 1983, Governor Kerrey announced publicly that the Commonwealth was being monitored by the State which caused a run on the deposits and the take over of the institution by the State of Nebraska.
4. That Kerrey and others had devised a plan to control the valuable assets of the Commonwealth through the passage of LB 1117 in conjunction with a financial plan submitted to the Special Commonwealth Committee on March 16, 1984, by Kerrey appointee, Neil West, special deputy receiver for the Commonwealth.
5. That it was part of the "plan" to devalue the Commonwealth assets by fifty-two percent (52%) which allowed an approximate six to ten million

dollar loss carry forward which would ultimately benefit individuals or entities other than the depositors.

6. That LB 1117 was altered by certain senators and became useless to Kerrey's "plan".
7. That even though LB 1117 became useless to Kerrey's plan, the Commonwealth assets remained devalued and as a result, the depositors lost multi-millions of dollars as the assets were sold.
8. That on July 31, 1989, the remaining Commonwealth assets were sold in a "bulk" sale to First Nebraska Corporation along with the stock in Commonwealth Savings Company, Inc. This sale would have included the benefit of the thirty million dollar loss carry forward which rightfully belonged to the depositors.
9. That in March, 1983, Governor Kerrey, James Stuart and Bill Wright and others, devised and carried out a fraudulent plan to secure valuable property belonging to two Lincoln, Nebraska land developers, Jerry Joyce and Robert Rentfro.
10. That on March 12, 1984, Jerry Joyce and Robert Rentfro, through their attorney, Alan Plessman, delivered a video tape of the fraudulent land transaction committed by Kerrey, Stuart and Wright. In the video, demands were made by Joyce and Rentfro for a fair settlement from the named individuals or the governor and his partners would find themselves involved in an embarrassing legal entanglement which would also involve State Security Savings.
11. That on March 27, 1984, Governor Kerrey signed LB 1039 which empowered the Director for the Department of Banking and Finance to require a hearing to determine if any provision of Chapter 8 of the Nebraska Revised Statutes had been violated. LB 1039 further provided that in the event an emergency was found to exist (Shoppers Fair and State Security Savings) which required immediate action, an order could be issued to meet the needs of the emergency without serving notice 10 days prior to the hearing. In effect, the passage of LB 1039 caused State Security Savings to make an approximate Three Million (\$3,000,000.00) Dollar settlement with Joyce and Rentfro as the result of the fraudulent Shoppers Fair real estate transaction committed by Kerrey, Wright and Stuart and others.

12. That it was discovered during the investigation of State Security Savings that criminal acts had been committed by certain individuals involved in the Shoppers Fair transaction; that a letter signed by several senators requested from the Banking Department and law enforcement agencies that criminal charges be made against the individuals; and that law enforcement agencies and the Department of Banking refused to file criminal charges against the individuals involved.
13. That through the "spinning off" of assets in State Security Savings, using a certain corporation as a "dumping ground" for substandard assets (which included the loans involving Kerrey, Wright and Stuart), the State Security Savings depositors lost an additional (approximate) Six Million (\$6,000,000.00) Dollars.
14. That the Committee on Banking, charged with the duty of investigating these serious matters, did not investigate matters surrounding the failure of American Savings. Further, a "certain" depositor of American Savings who was publicly vocal regarding the loss of his deposits in that institution was silenced with the receipt of the total sum of his deposits. This payment was made to the depositor at Kerrey's request within a short time following the failure of that institution.
15. That Nebraska law enforcement agencies were acutely aware of each of the above facts and concealed these facts from the public. Further, law enforcement agencies refused to prosecute these crimes because the crimes involved public officials and prominent local figures.

These discoveries are no longer a simple case of the "depositors" fighting for their lost savings. As evidenced by the documented information in the reports, this has become a case involving serious government fraud...beyond anything we ever imagined. This fraud is far reaching and extends to all the people living in the State of Nebraska.

The bankers and political figures...the esteemed of our community, have severely insulted the intelligence of the people of this State. This kind of racketeering must not be allowed to continue into the future.

Along with having used their own funds to support the serious investigation into the three failed financial institutions, the same three depositors who ordered the private investigation which resulted in the reports, also contacted three out of state law firms to examine the findings in the reports. The results of the legal findings included among other things, serious government fraud committed against the depositors.

The three law firms have agreed to work together to file class action litigation (which would include depositors from Commonwealth, State Security Savings and American Savings) against the State of Nebraska, certain local banks and bankers, the Commonwealth Receivership and certain employees employed by the Receivership, stockholders of State Security Savings and American Savings, and certain past and present political figures, to name a few.

This letter is written in an effort to bring each of you up to date on the latest efforts being made on your behalf by a very few, but dedicated individuals. Without their determination and hard work the facts outlined in this letter might never have been discovered.

As a result of their findings, these three individuals are now even more determined to recover the full monetary loss suffered by each of the depositors, to include compounded interest at a fair market rate and damages we have all suffered as a result of this government racketeering.

There is presently an effort by a number of depositors to bring the three aforementioned law firms from out of state to Lincoln. These attorneys are willing to meet with us (at their expense) to explain in detail their opinion about our last chance effort to expose this government racketeering and recoup our monies plus interest and damages.

Included with this letter you will find a form to complete if you are interested in hearing what these attorneys have to say regarding a mass lawsuit. If you are interested in attending such a meeting, please complete the form within five (5) days and return

to the address indicated on the form.

Once we have received your response we will begin the necessary procedures to set up such a meeting and we will inform you, by mail, of the time and place. It is important to note that attending this meeting will not obligate you in any way to a law suit. This will simply be an informative meeting to help you make the decision.

A last word of hope..."We have been deceived by the State of Nebraska!...and with a united effort we will make right the many injustices we have each suffered!

Reuben Worster

Respectfully,

Joan Pence

Dr. T.L. Workman

Reuben Worster
Joan Pence
Dr. T.L. Workman
Dr. Melvin Bahensky

Dr. Melvin Bahensky

P.S. If any depositors are interested in receiving a copy of each of the three reports at the cost of printing (\$10.00 plus \$2.40 for postage) you may mail your request to: C S A - REUBEN WORSTER, P.O. BOX 80842, LINCOLN, NEBRASKA 68501. You can expect delivery in a week to ten days. If you cannot afford to purchase the reports, other depositors may lend theirs if contacted.

PP.S As a direct result of the research which resulted in the reports, much information regarding certain political candidates has been learned. The final page of this mailer will give you helpful insight in making your selection for Attorney General and Governor. THIS IS NOT A POLITICAL ENDORSEMENT OR DENOUNCEMENT.

DECAMP/HEAVICAN - ATTORNEY GENERAL FOR THE STATE OF NEBRASKA

John DeCamp was the Chairman for the Committee on Banking which investigated matters surrounding the failure of State Security Savings.

DeCamp appears to have controlled the investigation. He seemed, of all the Senator's, to be the most knowledgeable regarding banking matters. He also appeared to be acutely aware of a devised plan by certain government officials and politicians to cover up matters surrounding the failures of each of the three failed financial institutions; Commonwealth, State Security Savings and American Savings.

After having read the thousands of pages of testimony from that investigation, it is clear that if not for John DeCamp's efforts to get everything documented during those hearings, we would still be "in the dark" as to the crimes perpetrated against us by government officials.

When DeCamp learned that crimes had been committed in State Security Savings by prominent bankers and government officials, DeCamp, along with the Committee, subpoenaed among others, County Attorney, Mike Heavican and Attorney General Robert Spire to come before the Committee and explain why they had refused to file criminal charges against these certain prominent individuals.

Spire basically stated that he tries to do a good job but that it was up to Mike Heavican to file those charges if he chooses to do so.

When questioning Heavican about why no charges had been filed, Heavican basically stated that he, as County Attorney, held one of the most powerful positions in the County...that he had available to him what is called selective prosecution, and he didn't choose to prosecute those individuals, and further, he refused to explain to the Committee why he chose not to prosecute.

In realizing that law enforcement was involved in a cover-up, and after having explained to Heavican all the crimes the Committee had found during it's investigation, DeCamp stated the following:

"...At what point does it become flagrant enough (the crimes) that the county attorney (Heavican), who is apparently according to everybody in the control position of this, stand up and say something has got to be stopped, this isn't right, the depositors, 4,000 people are being abused, they are being cheated, they are being robbed. At what point do you do something? Your answer to me is, you're not going to tell me why." ...Why didn't you do something? And if you refuse to answer I think it not unreasonable for me also to say then, based on all of these things, it looks suspicious." "...Did you have some conflict that prevented you? Is there something that you should be telling us that you are not?"

Heavican never gave the Committee any real answers. And he was not totally certain that he did not have a conflict in dealing with his job as county attorney in relationship to prosecuting certain individuals involved with the failure of State Security Savings.

(Pages 108 and 109, Committee on Banking, September 24, 1986)

WILLIAM HOPPNER - GOVERNOR FOR THE STATE OF NEBRASKA

William Hoppner has been associated with both Governor Robert Kerrey and William Wright for many years.

Hoppner was a member of Governor Kerrey's staff for a period of time. When things began to "heat up" on the Kerrey, Wright and State Security Savings matters, Hoppner resigned from Kerrey's staff and went to work for Bill Wright. By then Wright had moved from Lincoln to California. Hoppner remained with Wright for a period of time until Kerrey won the U. S. Senate seat. Hoppner then went back to work for Kerrey. As we all know, Hoppner is now running for the office of Governor for the State of Nebraska.

In reviewing the thousands of documents involving the failures of Commonwealth and State Security Savings, Hoppner's name surfaces many times. Although we know he was privy to all information during the critical times, Hoppner never came forth with information which could have prevented the disaster we are all now faced with.

In fact, Hoppner was requested to testify before the Special Commonwealth Committee. During his testimony, Hoppner repeatedly stated that he couldn't remember or wasn't involved in the important information he was being questioned about.

WILLIAM HARRIS - GOVERNOR FOR THE STATE OF NEBRASKA

William Harris, over a period of approximately ten years publicly announced on many occasions that he was going to run for various political offices, but never officially ran.

It is clear from his history that Harris desired a political office, and on May 27, 1983, Harris was able to circumvent the normal election process when he was appointed by Governor Kerrey as a Nebraska State Senator.

As an advisor to Kerrey during Kerrey's gubernatorial campaign, and with a friendship so close that Kerrey would appoint him as a state senator, Harris was undoubtedly privy to an abundance of information regarding banking matters around the state.

Harris was the chairman of the Subcommittee on Banking which began the investigation into the State Security Savings matters. Harris was one of the first senators to have documented proof that criminal acts had been committed in that institution...against the depositors. And although Harris was aware of these criminal acts, he waited until just days before the statute of limitations on the crime was up before writing a letter to law enforcement agencies requesting criminal prosecution.

It appears, from the documented facts, that Harris was protecting his banker and political friends as well as he could without, at the same time, putting himself in a vulnerable situation politically.

THE INFORMATION CONTAINED HEREIN SHOULD NOT BE CONSTRUED AS A POLITICAL ENDORSEMENT OR DENOUNCEMENT.

