

\$1.1 Billion Bank Fraud Suit Filed

New Rescue Agency Accuses S&L Owner Of Racketeering

By Jerry Knight
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Federal banking regulators yesterday filed the biggest bank fraud lawsuit ever, accusing Arizona real estate developer Charles Keating and his associates of directing a racketeering scheme that destroyed a California savings association and cost the taxpayers \$1.1 billion.

The lawsuit charged that Keating's group set out to buy a savings and loan association so they could use its deposits to finance their real estate speculation, and then drained off hundreds of millions of dollars by manipulating deals, concocting phony land sales, making loans to insiders and other violations of federal banking regulations.

The Keating group "conceived a fraudulent scheme to divert funds from a federally insured thrift to their own use," the government charged, alleging a dozen types of "illegal fraudulent and imprudent" actions that it said add up to a "racketeering influenced corrupt organization," or RICO.

The lawsuit was filed under bank fraud statutes by the Resolution Trust Corp., the new agency set up by Congress to clean up the S&L crisis. The agency does not have the authority to bring criminal charges, but a federal grand jury in Los Angeles is investigating Keating and his companies.

A spokesman for Keating denied the charges in the RTC suit.

Keating's thrift, Lincoln Savings and Loan of Irvine, Calif., was seized by regulators earlier this year. When all its losses are added up and depositors are paid off, Lincoln is expected to be the biggest S&L failure ever, costing the taxpayers as much as \$2.5 billion.

Fraud caused at least \$1.1 billion of that loss, the government charged in the lawsuit filed in U.S. District Court in Phoenix. Besides Keating, there are 36 defendants in the suit, including Keating's children and 17 companies.

Some of the charges are violations of the RICO law, for which triple damages are permitted. If the gov-

See **THRIFT**, A13, Col. 1

■ **Two officers of First Maryland S&L sentenced to prison. Page B1**

U.S. Regulators File Suit Against Calif. S&L Owner

THRIFT, From A1

ernment proves those charges, it could bring the total possible claims against the defendants to about \$2.5 billion, sources familiar with the case said.

A press agent for Keating issued a statement calling the government "mean-spirited" for taking legal action against members of