THOMAS E. SHOTKOSKI C.P.A., P.C.
CERTIFIED PUBLIC ACCOUNTANT

MEMBER
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MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

April 30, 1990

Honorable William E. Barrett, Speaker
Nebraska State Legislature
Room 2101, State Capitol Building
Lincoln, NE 68509

Dear Speaker Barrett and Members of the Legislature:

I have been asked to review the asset purchase agreement between First Nebraska Corporation, Buyer and John E. Queen, Trustee, and Joseph H. Badami, Receiver, Commonwealth Savings Company, Seller, and the potential income tax implications of this transaction.

It appears that the Buyer, First Nebraska Corporation purchased all of the assets of Commonwealth Savings Company in addition the right to continue to use these assets in the same business environment as that of the Seller. The asset purchase agreement as structured not only allowed the Buyer to acquire all of the assets at a discounted value but also gave the Buyer the use of all of the net operating loss carryovers that were generated by Commonwealth Savings Company from its prior years of operation.

If the net operating loss carryover of Commonwealth Savings Company is \$30 million then the potential federal and state income tax savings for the Buyer could be as high as \$12 million dollars.

It appears that the trustee, John E. Queen and receiver, Joseph H. Badami did not take this potential windfall for the Buyer into consideration when negotiating this agreement.

The State of Nebraska and the depositors of Commonwealth will again be the losers if this transaction is allowed to stand as is.

If you have any questions or comments concerning the contents of the correspondence, please feel free to contact me.

Yours truly,

Thomas E. Shotkoski, Certified Public Accountant

Thomas E. Shotkoski, CPA

kkm



Republican
National
Committee

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For Immediate Release
June 29, 1990
3:30 p.m.
RNC90-35

Contact: Leslie Goodman
202/863-8550

Statement by Mary Matalin, RNC Chief of Staff, Regarding The S & L Crisis:

While Democratic leaders are trying to point fingers of blame over the S&L crisis, President Bush has been rolling up his sleeves to solve the problem.

Time after time, Democrats in Congress dragged their feet when they could have supported solutions sent up to the Hill by both the Reagan and Bush administrations. Following the lead of the dishonorably discharged Jim Wright and the repudiated chairman of the House Banking Committee, Fernand St. Germain, leading Democrats have continuously blocked Republican efforts to solve this problem before it became a crisis. At the same time, these Democrats were enjoying cozy political ties with S&L operators.

The S&L situation is serious and still Democratic leaders are slow to react with their votes, but quick to react with their mouths.

The Democrats blew their opportunity to shepherd an S&L solution, and now are looking for scapegoats to hide their culpability. These Democrats include:

Sen. Alan Cranston of California, who solicited more than \$850,000 for his re-election and other political causes from Charles Keating, head of a savings and loan whose scandal-shrouded bankruptcy will cost taxpayers billions of dollars. Twice in 1987, Cranston intervened with thrift regulators and their investigation of the S&L industry.

Sen. Dennis DeConcini of Arizona, who received S&L industry contributions, twice in 1987 hosted meetings in which he and other senators questioned thrift regulators about their investigation of the the S&L industry.

Sen. John Glenn of Ohio received \$234,000 raised by Keating. Several years ago, Keating hired two former aides of Glenn to lobby Congress to block a rule limiting risky savings and loan investments, and in 1987, he intervened with federal regulators on the S&L's behalf.

- more -

Sen. Bob Kerrey of Nebraska and his partners receive a failing S&L. Later, when the state legislature decided to investigate, Governor Kerrey spoke out against it, saying it would confuse the public.

Sen. Donald Riegle of Michigan returned his hefty S&L contribution with a negative publicity. Riegle is chairman of the Senate Banking Committee. Although he told the Senate ethics committee last fall that he never initiated any contact with regulators about the Keating S&L, it was later revealed that Riegle was the first to contact the Federal Home Loan Bank Board about the issue.

Congressman Frank Annunzio of Illinois, often called "a champion of savings and loans." Annunzio chairs the House subcommittee that oversees regulation of S&Ls. He strongly supported passage of the 1982 act that deregulated S&L activity. He also voted to gut President Reagan's plan to clean up the S&L mess on April 1, 1987, in a key Banking Committee vote.

Congressman Doug Barnard of Georgia, a member of the Banking Committee, who mysteriously refused to vote in Committee on April 1, 1987 for President Reagan's plan to make the S&Ls pay the interest on borrowed funds. (Barnard had voted for the Reagan plan the day before. His absence allowed the savings and loan lobby to gut the President's proposal.)

Congressman Jim Chapman of Texas, first elected narrowly in 1985 with the help of more than \$100,000 from a special interest campaign PAC funded by corrupt Texas S&L figures Thomas Gaubert and Donald Dixon, who were pressured to aid Chapman by Ex-Majority Leader Jim Wright.

Congressman James McClure Clarke of North Carolina, who voted in June, 1989, to continue to allow investments by S&Ls in junk bonds.

Congressman Stephen L. Neal of North Carolina, who was the sponsor of the key amendment on April 1, 1987, backed by the S&L industry, to water down President Reagan's plan to clean up the S&L mess.

These are some of the worst violators of the public trust. The debate regarding their actions should be thorough and highly visible.

President Bush, who acted on this crisis in the first 18 days of his presidency, has led the effort to pass the Financial Institutions Reform, Recovery and Enforcement Act of 1989, setting the toughest standards possible to ensure a similar crisis doesn't occur. The Administration has forcefully pursued cases against violators of the law.

It's time to quit pointing fingers and start following the President's lead to take action and clean up the mess.

DRAFT

RESPONSE TO DEMOCRATIC CAUCUS
TALKING POINTS ON S&L ISSUE

DRAFT

1. The Democrats say:

- There's no need to pick over S&L scandal bones -- we need to fix the mess.

The fact is:

- They're right. The job is to clean up the problem.
 - That's why President Bush proposed the S&L cleanup just 18 days after taking office -- imposing tough capital requirements, curbing S&L abuses and making the industry pay.
 - And why the RTC -- an organization the size of Citicorp -- has been created from scratch in just 10 months.
 - And why the RTC has resolved 161 thrifts and disposed of \$40 billion worth of assets in just 10 months.
- But we understand why they don't want to review the past, because there's plenty of blame to go around.
 - For example, the Democrats dramatically increased deposit insurance coverage from \$40,000 to \$100,000 in the Carter Administration's 1980 legislation reduced thrift capital requirements and increased risky thrift powers.
 - When the Reagan Administration requested \$15 billion to clean up insolvent S&Ls in early 1986, the Congress dragged its feet.
 - The Democratic House killed the legislation in 1986, then voted only \$5 billion before finally agreeing to \$10.8 billion in late 1987 after the President threatened a veto.
 - And the Democratic House -- led by Speaker Wright and Chairman St. Germain -- added FORBEARANCE provisions that made it tougher for regulators to close insolvent S&Ls.

2. The Democrats say:

- The President's foot-dragging on the cleanup has doubled the cost to the taxpayers.

The fact is:

- The foot-dragging on the cleanup ended when President Bush took office.
 - The Administration has urged the RTC to move swiftly, and the pace of resolutions and asset sales has increased -- 111 in just the last 11 weeks.
- Recent increases in cost estimates are not related to cleanup problems, but to these two factors:
 - First, the higher costs were already there; they just weren't apparent until officials actually seized institutions under FIRREA and began the process of selling institutions and assets.
 - Second, the real estate and junk bond markets have worsened and interest rates have stayed higher than expected, lowering the value of both institutions and assets.

3. The Democrats say:

- The President supports hiding S&L costs off-budget, but Democrats supported "truth in budgeting" during the FIRREA debate.

The fact is:

- The budget summit will address the question of how to treat future S&L costs, which will be funded directly by the taxpayer.
- During FIRREA, the Administration supported "truth in budgeting" by insisting that all taxpayer funds be counted on-budget, and all private sector funds be fully accounted for, not mixed in with taxpayer funds in the budget.
 - Creating REFCORP locked industry funds into the solution; the Democrats' alternative would have let the industry off the hook for their share of the cleanup.

4. The Democrats say:

- The public is unhappy with the President's handling of the S&L cleanup.

The fact is:

- The public is even more critical of the Congress.
 - A June Boston Globe poll shows 64% of Americans disapprove of the job Congress is doing on S&Ls, compared to 59% disapproval of the job being done by the Administration.

5. The Democrats say:

- S&L deposits and assets are being sold at fire sale prices.

The fact is:

- Assets and institutions are sold at auction. What is bid is what they're worth.
- The RTC is working hard to get the most value out of S&L assets, but they're simply not worth as much as the book value S&L owners gave them. They are not being dumped or sold at fire sale prices.
- It's misleading to suggest that millions of dollars of deposits are being purchased for nominal amounts without pointing out that those "deposits" represent liabilities, not assets -- the acquirers will owe each depositor the full amount of his deposit.

6. The Democrats say:

- Paying off uninsured depositors will drive up the cost of the cleanup by 33 percent.

The fact is:

- This is just wrong -- virtually all thrift deposits are insured.
- Uninsured depositors are not paid off unless RTC determines that it is cheaper for the taxpayer to do so.
 - Insisting that uninsured depositors are not paid off would actually cost taxpayers more.

- If the Democrats had not raised deposit insurance to \$100,000, we would not have to pay so much.

7. The Democrats Say:

- The Justice Department is still dragging its feet on prosecuting fraud and embezzlement cases.

The fact is:

- The Justice Department has obtained 182 indictments and 200 convictions for major savings and loan fraud cases since October 1, 1988.
- On the 200 convicted defendants, prison sentences totalling 381 years have been imposed, fines of almost \$800,000 have been imposed and restitution of \$55.9 million has been ordered (\$25 million was a civil settlement).
- Of the 306 defendants charged with wrongdoing related to major savings and loan investigations since October 1, 1988, to date only 3 have been acquitted.
- From 1986 to 1990, the number of failed financial institutions under FBI investigations has increased 157 percent, from 206 to 530.
 - 179 FBI additional agents have been transferred to these 530 investigations and Justice has hired 112 new prosecutors.
- These are complicated cases that require teams of lawyers and accountants to unravel. It takes an average of four years to bring a case to trial.
- Of the 530 failed financial institutions currently under investigation, only 234 involve savings and loan associations. (The others involve banks and credit unions.)
- The Dallas Bank Fraud Task Force, established in 1987, has obtained 52 convictions to date. Based on the success of this Task Force, the Attorney General is expanding the task forces concept to a total of 27 cities.
- The Attorney General has established the position of Special Counsel for Financial Institutions, whose sole responsibility is to coordinate all matters concerning the investigation and prosecution of financial institution fraud.

- The Attorney General has directed the creation of a Financial Fraud Coordinating Unit within the Deputy Attorney General's Office to support the work of the Special Counsel.
- To further assist the prioritization of cases, the Attorney General and Secretary of Treasury have directed the creation of a "rapid response team" of specialized attorneys and auditors drawn from within selected government offices to concentrate immediate and joint enforcement efforts on selected financial institutions victimized by potentially criminal activity.

8. The Democrats say:

- One indictment in 21,000 S&L fraud cases is a poor batting average.

The fact is:

- The "21,000" figure does not involve actual cases. It relates to "referrals," or allegations of suspected activity.
- Referrals do not always contain information sufficient to warrant opening a federal criminal investigation. A referral does not necessarily lead to a prosecutable case.
- In 1989 alone, the Department of Justice achieved 791 major fraud convictions (cases involving losses of over \$100,000) for financial institutions fraud, including both savings and loans and banks.
- About 83 percent of all unaddressed referrals involve amounts less than \$25,000.

9. What the Democrats Say:

- The Don Dixon indictment last week was a long overdue first step in bringing S&L thieves to justice.

What the fact is:

- The indictment of Don Dixon, the former President of the Vernon Savings and Loan Association of Texas, marked the culmination of over three years of work by the Dallas Bank Fraud Task Force in investigating and prosecuting former officials and business associates of the now defunct savings and loan.

-- Don Dixon indictment last week: 38 charges, up to 190 years in prison and \$9.5 million fine possible if convicted.

- To date, seven former officials of Vernon Savings and Loan have been convicted for fraud related to the collapse of savings and loan. Two individuals doing business with Vernon have also been convicted.
- One of the convictions of former Vernon officers was of Woody F. Lemons, the former Chairman of the Board. Mr. Lemons was sentenced to 30 years' imprisonment for his role in fraudulent activity related to the collapse of Vernon.

10. The Democrats say:

- The Administration is allowing failed thrifts to remain open, increasing the cleanup costs.

The fact is:

- There are far too many insolvent thrifts to close all at once.
- The President's FIRREA proposal cordoned off all insolvent thrifts in "conservatorship" and imposed strict controls to dramatically reduce thrift operating losses.
- The RTC is now aggressively closing and resolving these thrifts.
- Meanwhile, FIRREA repealed the FORBEARANCE provisions that Congress forced on the regulators in the 1980s.

11. The Democrats Say:

- George Bush decided to spend only \$50 million of the \$75 million appropriated by Congress for the S&L crimes.

The fact is:

- In 1990 Congress appropriated less than \$50 million under the FIRREA bill specifically to the Justice Department for S&L crimes. In fact, in 1989 Congress repeatedly refused to appropriate the \$36.8 million supplemental appropriation the Administration requested to jump start the expanded law enforcement effort. The

frequently cited \$75 million figure was the 1990 authorization level for the Justice Department.

- In addition to that amount, the Justice Department had already dedicated \$60 million out of its base budget for fiscal year 1990 for financial institution crimes so that a total of over \$110 million is being spent on financial institution fraud this year alone.
- The Administration is judiciously spending every penny of its appropriation.

The term "major savings and loan investigation or prosecution" is defined as involving (a) an amount of fraud or loss of \$100,000 or more, or (b) a defendant who was an officer, director, or owner (including shareholder), or (c) schemes with convictions of multiple borrowers in the the same savings and loan association.

STENY H. HOYER
CHAIR

VIC FAZIO
VICE-CHAIR



THE PRESIDENT HAS SEEN

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Readers*

Democratic Caucus

U.S. HOUSE OF REPRESENTATIVES

718 ANNEX #1 HOUSE OFFICE BUILDING

WASHINGTON, DC 20515

(202) 225-3210

Penny Gentilly
EXECUTIVE DIRECTOR

June 18, 1990

Dear Democratic Colleague:

This week's Democratic Message to the American people focuses our attention on the Bush administration's lack of leadership in cleaning up the S&L mess.

As Democrats, we share the growing concern of our working families about the ever-escalating amount of tax dollars the Administration estimates it needs to bail-out insolvent S&Ls. In the past several months, the President's top advisors have more than doubled the estimate they intend to apply to the bailout, and then cautioned that even these projections were soft. Yet rather than putting a stop to this hemorrhaging, the Bush administration is continuing to allow hundreds of failed savings and loans to remain open — further compounding the costs of the S&L bailout by billions of dollars.

It is the costs unseen that truly alarm and dismay America's working families. Our youngest working families are now confronting the first effects of this fiasco when they apply — and are denied — their first home mortgage. And our children will bear the brunt of the President's foot-dragging well into the next century. The schools that will go unbuilt, the bridges that will go unrepaired, and the educations that will go unfunded are the real toll of Bush mismanagement.

I have attached an excellent package on the S&L bailout, which includes S&L facts and Democratic talking points, prepared by DNC Research. I hope that it is helpful as you talk with your colleagues and constituents this week, and in the weeks ahead.

With warmest personal regards, I am

Sincerely yours,

STENY H. HOYER

MESSAGE BULLETIN

PRINTED ON RECYCLED PAPER

Talking Points on the S&L Issue

1. There is no need to pick over the bones of the S&L scandal--we know what happened. What we need to do is fix the S&L mess.
2. Bush is foot-dragging on the S&L cleanup and is already repeating the costly mistakes made by the Reagan Administration. The result is a doubling in taxpayer cleanup costs to \$500 billion -- in just 7 months.
3. Bush supports hiding the costs of the S&L bailout from taxpayers by keeping it "off-budget" and out-of-sight. Democrats, it must be remembered, supported "truth-in-budgeting" on the Bush bailout last year by margins of 181-67 in the House and by 47-6 in the Senate.
4. Public discontent with President Bush's mishandling of the S&L bailout is growing. The mid-February Harris Poll which gave President Bush a 70 percent approval rating also found that 60 percent of Americans disapproved of his plan to bailout the S&Ls.

Hey George, How Much Will It Cost?

Every time you look the other way, it seems like the Bush Administration is revising its projections on how much Bush's S&L bailout will cost U.S. taxpayers.

- o In August, 1989, Bush declared that it would cost taxpayers \$166 billion to make sure "these problems will never happen again." (Weekly Compilation of Presidential Documents, 8/89)

*5: how much cost
how much cost
for not saying*

In March, 1990, the Bush bailout squad quietly requested an additional \$100 billion in "working capital" from the U.S. Treasury to finance new S&L bailouts in 1990 (WSJ, 3/6/90).

- o In May, 1990, the Bush Administration admitted the bailout will cost over \$300 billion in the years ahead -- double the amount predicted by Bush just 7 months ago (WP, 5/24/90). That same month, the General Accounting Office estimates that the bailout will cost a little bit more -- between \$325 and \$500 billion.
- o On June 14, 1990, Administration officials warned that this latest estimate was as perishable as sour cream on a hot summer day. Treasury Secretary Nicholas Brady explained that the Administration was "in the midst" of calculating how much money the Administration would need. (NYT, 6/15/90)
- o Federal Reserve Chairman Greenspan put it another way: "the size of this hole is astronomical." (NYT, 6/15/90)
- o Bush's S&L black hole: just how much will it cost?

You Too Can Own an S&L

- o Desperate for working cash to bailout additional S&L's, the RTC is selling off control of S&L deposits at firesale prices -- to corporate raiders like Ronald Perelman.
- o On March 15, 1990, the Resolution Trust Corporation (RTC) actually gave North Carolina National Bank \$700,000 to take Bankers S&L of Galveston and its \$104 million in deposits off the agency's hands (RTC Releases).
- o Three other S&L's -- with \$154 million in deposits -- have been sold for the price of a new Buick Le Sabre automobile (RTC releases).
- o S&L buyers are being allowed to pick over the assets of acquired thrifts for months -- creamskimming the best assets and returning unwanted, worthless properties to the U.S. taxpayer.
- o Asset buyers are paying the U.S. taxpayer an average of 60 cents on the dollar for the properties they do want (Southern Finance Project).
- o And who are getting these "bargain basement" deals? People like corporate raider Ronald Perelman, who was recently awarded the \$2 billion San Antonio Savings Association for just \$10 million (RTC).

Isn't This Taking Kinder and Gentler A Bit Too Far?

U.S. taxpayers may be a bit surprised to find out that President Bush isn't just paying off insured deposit holders -- under the Bush bailout, everybody in line is getting paid off.

- o Unless something is done, the Bush Administration is planning to pay off millions -- perhaps billions -- in uninsured S&L deposits and liabilities (RTC, Southern Finance Project).
- o So far, the RTC has already paid out \$50 million to investors whose accounts were above the \$100,000 insured limit (RTC).
- o And because the Reagan and Bush Administrations dragged their feet on closing down failing S&L's, U.S. taxpayers may be forced to pay off some \$26 billion in mortgage-backed bonds issued by S&L's during the late 1980s (Business Week, 4/23/90).
- o Most of these bonds were issued by high-flying S&L's who had no business being in business -- but investors flocked to buy these high-interest bonds because they knew that the federal taxpayer would ultimately foot the bill.
- o The added cost of President Bush's "generosity" to uninsured investors will be enormous -- driving up the cost of the bailout by as much as 33 percent.

1 Out of 21,000 Is Not a Good Batting Average

The Don Dixon indictment last week was a long overdue first step in bringing S&L thieves to justice.

- Unfortunately, the Justice Department is still dragging its feet on more than 21,000 S&L fraud and embezzlement cases (Washington Post, 3/27/90).

Maybe this isn't surprising given that George Bush decided to spend only \$50 million of the \$75 million appropriated by Congress for the S&L crimes. Mr. President, what's the holdup?

One out of 21,000 is not an unacceptable batting average when it comes to recovering stolen taxpayer funds.

Don't Let History Repeat Itself: Close'em Down Now

Ignoring the lessons of the 1980s, the Bush Administration is allowing hundreds of failed S&L's to remain open -- compounding the costs of the S&L bailout by billions of dollars.

700 More Failing S&Ls: Are They Being Ignored?

In May 23 testimony to Congress, Treasury Secretary Nicholas Brady understated the true size of the S&L problem, saying that at most 1,000 thrifts will have to close down.

By contrast, the non-partisan Congressional Budget Office predicts that as many as 700 additional thrifts will need to be shut down -- at an additional cost to taxpayers of up to \$100 billion (NYT, 6/14/90).

The Costs of Ostrich Mentality

Losses at insolvent thrifts ignored by the Bush Administration will soar because thrift owners, having nothing to lose, often gamble taxpayer funds on risky new investments to try and recoup their losses. These thrifts stay open by paying interest on deposits not from any profits on investments, but from new deposits lured in by excessively high interest rates. And who guarantees these new deposits? Why taxpayers, of course.

Mr. President what are you waiting for? Take your head out of the sand and learn the lessons of the past. Stop the S&L bleeding today.

FOR FURTHER INFORMATION, CONTACT:

DNC RESEARCH

863-8000

Minimum Funds Needed to Resolve
The Savings and Loan Crisis

(All amounts in billions)

Estimate Based on OMB's July 1989 Funding Summaries:

FSLIC Assistance Transactions	\$ 56
RTC Resolutions	50
REFCORP Interest Expense	69
Financing Corporation (FICO) Interest Expense	31
Establish Savings Association Insurance Fund (SAIF)	9
Post-RTC Resolutions	24
Non-RTC Administration and Other	9
Subtotal - Direct Funding Needs	<u>248</u>
Lost Tax Revenues From FSLIC Transactions	<u>9</u>

Total Based on OMB's July 1989 Estimates

\$257a

Additional Funds Needed For:

FSLIC Assistance Transactions	\$ 12
RTC Resolutions	13
RTC Administrative Expenses	10
Interest on RTC Working Capital	28
Additional REFCORP Interest Expense	<u>5</u>
Minimum Funds Needed	<u>68b</u>

\$325

aThis estimate is based on OMB's estimates of the funds needed during fiscal years 1989 through 1999. However, funds will be needed in later years to pay interest on REFCORP and FICO bonds. OMB assumed that they would issue 30-year bonds. Therefore, our estimate included the entire amount of interest that would be incurred over the 30-year life of the bonds.

bThese additional funds will be needed over different periods of time. Most of the funds (\$63 billion) will be needed before the end of fiscal year 1999. The additional interest is primarily due to an extra 10 years of interest because REFCORP issued 40-year bonds instead of 30-year bonds.

Source: OMB July 1989 funding summaries and information from FSLIC, FDIC, RTC, and REFCORP.

DRAFT

RESPONSE TO DEMOCRATIC CAUCUS
TALKING POINTS ON S&L ISSUE

DRAFT

1. The Democrats say:

- There's no need to pick over S&L scandal bones -- we need to fix the mess.

The fact is:

- They're right. The job is to clean up the problem.
 - That's why President Bush proposed the S&L cleanup just 18 days after taking office -- imposing tough capital requirements, curbing S&L abuses and making the industry pay.
 - And why the RTC -- an organization the size of Citicorp -- has been created from scratch in just 10 months.
 - And why the RTC has resolved 161 thrifts and disposed of \$40 billion worth of assets in just 10 months.
- But we understand why they don't want to review the past, because there's plenty of blame to go around.
 - For example, the Democrats dramatically increased deposit insurance coverage from \$40,000 to \$100,000 in the Carter Administration's 1980 legislation reduced thrift capital requirements and increased risky thrift powers.
 - When the Reagan Administration requested \$15 billion to clean up insolvent S&Ls in early 1986, the Congress dragged its feet.
 - The Democratic House killed the legislation in 1986, then voted only \$5 billion before finally agreeing to \$10.8 billion in late 1987 after the President threatened a veto.
 - And the Democratic House -- led by Speaker Wright and Chairman St. Germain -- added FORBEARANCE provisions that made it tougher for regulators to close insolvent S&Ls.

2. The Democrats say:

- The President's foot-dragging on the cleanup has doubled the cost to the taxpayers.

The fact is:

- The foot-dragging on the cleanup ended when President Bush took office.
 - The Administration has urged the RTC to move swiftly, and the pace of resolutions and asset sales has increased -- 111 in just the last 11 weeks.
- Recent increases in cost estimates are not related to cleanup problems, but to these two factors:
 - First, the higher costs were already there; they just weren't apparent until officials actually seized institutions under FIRREA and began the process of selling institutions and assets.
 - Second, the real estate and junk bond markets have worsened and interest rates have stayed higher than expected, lowering the value of both institutions and assets.

3. The Democrats say:

- The President supports hiding S&L costs off-budget, but Democrats supported "truth in budgeting" during the FIRREA debate.

The fact is:

- The budget summit will address the question of how to treat future S&L costs, which will be funded directly by the taxpayer.
- During FIRREA, the Administration supported "truth in budgeting" by insisting that all taxpayer funds be counted on-budget, and all private sector funds be fully accounted for, not mixed in with taxpayer funds in the budget.
 - Creating REFCORP locked industry funds into the solution; the Democrats' alternative would have let the industry off the hook for their share of the cleanup.

4. The Democrats say:

- The public is unhappy with the President's handling of the S&L cleanup.

The fact is:

- The public is even more critical of the Congress.
 - A June Boston Globe poll shows 64% of Americans disapprove of the job Congress is doing on S&Ls, compared to 59% disapproval of the job being done by the Administration.

5. The Democrats say:

- S&L deposits and assets are being sold at fire sale prices.

The fact is:

- Assets and institutions are sold at auction. What is bid is what they're worth.
- The RTC is working hard to get the most value out of S&L assets, but they're simply not worth as much as the book value S&L owners gave them. They are not being dumped or sold at fire sale prices.
- It's misleading to suggest that millions of dollars of deposits are being purchased for nominal amounts without pointing out that those "deposits" represent liabilities, not assets -- the acquirers will owe each depositor the full amount of his deposit.

6. The Democrats say:

- Paying off uninsured depositors will drive up the cost of the cleanup by 33 percent.

The fact is:

- This is just wrong -- virtually all thrift deposits are insured.
- Uninsured depositors are not paid off unless RTC determines that it is cheaper for the taxpayer to do so.
 - Insisting that uninsured depositors are not paid off would actually cost taxpayers more.

- If the Democrats had not raised deposit insurance to \$100,000, we would not have to pay so much.

7. The Democrats Say:

- The Justice Department is still dragging its feet on prosecuting fraud and embezzlement cases.

The fact is:

- The Justice Department has obtained 182 indictments and 200 convictions for major savings and loan fraud cases since October 1, 1988.
- On the 200 convicted defendants, prison sentences totalling 381 years have been imposed, fines of almost \$800,000 have been imposed and restitution of \$55.9 million has been ordered (\$25 million was a civil settlement).
- Of the 306 defendants charged with wrongdoing related to major savings and loan investigations since October 1, 1988, to date only 3 have been acquitted.
- From 1986 to 1990, the number of failed financial institutions under FBI investigations has increased 157 percent, from 206 to 530.
 - 179 FBI additional agents have been transferred to these 530 investigations and Justice has hired 112 new prosecutors.
- These are complicated cases that require teams of lawyers and accountants to unravel. It takes an average of four years to bring a case to trial.
- Of the 530 failed financial institutions currently under investigation, only 234 involve savings and loan associations. (The others involve banks and credit unions.)
- The Dallas Bank Fraud Task Force, established in 1987, has obtained 52 convictions to date. Based on the success of this Task Force, the Attorney General is expanding the task forces concept to a total of 27 cities.
- The Attorney General has established the position of Special Counsel for Financial Institutions, whose sole responsibility is to coordinate all matters concerning the investigation and prosecution of financial institution fraud.

- The Attorney General has directed the creation of a Financial Fraud Coordinating Unit within the Deputy Attorney General's Office to support the work of the Special Counsel.
- To further assist the prioritization of cases, the Attorney General and Secretary of Treasury have directed the creation of a "rapid response team" of specialized attorneys and auditors drawn from within selected government offices to concentrate immediate and joint enforcement efforts on selected financial institutions victimized by potentially criminal activity.

8. The Democrats say:

- One indictment in 21,000 S&L fraud cases is a poor batting average.

The fact is:

- The "21,000" figure does not involve actual cases. It relates to "referrals," or allegations of suspected activity.
- Referrals do not always contain information sufficient to warrant opening a federal criminal investigation. A referral does not necessarily lead to a prosecutable case.
- In 1989 alone, the Department of Justice achieved 791 major fraud convictions (cases involving losses of over \$100,000) for financial institutions fraud, including both savings and loans and banks.
- About 83 percent of all unaddressed referrals involve amounts less than \$25,000.

9. What the Democrats Say:

- The Don Dixon indictment last week was a long overdue first step in bringing S&L thieves to justice.

What the fact is:

- The indictment of Don Dixon, the former President of the Vernon Savings and Loan Association of Texas, marked the culmination of over three years of work by the Dallas Bank Fraud Task Force in investigating and prosecuting former officials and business associates of the now defunct savings and loan.

-- Don Dixon indictment last week: 38 charges, up to 190 years in prison and \$9.5 million fine possible if convicted.

- To date, seven former officials of Vernon Savings and Loan have been convicted for fraud related to the collapse of savings and loan. Two individuals doing business with Vernon have also been convicted.
- One of the convictions of former Vernon officers was of Woody F. Lemons, the former Chairman of the Board. Mr. Lemons was sentenced to 30 years' imprisonment for his role in fraudulent activity related to the collapse of Vernon.

10. The Democrats say:

- The Administration is allowing failed thrifts to remain open, increasing the cleanup costs.

The fact is:

- There are far too many insolvent thrifts to close all at once.
- The President's FIRREA proposal cordoned off all insolvent thrifts in "conservatorship" and imposed strict controls to dramatically reduce thrift operating losses.
- The RTC is now aggressively closing and resolving these thrifts.
- Meanwhile, FIRREA repealed the FORBEARANCE provisions that Congress forced on the regulators in the 1980s.

11. The Democrats Say:

- George Bush decided to spend only \$50 million of the \$75 million appropriated by Congress for the S&L crimes.

The fact is:

- In 1990 Congress appropriated less than \$50 million under the FIRREA bill specifically to the Justice Department for S&L crimes. In fact, in 1989 Congress repeatedly refused to appropriate the \$36.8 million supplemental appropriation the Administration requested to jump start the expanded law enforcement effort. The

frequently cited \$75 million figure was the 1990 authorization level for the Justice Department.

- In addition to that amount, the Justice Department had already dedicated \$60 million out of its base budget for fiscal year 1990 for financial institution crimes so that a total of over \$110 million is being spent on financial institution fraud this year alone.
- The Administration is judiciously spending every penny of its appropriation.

The term "major savings and loan investigation or prosecution" is defined as involving (a) an amount of fraud or loss of \$100,000 or more, or (b) a defendant who was an officer, director, or owner (including shareholder), or (c) schemes with convictions of multiple borrowers in the the same savings and loan association.

his hefty S&L contribution

Sen. Donald Riegle of Michigan

Riegle returned after it drew unfavorable publicity. Riegle is chairman of the Senate Banking Committee. Although he told the Senate ethics committee last fall that he never initiated any contact with regulators about the S&L, it was later revealed that Riegle was the first to contact the Federal Home Loan Bank Board about the issue.

Congressman Frank Annunzio of Illinois, often called "a champion of savings and loans." Annunzio chairs the House subcommittee that oversees regulation of S&Ls. He strongly supported passage of the 1982 act that deregulated S&L activity. He also voted to gut President Reagan's plan to clean up the S&L mess on April 1, 1987, in a key Banking Committee vote.

Congressman Doug Barnard of Georgia, a member of the Banking Committee, who mysteriously refused to vote in Committee on April 1, 1987 for President Reagan's plan to make the S&Ls pay the interest on borrowed funds. (Barnard had voted for the Reagan plan the day before. His absence allowed the savings and loan lobby to gut the President's proposal.)

Congressman Jim Chapman of Texas, first elected narrowly in 1985 with the help of more than \$100,000 from a special interest campaign PAC funded by corrupt Texas S&L figures Thomas Gaubert and Donald Dixon, who were pressured to aid Chapman by Ex-Majority Leader Jim Wright.

Congressman James McClure Clarke of North Carolina, who voted in June, 1989, to continue to allow investments by S&Ls in junk bonds.

Congressman Stephen L. Neal of North Carolina, who was the sponsor of the key amendment on April 1, 1987, backed by the S&L industry, to water down President Reagan's plan to clean up the S&L mess.

These are some of the worst violators of the public trust. The debate regarding their actions should be thorough and open.

who acted on this crisis in the first 18 days of his presidency,
President Bush has led the effort to pass the Financial Institutions Reform, Recovery and Enforcement Act of 1989, setting the toughest standards possible to ensure a similar crisis doesn't occur. The Administration has forcefully pursued cases against violators of the law.

It's time to quit pointing fingers and start following the President's lead to take action and clean up the mess.

For Immediate Release
June 29, 1990

Contact: Leslie Goodman
202/863-8550

Statement by Mary Matalin, RNC Chief of Staff Regarding S & L Crisis

While Democratic leaders are trying to point fingers of blame over the S&L crisis, President Bush has been rolling up his sleeves to solve the problem.

Time after time, Democrats in Congress dragged their feet when they could have supported solutions sent up to the Hill by both the Reagan and Bush Administrations. Following the lead of the dishonorably discharged Jim Wright and ~~Tony Coelho~~, leading Democrats have continuously blocked Republican efforts to solve this problem before it became a crisis. At the same time, these Democrats were enjoying cozy political ties with S&L operators.

The S&L situation is serious and still Democratic leaders are slow to react with their votes, but quick to react with their mouths.

These Democrats blew their opportunity to shepherd an S&L solution, and now are looking for scapegoats to hide their culpability. These Democrats include:

Sen. Alan Cranston of California, who solicited more than \$850,000 for his re-election and other political causes from Charles Keating, head of a savings and loan whose scandal-shrouded bankruptcy will cost taxpayers billions of dollars. Twice in 1987, Cranston intervened with thrift regulators and their investigation of the S&L industry.

Sen. Dennis DeConcini of Arizona, ~~who received~~ S and L industry contributions. Twice in 1987, DeConcini hosted meetings in which he and other senators questioned thrift regulators about their investigation of the the S&L industry.

Sen. John Glenn of Ohio, who received \$234,000 raised by Keating. Several years ago, Keating hired two former aides of Glenn to lobby Congress to block a rule limiting risky savings and loan investments, and in 1987, he intervened with federal regulators on the S&Ls' behalf.

Sen. Bob Kerrey of Nebraska and his partners received a questionable loan from a failing S&L. Later, when the state legislature decided to investigate the industry, then-Gov. Kerrey spoke out against it, saying it would confuse the public.

FACT SHEET

UPDATE ON THE FIGHT AGAINST FINANCIAL INSTITUTION FRAUD

This Administration has aggressively pursued financial institution fraud. In February 1989, during the first month of the Administration, the Attorney General identified fraud against financial institutions as one of the Department of Justice's highest enforcement priorities. That same month, the President proposed a major financial fraud legislative initiative which included stronger civil and criminal tools and major increases in penalties. The following month, March 1989, the President submitted a \$36.8 million supplemental budget request for FY 1989 to meet the escalating problem of financial institution fraud. Congress twice denied the extra funding.

Prosecution Efforts Against Financial Institution Fraud

Even without new resources, the Department of Justice has aggressively pursued financial institution fraud achieving impressive results:

- ° 791 major fraud (losses over \$100,000) convictions for financial institutions fraud in 1989, including both banks and savings and loans.
- ° 530 active FBI investigations of failed financial institutions in 1990, an increase of 88% from 1987.

In 1987, the Department had established the Dallas Task Force, using existing Criminal Division resources and the resources of other agencies to supplement the work of the U.S. Attorney's Office. Today, the Task Force consists of 22 Assistant U.S. Attorneys and Fraud Section attorneys, 3 Tax Division lawyers, 36 FBI agents, 16 IRS Special Agents, and 3 Office of Thrift Supervision examiners.

In three years, the Task Force has achieved substantial results. It has:

- ° brought criminal charges against 77 persons
- ° obtained 52 convictions, 40 of which relate to savings and loan institutions.

It currently has 42 separate savings and loan associations and 560 persons under investigation. Based on the success of the

Dallas Task Force, the Attorney General is expanding the task force concept to a total of 27 cities.

In late November, 1989, the Congress appropriated almost \$50 million, which the President had sought earlier that year. As the Department has received these additional resources, it has increased its enforcement efforts and worked to ensure that sufficient resources are focused on the most important cases -- those involving high losses, the weakening or failure of an institution or potential insider fraud. These funds will support:

- ° 153 FBI agents.
- ° 118 Assistant U.S. Attorneys.
- ° 24 Fraud Section attorneys.
- ° 100 accounting technicians.

In addition, the FBI has already shifted 49 agents to augment the FIRREA financial institution effort and 18 more agents are in the process of being shifted. Thus, a total of 220 agents are being added to the fight against financial institution fraud.

Additional Administrative Efforts
Against Financial Institution Fraud

The Attorney General has taken additional administrative steps to address this important problem. He has established the position of Special Counsel for Financial Institutions, reporting to the Deputy Attorney General. The Special Counsel's sole responsibility is to coordinate all matters concerning the investigation and prosecution of financial institution fraud. Additionally, the Special Counsel will ensure that the resources are properly allocated to the most significant financial institution fraud cases. The Attorney General directed the creation of a Financial Fraud Coordinating Unit within the Deputy Attorney General's Office to support the work of the Special Counsel.

The Attorney General and Secretary of the Treasury have formed an interagency group of senior officials from the Department of Justice, Department of Treasury, Federal Bureau of Investigation, Office of Thrift Supervision, Federal Deposit Insurance Corporation, Comptroller of the Currency, Board of Governors of the Federal Reserve System, Resolution Trust Corporation, the National Credit Union Administration, and the Attorney General's Advisory Committee of U.S. Attorneys. This group will prioritize the significant savings and loan cases to

be investigated and prosecuted. Chaired by the Special Counsel, this group will enhance interagency coordination and assist in accelerating the investigation and prosecution of these financial institution fraud cases.

To further assist in this effort, the Attorney General and Secretary of the Treasury have directed the creation of a "flying squad" of specialized attorneys and auditors drawn from the Department's Civil and Criminal Divisions, the Office of Thrift Supervision, the Office of the Comptroller of the Currency, the FDIC, and the RTC to concentrate immediate and joint enforcement efforts on selected financial institutions victimized by potentially criminal activity. Upon short notification, this squad will take all appropriate action to preserve assets of an institution, protect the vital documents and records, and undertake an immediate investigation.

The resources of other agencies will also be brought to bear on this problem. The Resolution Trust Corporation has established an Office of Investigations and a national network of investigative teams. Approximately 300 new investigative staff will be added by the end of this year. The IRS will continue to prosecute aggressively individuals who commit tax fraud involving failed financial institutions. The Office of Thrift Supervision has recently opened a new regional enforcement office sited in its Jersey City, New Jersey, office to enhance its enforcement capabilities. OTS intends to open at least two additional regional enforcement offices before the end of 1990.

Additional Legislative Efforts Against Financial Institution Fraud

The Administration supports the package of legislative proposals that provide important additional enforcement tools to attack, civilly and criminally, financial institution fraud. The Departments of Justice and Treasury worked closely with the legislative sponsors in the development of these measures. The proposals will mobilize government-wide resources by allowing the Department of Justice to use, without reimbursement, attorneys, investigators, accountants, and other personnel from appropriate agencies. Also included is a provision to allow law enforcement agencies to request court-authorized wiretaps to investigate bank fraud, false statements to financial institutions, bribery of bank officials, and related offenses for which wiretap authority is not presently available.

The legislative package contains other significant measures. Cases brought by the FDIC and the RTC will receive priority consideration by the courts. Also, procedures for expedited appeals of these cases will be established. The Department of Justice, the FDIC, the RTC and Office of Thrift Supervision will

be authorized to seek court orders to freeze the corporate and personal debts of defendants in civil financial institution fraud cases. In addition, the claims of the Federal Government will receive priority over those of creditors in bankruptcy and other claimants in suits against parties responsible for losses due to financial institution fraud.

Victims of financial institution fraud will receive enhanced protections when the legislation is enacted. The legislation authorizes courts to order payment of restitution to all victims of financial institution fraud schemes even where they were not identified in the charges underlying the conviction. Perpetrators of financial institution fraud will be prohibited from using the bankruptcy laws to avoid payment of damages, penalties and forfeitures that are used to reimburse victims.

These new measures will be especially effective when combined with the authority granted in FIRREA. Enacted in August 1989, FIRREA authorized a number of expanded enforcement powers, increased penalties, and procedural improvements to facilitate financial institution investigations and prosecutions. The new law provided (a) increased and expanded civil penalties of up to \$1 million (with \$5 million for continuing violations) and criminal penalties of up to 20 years' imprisonment; (b) extended forfeiture authority to 18 financial institution related offenses; (c) amended grand jury secrecy protections to facilitate the use of grand jury information in seeking civil actions related to financial institution offenses; (d) made bank fraud a RICO predicate offense; and (e) amended the Right to Financial Privacy Act to prohibit financial institutions from disclosing that records were being sought pursuant to a grand jury subpoena related to financial institution offenses.

APn 06/28 1535 ELN--S&L Money

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WASHINGTON (AP) — Fund-raising committees and individuals tied to the savings and loan industry contributed nearly \$12 million to congressional candidates and political parties in the 1980s, according to a study released Thursday.

Common Cause, which conducted the study, said the contributions helped influence legislation and other actions that loosened regulation of the S&L industry. The industry now is subject to a government bailout estimated to cost \$300 billion or more.

Common Cause, a public interest group seeking to overhaul campaign finance laws, said the flow of S&L money into campaign coffers demonstrates the need for a ban or tighter restrictions on contributions from political action committees.

Using Federal Election Commission data, Common Cause said it identified 157 political action committees and 1,074 individuals associated with savings and loans.

The PACs contributed \$6.2 million to congressional campaigns and party organizations in the 1980s and the individuals provided \$5.4 million, it said. Current members of Congress received \$6.7 million, of which \$3.8 million went to Democratic incumbents and \$2.9 million to Republicans.

Political parties received \$2 million from S&L interests in the 1980s, Common Cause said, including \$1.1 million that went to Republican committees and \$891,000 to Democratic coffers.

Five senators are under ethics committee investigation for intervening on behalf of Charles H. Keating Jr., the owner of a failed California S&L whose rescue is expected to cost the government more than \$2 billion.

Keating and his wife donated \$97,950 in their names to candidates and political party committees during the 1980s, Common Cause said. Keating also helped raised hundreds of thousands of dollars for a handful of candidates.

Four of the so-called Keating Five were among the top 10 senators in receiving S&L-related donations in the 1980s, according to the Common Cause analysis.

According to Common Cause:

--Sen. Donald Riegle, D-Mich. and chairman of the Banking Committee, received \$200,900 from S&L interests in the 1980s, the second-highest total among senators.

--Sen. Alan Cranston, D-Calif., \$143,700, fourth.

--Sen. Dennis DeConcini, D-Ariz., \$84,200, seventh.

--Sen. John McCain, R-Ariz., \$80,393, eighth.

The fifth member of the group, Ohio Democratic Sen. John Glenn, ranked 30th among senators, receiving \$32,600 from PACs and individuals associated with S&Ls in the decade, Common Cause said.

The overall Senate leader in such receipts was Republican Sen. Pete Wilson, now California's GOP gubernatorial nominee. Common Cause said S&L-related contributions to Wilson in the 1980s totaled \$243,000.

On the House side, the top six incumbents in terms of S&L-related contributions in the 1980s all were from California.

According to Common Cause, they were:

--Republican Rep. William Lowery, \$85,088.

--Republican Rep. David Dreier, \$75,150

--Democratic Rep. Mel Levine, \$69,250.

← ED

- Democratic Rep. Richard Lehman, \$68,090
- Republican Rep. Norman Shumway, \$67,425.
- Democratic Rep. Esteban Torres, \$60,950.

Not included in the FEC data analyzed by Common Cause were so-called soft money contributions to political parties. Because these contributions ostensibly are used for party building and not spent on specific candidates, they are not reported to the FEC.

President Bush benefited from \$600,000 in soft-money contributions to the 1988 Republican presidential effort from six wealthy individuals with ties to the S&L industry, including Keating.

← ED

Last page !

Statement by Mary Matalin
(This statement will be released in Washington, D.C.)

While Democratic leaders are trying to point fingers of blame over the S&L crisis, President Bush has been rolling up his sleeves to solve the problem.

Time after time, Democrats in Congress dragged their feet when they could have supported solutions sent up to the Hill by both the Reagan and Bush administrations. Following the lead of the dishonorably discharged Jim Wright and Tony Coelho, leading Democrats have continuously blocked Republican efforts to solve this problem before it became a crisis. At the same time these Democrats were enjoying cozy political ties with S&L operators.

Now, the S&L situation is serious and still Democratic leaders are slow to react with their votes, but quick to react with their mouths.

These Democrats blew their opportunity to shepherd an S&L solution, and now are looking for scapegoats to hide their culpability. These Democrats include:

Sen. Alan Cranston of California who solicited more than \$800,00 for his son's voter registration group from Charles Keating, head of a savings and loan whose scandal shrouded bankruptcy will cost taxpayers billions of dollars. Cranston also intervened with federal regulators on Keating's behalf.

Sen. Dennis DeConcini of Arizona, who received tens of thousands of dollars raised by Keating. DeConcini intervened with federal regulators on Keating's behalf.

Sen. John Glenn of Ohio, who got \$234,000 raised by Keating, and Keating hired two former Glenn aides to lobby Congress to block a rule limiting risky savings and loan investments.

Sen. John Kerrey of Nebraska, who headed the Democratic Senatorial Campaign Committee the year the Committee threw a gala for the CenTrust Bank chairman, who had given thousands of dollars to the committee. Later that year, Kerrey joined the Senate Banking Committee, which oversees S&L issues.

Sen. Donald Riegle of Michigan, who received \$76,000 from Keating. In 1987, Riegle took a helicopter tour of the Keating's Arizona real estate empire and said, "I like what I see here."

Congressman Douglas Barnard of Georgia, who is a member of the House Banking Committee and received \$20,000 from Keating.

Congressman Frank Annunzio of Illinois, who received \$3,000 from Keating. Annunzio chairs the House subcommittee that oversees regulation of savings and loans.

Congressman Stephen L. Neal of North Carolina, who sponsored an amendment to water down President Reagan's plan to shore up the Federal Savings and Loan Insurance Corporation.

Congressman Larry Smith of Florida, who received \$12,000 in contributions from CenTrust, a savings and loan that has since failed under suspicious circumstances.

President Bush has led the effort to pass the Financial Institutions Reform, Recovery and Enforcement Act of 1989, setting the toughest standards possible to ensure a similar crisis doesn't occur. The Administration has forcefully pursued cases against violators of the law.

It's time to quit pointing fingers and start following the President's lead to take action and clean up this mess.

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Statement by Mary Matallin (Targetted to Districts/States)

While Sen. Alan Cranston is trying to point a finger of blame over the S&L crisis, President Bush has been rolling up his sleeves to solve the problem.

Time after time, Democrats in Congress dragged their feet when they could have supported solutions sent up to the Hill by both the Reagan and Bush administrations. At the same time, these Democrats were enjoying cozy political ties with S&L operators.

Sen. Cranston solicited more than \$800,000 for his son's voter registration group from Charles Keating, head of a savings and loan whose scandal shrouded bankruptcy will cost the taxpayers billions of dollars. And then Cranston intervened with federal regulators on Keating's behalf.

Several years ago, Republican administrations began sending solutions up to Capital Hill, and for several years Democratic leaders blocked action. Now, the S&L situation is serious and, still congressmen, like Cranston, are slow to react with their votes, but quick to react with their mouths.

President Bush has led the effort to pass the Financial Institutions Reform, Recovery and Enforcement Act of 1989, setting the toughest standards possible to ensure a similar crisis doesn't occur. The Administration has forcefully pursued cases against violators of the law.

It's time to quit pointing fingers and start following the President's lead to take action.

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(The same release/radio actuality will go into the districts/states of: DeConcini, Glenn, Graham, Harkin, Bob Kerrey, Riegle, Annunzio, Chapman of Texas, Clarke of North Carolina and Neal of North Carolina.)

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release

June 22, 1990

REMARKS BY THE PRESIDENT
DURING ADDRESS TO UNITED STATES ATTORNEYS

The Department of Justice
Washington, D.C.

11:12 A.M. EDT

THE PRESIDENT: Thank you all and welcome back to Washington, many of you. For those here, my thanks to you as well for the job you're doing. I want to thank Secretary Brady for being with us, Nick; and of course, my valued counselor and friend, the Attorney General Dick Thornburgh, who is doing an outstanding job for our country. And I'm grateful to him every single day that I'm President. (Applause.)

To the prosecutors and crime fighters, you know what -- when I told the grandchild that's with me there in the White House now that I'd be spending some time with some of America's finest crime fighters, Noelle asked me if I'd be sure to bring back an autograph from Dick Tracy. (Laughter.) We just saw that show in the White House.

But nevertheless, true villains are drawn from life not from primary colors. And where financial fraud is concerned it takes a discerning mind and a determined spirit to distinguish the incompetent from the fraudulent, the unlucky from the unlawful. And this nation is very fortunate to be able to look to you, the United States Attorneys of America, to make these tough calls. And we depend on you as you work with the FBI and other investigative and regulatory agencies to sift through piles upon piles of documents and understand that in the cold numbers of a ledger can be found the tragedy of an embezzled pension, the heartache of stolen savings.

White-collar crime is not as dramatic as violent crime, but white-collar crime still ruins lives, and it murders the fondest dreams of whole families. And it takes a snake, a cold-blooded snake to betray the trust and innocence of hard-working people. And so if we have to look under rocks to find these white-collar criminals then we will leave no stone unturned.

This administration, from our first days in office, has worked with Congress to crack down on white-collar criminals, to crack down on fat cat financiers who launder the smell of blood out of drug money, and white-collar crooks who cheat the elderly out of their life's hard work, and to bring to justice government contractors who steal by the numbers. You already know of the 37 convictions from the ill-wind probe of federal defense contractors. And you already know of the 127 people rounded up in Operation Polar Caps crackdown on drug financiers.

And let me say I wanted you here today to also thank you because there are signs that we are starting at long last to make credible progress in the war on drugs. Dick and Nick Brady and I have just come from a meeting with Bill Bennett -- a report on where we stand. And we're beginning to get the sense -- and I think the country is beginning to get the sense -- that we will, indeed, win this war on drugs.

You know -- you already know -- that among cases

MORE

involving abuse of HUD contracts, the Department Justice has already obtained 65 convictions this fiscal year, including 21 convictions in Oklahoma alone. While courts have ordered almost \$2.5 million in restitution in that state, more than half of which will come from an executive who has a five-year reservation in prison. And in all, the government has won 10,000 financial fraud convictions since 1985. And just last year alone, the Department of Justice aggressively won almost 800 convictions in major financial institution fraud cases. Cases involving more than \$100,000 each.

But the most critical financial fraud problem we've faced is the -- Dick referred to it -- the S&L, the savings and loan crisis. Working closely with Congress, we succeeded in obtaining many critical regulatory reforms. But a great deal of wrongdoing had already taken place, had already occurred. And so, in the third week of my administration, I directed the Attorney General to give cases of S&L fraud the highest priority. And he did just exactly that. And when it comes to civil action, we have sought restitution to protect taxpayers through tens of thousands of civil suits leveled against S&L executives, owners and borrowers. And when it comes to criminal action, we aim for a simple, uncompromising position. Throw the crooks in jail.

And this aggressive attitude is paying off. And in three years, we've won more than 150 S&L convictions -- \$100 million ordered in restitution -- \$100 million. More than 400 years in prison terms meted out. And I know this because of you and your firm support, there will be much, much more. I am grateful to each and every one of you that is fighting hard to bring these people to justice.

Consider all that is happening. An S&L chairman gets 30 years in the celebrated case in Dallas, Texas. An S&L CEO in Santa Rosa is sentenced to prison, and the courts order almost \$7 million in fines and restitution. In Illinois, top officers of an S&L go to prison and are ordered to pay \$17 million. Now, these cheats have cost us billions. And they will pay us back with their dollars and they'll pay us back with years of their lives.

These prosecutions are the result of a determined effort. An effort which we are boosting with 202 FBI agents, 100 more FBI accounting technicians, and 118 more United States attorneys. The Dallas Task Force has been particularly successful, obtaining 52 convictions. So successful, in fact, that Attorney General Thornburgh is expanding the task force concept to 27 cities.

Now, we could have been moving even faster, but, very candidly, Congress did not act on my request for \$36.8 million in additional investigatorial and prosecutorial resources for 1989. And further, approval of my request that Dick talked about for \$50 million for the current fiscal year was delayed.

Under Secretary Brady's leadership, the IRS is aggressively pursuing individuals suspected of tax fraud in connection with failed savings and loan institutions. While the Resolution Trust Corporation is adding about 300 members to its investigative staff this year to become part of a new national investigative network. The FDIC is pursuing more than 1,200 cases of fraud and negligence against thrift officials -- attorneys, accountants -- and has collected more \$120 million in damages this year.

Treasury's Office of Thrift Supervision, the OTS, has also required 664 institutions to agree to terminate unsafe and unsound practices, remove than 150 senior thrift officers and directors, and issued 111 cease and desist orders to stop unsafe and unsound practices.

Throughout it all, our men and women in the federal agencies are doing a great job. From the halls of Justice and Treasury to the passport clerk who recovered \$3 million in cash, jewelry and gold by keeping a former savings and loan owner from

skipping the country.

We're learning a lot from our successes. And so I'm here today to back new legislative and administrative action. In further ways, we can crack down on white collar crime. First, let me declare my support for a proposed amendment to the Omnibus Crime bill to enhance and enforce the civil and criminal penalties for fraud against financial institutions. This legislation, sponsored by leaders -- Bob Dole, Republican leader, and Bob Michel; by Senators Heinz and Garn, as well as Congressman Hiler and Wylie will strengthen our investigative and prosecutorial tools in the service of justice. And it will provide added protection to the victims of crime.

We want to allow the use of court-approved wiretaps in investigating bank fraud. And we also want Congress to authorize federal regulatory agencies to ask the courts to freeze the corporate and personal assets of defendants in civil cases involving financial institution fraud so that they will not leave the taxpayers high and dry. And we want to prevent rip-off artists from using bankruptcy as a strategy to avoid paying damages.

Now, these are some of the legislative steps that we can and must take, but we must also build on our recent successes by taking further administrative action. The Attorney General will establish within this great department, the Department of Justice, a new unit to direct and sharpen the department's actions even further while helping to coordinate actions with other agencies.

Where new problems emerge in S&Ls we'll need to get involved fast. And that's why Attorney General Thornburgh and Secretary Brady have created a new approach -- rapid response teams against fraud. Teams of razor-sharp prosecutors and auditors recruited from their departments and other agencies striking city by city. Teams that will jump right into the paper chase. Teams that will hit the trail while that trail is still hot. These teams will be deployed to help you. You're on the cutting edge, you U.S. attorneys. And I am confident that they will work well with you.

I have already seen the men and women of these two departments working together -- sharing a tenacious spirit, born of a thirst for justice. Of course, we will always quantify the importance of our work together in terms of billions of dollars lost. But perhaps it is more appropriate to remember why this mission is so important to so many people -- a thought that will sustain you in the months to come as you sip that cold coffee long after everyone else has gone home. You'll be working late because you will not let those people be forgotten: Savers whose hard work and honest trust must and will be protected. Elderly people whose faith in the future must be preserved. It's your duty. I would say it is your sacred duty to right these wrongs. To stand up for the vulnerable against the unscrupulous, the guileless against the conniving.

We will not rest until the cheats and the chisellers and the charlatans spend a large chunk of their lives behind the bars of a federal prison. You do a difficult job in a spirit of professionalism. Sometimes you come under fire, partisan political fire. And I will do my level best to see that the facts are out there so that the American people can understand and appreciate, as I do, the job that you all are doing. I can thank you, only thank you, on behalf of all Americans for this dedication, this dedication that you bring to the people's work.

I want to thank all of you for coming here to Washington. And may God bless each and every one of you. Thank you for what you're doing. We want to support you 100 percent. Many, many thanks. (Applause.)

END

11:26 A.M. EDT

THE WHITE HOUSE
WASHINGTON

June 22, 1990

Dear Ed:

In our continuing effort to keep you up to date on the important issues of the day, I thought you might find the following information regarding the Administration's efforts to solve the Savings and Loan and the bank fraud issues of interest.

The Administration is actively combating financial institution fraud through legislative and administrative means. Funds have been appropriated to bolster the FBI and the U.S. Attorneys office, as well as other involved agencies. Legislative proposals to strengthen the fight against institutional fraud are being strongly supported by both Attorney General Dick Thornburgh and Treasury Secretary Nicholas Brady as effective enforcement tools.

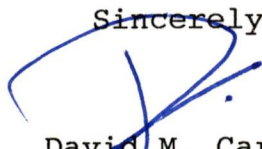
Some of the new efforts to combat institutional fraud include:

- *Protection of taxpayers through court orders freezing the assets of civil defendants.
- *Increased priority of Federal Government claims against parties responsible for losses due to institutional fraud.
- *530 active FBI investigations of failed financial institutions (up 88% from 1987).
- *791 fraud convictions (losses over \$100,000) for financial institutions fraud in 1989.

As you may already be aware, some elements on Capitol Hill have tried to frame this issue as a partisan issue. Obviously the facts do not bear this out to be true. The President and his Administration have forged ahead to bring this issue under control. The enclosed information should prove useful for you and your efforts.

Please find included fact sheets on the Administration's efforts to resolve these crises as well as a chronology of the significant events in the deregulation of Savings and Loans. I hope these will be of some use to you.

Sincerely,



David M. Carney
Special Assistant to the President and
Director, Office of Political Affairs

Mr. Ed Rogers
Deputy Assistant to the President and
Executive Assistant to the Chief of Staff
1st Floor, West Wing
The White House
Washington, DC 20500

STENY H. HOYER
CHAIR

VIC FAZIO
VICE CHAIR



Democratic Caucus

U.S. HOUSE OF REPRESENTATIVES

718 ANNEX #1 HOUSE OFFICE BUILDING

WASHINGTON, DC 20515

(202) 226-3210

Penny Gentilly
EXECUTIVE DIRECTOR

June 18, 1990

Dear Democratic Colleague:

This week's Democratic Message to the American people focuses our attention on the Bush administration's lack of leadership in cleaning up the S&L mess.

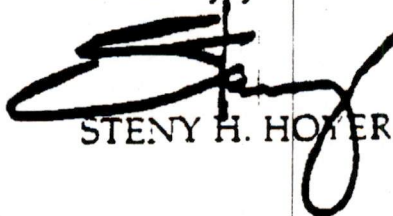
As Democrats, we share the growing concern of our working families about the ever-escalating amount of tax dollars the Administration estimates it needs to bail-out insolvent S&Ls. In the past several months, the President's top advisors have more than doubled the estimate they intend to apply to the bailout, and then cautioned that even these projections were soft. Yet rather than putting a stop to this hemorrhaging, the Bush administration is continuing to allow hundreds of failed savings and loans to remain open — further compounding the costs of the S&L bailout by billions of dollars.

It is the costs unseen that truly alarm and dismay America's working families. Our youngest working families are now confronting the first effects of this fiasco when they apply — and are denied — their first home mortgage. And our children will bear the brunt of the President's foot-dragging well into the next century. The schools that will go unbuilt, the bridges that will go unrepaired, and the educations that will go unfunded are the real toll of Bush mismanagement.

I have attached an excellent package on the S&L bailout, which includes S&L facts and Democratic talking points, prepared by DNC Research. I hope that it is helpful as you talk with your colleagues and constituents this week, and in the weeks ahead.

With warmest personal regards, I am

Sincerely yours,



STENY H. HOYER

MESSAGE BULLETIN

PRINTED ON RECYCLED PAPER

Talking Points on the S&L Issue

1. There is no need to pick over the bones of the S&L scandal--we know what happened. What we need to do is fix the S&L mess.
2. Bush is foot-dragging on the S&L cleanup and is already repeating the costly mistakes made by the Reagan Administration. The result is a doubling in taxpayer cleanup costs to \$500 billion -- in just 7 months.
3. Bush supports hiding the costs of the S&L bailout from taxpayers by keeping it "off-budget" and out-of-sight. Democrats, it must be remembered, supported "truth-in-budgeting" on the Bush bailout last year by margins of 181-67 in the House and by 47-6 in the Senate.
4. Public discontent with President Bush's mishandling of the S&L bailout is growing. The mid-February Harris Poll which gave President Bush a 70 percent approval rating also found that 60 percent of Americans disapproved of his plan to bailout the S&Ls.

Hey George, How Much Will It Cost?

Every time you look the other way, it seems like the Bush Administration is revising its projections on how much Bush's S&L bailout will cost U.S. taxpayers.

- o In August, 1989, Bush declared that it would cost taxpayers \$166 billion to make sure "these problems will never happen again." (Weekly Compilation of Presidential Documents, 8/89)
- o In March, 1990, the Bush bailout squad quietly requested an additional \$100 billion in "working capital" from the U.S. Treasury to finance new S&L bailouts in 1990 (WSJ, 3/6/90).
- o In May, 1990, the Bush Administration admitted the bailout will cost over \$300 billion in the years ahead -- double the amount predicted by Bush just 7 months ago (WP, 5/24/90). That same month, the General Accounting Office estimates that the bailout will cost a little bit more -- between \$325 and \$500 billion.
- o On June 14, 1990, Administration officials warned that this latest estimate was as perishable as sour cream on a hot summer day. Treasury Secretary Nicholas Brady explained that the Administration was "in the midst" of calculating how much money the Administration would need. (NYT, 6/15/90)
- o Federal Reserve Chairman Greenspan put it another way: "the size of this hole is astronomical." (NYT, 6/15/90)
- o Bush's S&L black hole: just how much will it cost?

You Too Can Own an S&L

- o Desperate for working cash to bailout additional S&L's, the RTC is selling off control of S&L deposits at firesale prices -- to corporate raiders like Ronald Perelman.
- o On March 15, 1990, the Resolution Trust Corporation (RTC) actually gave North Carolina National Bank \$700,000 to take Bankers S&L of Galveston and its \$104 million in deposits off the agency's hands (RTC Releases).
- o Three other S&L's -- with \$154 million in deposits -- have been sold for the price of a new Buick Le Sabre automobile (RTC releases).
- o S&L buyers are being allowed to pick over the assets of acquired thrifts for months -- creamskimming the best assets and returning unwanted, worthless properties to the U.S. taxpayer.
- o Asset buyers are paying the U.S. taxpayer an average of 60 cents on the dollar for the properties they do want (Southern Finance Project).
- o And who are getting these "bargain basement" deals? People like corporate raider Ronald Perelman, who was recently awarded the \$2 billion San Antonio Savings Association for just \$10 million (RTC).

Isn't This Taking Kinder and Gentler A Bit Too Far?

U.S. taxpayers may be a bit surprised to find out that President Bush isn't just paying off insured deposit holders -- under the Bush bailout. everybody in line is getting paid off.

- o Unless something is done, the Bush Administration is planning to pay off millions -- perhaps billions -- in uninsured S&L deposits and liabilities (RTC, Southern Finance Project).
- o So far, the RTC has already paid out \$50 million to investors whose accounts were above the \$100,000 insured limit (RTC).
- o And because the Reagan and Bush Administrations dragged their feet on closing down failing S&L's, U.S. taxpayers may be forced to pay off some \$26 billion in mortgage-backed bonds issued by S&L's during the late 1980s (Business Week, 4/23/90).
- o Most of these bonds were issued by high-flying S&L's who had no business being in business -- but investors flocked to buy these high-interest bonds because they knew that the federal taxpayer would ultimately foot the bill.
- o The added cost of President Bush's "generosity" to uninsured investors will be enormous -- driving up the cost of the bailout by as much as 33 percent.

1 Out of 21,000 Is Not a Good Batting Average

The Don Dixon indictment last week was a long overdue first step in bringing S&L thieves to justice.

Unfortunately, the Justice Department is still dragging its feet on more than 21,000 S&L fraud and embezzlement cases (Washington Post, 3/27/90).

Maybe this isn't surprising given that George Bush decided to spend only \$50 million of the \$75 million appropriated by Congress for the S&L crimes. Mr. President, what's the holdup?

One out of 21,000 is not an unacceptable batting average when it comes to recovering stolen taxpayer funds.

Don't Let History Repeat Itself: Close'em Down Now

Ignoring the lessons of the 1980s, the Bush Administration is allowing hundreds of failed S&L's to remain open -- compounding the costs of the S&L bailout by billions of dollars.

700 More Failing S&Ls: Are They Being Ignored?

In May 23 testimony to Congress, Treasury Secretary Nicholas Brady understated the true size of the S&L problem, saying that at most 1,000 thrifts will have to close down.

By contrast, the non-partisan Congressional Budget Office predicts that as many as 700 additional thrifts will need to be shut down -- at an additional cost to taxpayers of up to \$100 billion (NYT, 6/14/90).

The Costs of Ostrich Mentality

Losses at insolvent thrifts ignored by the Bush Administration will soar because thrift owners, having nothing to lose, often gamble taxpayer funds on risky new investments to try and recoup their losses. These thrifts stay open by paying interest on deposits not from any profits on investments, but from new deposits lured in by excessively high interest rates. And who guarantees these new deposits? Why taxpayers, of course.

Mr. President what are you waiting for? Take your head out of the sand and learn the lessons of the past. Stop the S&L bleeding today.

FOR FURTHER INFORMATION, CONTACT:

DNC RESEARCH

863-8000

ATTACHMENT II

ATTACHMENT II

Minimum Funds Needed to Resolve
The Savings and Loan Crisis

(All amounts in billions)

Estimate Based on OMB's July 1989 Funding Summaries:

FSLIC Assistance Transactions	\$ 56	
RTC Resolutions	50	
REFCORP Interest Expense	69	
Financing Corporation (FICO) Interest Expense	31	
Establish Savings Association Insurance Fund (SAIF)	9	
Post-RTC Resolutions	24	
Non-RTC Administration and Other	9	
Subtotal - Direct Funding Needs	248	
Lost Tax Revenues From FSLIC Transactions	9	
Total Based on OMB's July 1989 Estimates		\$257 ^a

Additional Funds Needed For:

FSLIC Assistance Transactions	\$ 12	
RTC Resolutions	13	
RTC Administrative Expenses	10	
Interest on RTC Working Capital	28	
Additional REFCORP Interest Expense	5	68 ^b
Minimum Funds Needed		\$325

^aThis estimate is based on OMB's estimates of the funds needed during fiscal years 1989 through 1999. However, funds will be needed in later years to pay interest on REFCORP and FICO bonds. OMB assumed that they would issue 30-year bonds. Therefore, our estimate included the entire amount of interest that would be incurred over the 30-year life of the bonds.

^bThese additional funds will be needed over different periods of time. Most of the funds (\$63 billion) will be needed before the end of fiscal year 1999. The additional interest is primarily due to an extra 10 years of interest because REFCORP issued 40-year bonds instead of 30-year bonds.

Source: OMB July 1989 funding summaries and information from FSLIC, FDIC, RTC, and REFCORP.



Party Lines

Talking Points from the Democratic Party

Ronald H. Brown
Chairman

May 23, 1990

Neil Bush And Silverado

"Like the Broncos...I intend to win."

- Neil Bush, vowing to fight federal regulators' attempts to ban him from future dealings in the S&L industry (CNN, 1/26/90).

"The average American businessman may have trouble getting a loan for inventory, but at Silverado there was never a credit crunch for the people with the right friends...."

- Congressman Frank Annunzio (D-IL) at today's House Banking Committee hearing

As President Bush borrows billions in taxpayer money for the bailout of the S&L industry, his son, Neil Bush, testifies today before the House Banking Committee on his financial and political role in the downfall of the scandal-plagued Silverado Banking Savings & Loan Association of Denver.

The Neil Bush story is but one story out of hundreds which depict an industry handing out billions in high-risk loans and cutting questionable, possibly illegal, financial deals with little regard for the security of depositors' money.

Neil Bush's story, however, made national headlines earlier this week when **The San Francisco Chronicle** reported that federal regulators stopped the closing of Silverado four weeks before the election of George Bush to the White House - costing taxpayers hundreds of thousands of dollars with each additional day it remained open.

Federal regulators testified yesterday that Neil Bush, a former Silverado director, concealed he had substantial financial ties to a developer for whom Bush voted to approve \$106 million in loans from Silverado. The developer later defaulted on the entire \$106 million.

Get A Loan, Give A Loan

Baltimore Sun, 5/23/90

"Neil Bush, the president's son, concealed from federal regulators and officials of a failed thrift...the fact that he had substantial financial ties to a developer for whom he voted to approve \$106 million in loans, regulators (said).

"Stephen P. Hershkowitz, deputy director of enforcement at OTS, told the House Banking Committee that the developer, William Walters, subsequently defaulted on all of the loans, which was used by Silverado....

"Mr. Walters and another developer, Kenneth Good, helped set up Mr. Bush as head of an oil and gas exploration company, JNB Exploration, with Mr. Walters investing \$150,000 and arranging a \$1 million line of credit for JNB at another bank...

"Apart from voting to approve the Silverado loans for Mr. Walters, Mr. Bush helped arrange a \$900,000 line of credit to aid Mr. Good on a business deal in Argentina, but Mr. Bush abstained from voting on the credit line when it was approved by the Silverado board... regulators later learned of a \$100,000 loan from Mr. Good to Mr. Bush only when they examined Mr. Good's financial records as part of the probe of Silverado."

Get A Loan, Give A Loan, Part II

Rocky Mountain News, 5/8/90

"...Silverado...hid severe financial problems by making tens of millions of dollars worth of loans on overvalued property, according to federal documents....

"Silverado then forced those borrowers to use part of the money to buy bad loans from the savings and loan...

"The scheme made a financially shaky Silverado look much healthier than it really was, said Bert Ely, a financial institution consultant and nationally recognized expert on thrift failures who read the documents.

"They were trying to get those (bad) assets off their books and trying to do it in such a way that they wouldn't have to recognize losses on the loans," said Ely. "Not only is it an unacceptable business practice, but it leads to a material misstatement of the institution's net worth."

The American People Want Justice

Congressman Frank Annunzio (D-IL)

"The savings and loan crisis is going to cost the American taxpayer \$500 billion. Much of that loss is due to the actions of the boards of directors of the failed savings and loans. Too often the directors were either rubber stamps of management, or were greedy

and self dealing. We heard yesterday that Neil Bush, as a director of Silverado, presented or voted on, \$106 million in loans to Ken Good and Bill Walters, two Silverado borrowers with whom he had business deals. All those loans are now in default.

No savings and loan investigation by this Committee will be complete until the Attorney General appears as a witness. We must find out why the Justice Department is so reluctant to investigate savings and loan cases. The taxpayers have a half trillion reasons to want an answer to the question: when are the savings and loan crooks going to jail?...

The American people are sick and tired of the Justice Department being a toy poodle, rather than a pit bull, when it comes to S&L crimes. People ask me, when are the S&L crooks going to jail? If the Justice Department does not investigate the criminal referrals that it gets, the answer is never.

Last year this Committee strengthened the criminal laws for financial institution crime, we lengthened the statute of limitations for prosecuting the crooks. We authorized \$225 million over three years to investigate the cases.

The Justice Department is dragging its feet on these cases. It claims it does not need all the money, even while cases such as the Silverado criminal referrals linger....The American people want justice done in the S&L cases."

Where Did All The Money Go? Congressman Dan Glickman

"Where did all the money go? The savings and loan debacle is becoming our worst nightmare – a financial black hole of galactic proportion. There is no more pressing need for swift, resolute justice in our country than prosecuting the fraud that may cost each of us thousands of dollars and rob us of the opportunity to meet the challenges of the 21st Century.

This enormous bailout is likely driving the President to seek a budget summit and to seek spending cuts and new taxes to get us out of the fix we are in. Reports say the ultimate cost of the S&L bailout may be upwards of \$500 billion – half a trillion dollars – and that the federal deficit may exceed \$200 billion, largely as a result of the S&L bailout.

A half of a trillion dollars. Where did all the money go? It is one of the single most expensive undertakings ever of this government, and the cost seems to be growing geometrically each day. \$2500 from each and every citizen chasing sour loans, shoring up shaky deals, paying for self-dealing and fraud, instead of being invested in our children's education, improving our health care system, improving our infrastructure, meeting the needs of rural America, and keeping U.S. industry the most competitive in the world.

The S&L calamity, not prudent fiscal policy, is forcing the White House to seek a budget summit to slash spending and raise taxes. The S&L tiger we are riding has got to be brought under control; those responsible must be brought to justice."

"Although (Silverado) was costing taxpayers hundreds of thousands of dollars with each additional day that it remained open, it was not seized until a month after Bush was elected president in November 1988. Analysts now say the collapse may cost taxpayers \$1 billion....

"On Aug. 15, 1988, Colorado S&L Commissioner Dave Paul issued an order saying the state would seize insolvent Silverado unless it obtained \$62.1 million in capital by October 13, almost four weeks before the national election.

"That declaration occurred about the time Neil Bush resigned as a Silverado director and shortly before his father captured the presidential nomination at the August Republican convention.

"...Paul said that Silverado failed to cut its capital deficit by the mid-October deadline. Instead, he said, it actually doubled its capital deficit between the quarterly periods ending June 30 and September 30. Paul said he prepared to seize the thrift immediately....

"But Paul said Kermit Mowbray, president of the Topeka Federal Home Loan Bank, wrote two letters 'requesting very strongly' that the Silverado closure be extended by 45 days, carrying it to December...Mowbray said the federal government needed more time to marshal resources for its side of the takeover....

"On November 9, the day after the 1988 election, Mowbray signed a 55-page, single-spaced memorandum prepared by his staff recommending a takeover of Silverado because it was insolvent - in large part because of 'violations of laws' and 'unsafe and unsound business practices.'"

No Indictments After Four Years Of Criminal Activity

Washington Post, 5/23/90

"Officials at the Office of Thrift Supervision disclosed that they have given the Justice Department 11 separate referrals of possible criminal activity at Silverado, based on evidence turned up in examinations of the thrift's records going back to 1986.

"Several Democrats (at the House Banking Committee hearing) said that after four years, some action should have been taken on the criminal referrals.

"I'd like to know why the attorney general is not proceeding with this matter," said Rep. Paul Kanjorski (D-Pa.) Citing evidence of 'actual fraud, insider dealings and the suggestion of payoffs,' Kanjorski, a lawyer, asked, 'Isn't this a clear case that a grand jury should listen to?'"

Neil Bush is clean in the S&L scandal, but what about those Democrats?

HOLD on to your toupees! The calm waters through which President George Herbert Walker Bush has been piloting the ship of state may soon become high seas. Two distinguished journalists have spotted brazen coverups.

I have in mind Ben Snark, who writes that the Bush White House has been engaged in "the biggest government coverup since Watergate," and Mark Shields, who complains of "the outrageously submissive deference shown by both opposition Democrats and most of the Washington press corps toward the First Family of President George Bush."



**R. EMMETT
TYRRELL JR.**

Snark filed his story in the Sun, one of the nation's prestige national tabloids, after discovering that an 8-foot

PUBLIC NUISANCES

"alien corpse" has been concealed in the basement of the White House "by bigwig officials in yet another attempt to keep the American public from learning the truth" about extraterrestrial life.

Shields, formerly a superb Democratic consultant, deposited his story in his syndicated column wherein he reports that the real culprit in the savings and loan scandal is Neil Bush, third son of George ("Neil Bush's charmed life," Op Ed, June 5).

And, writes Shields, neither the Democrats nor the me-

dia have had the guts "to confront the Bush involvement in the savings and loan scandal."

A few weeks ago Neil Bush testified before the House Banking Committee about business dealings undertaken during his tenure as director of the now defunct Silverado Savings and Loan of Denver.

No criminal illegality was uncovered. At worst a civil offense constituting a misdemeanor might issue from this investigation, but not even that has happened.

Since Neil Bush remains at

large without indictment, a lurid trial and a trip to the gallows, Shields suspects foul play. His hypothesis is that were Neil Bush someone else, the press and all the stalwart Democrats would have the wretch in irons.

Well, I was not aware of Shields' interest in the savings and loan scandal. Now that he is interested, perhaps he will take a look at the involvement of former Democratic Congressmen Jim Wright, Tony Coelho and Fernand St Germain.

They used political power to assist Democratic campaign contributors when they became enmeshed in the scandal. Wright intervened with regulators

throughout the 1980s, putting off a troubled industry's day of reckoning for years and costing the American taxpayer billions.

All these rogues vamoosed rather than face further investigation.

And perhaps Shields will join in the investigation of the Keating Five, the five senators (four being Democrats) accused of importuning government regulators to delay taking tough action against the Lincoln Savings and Loan. They too cost taxpayers billions.

What does Shields think the press fears? Ostracism from the Kennebunkport Country Club? Death threats from Andover?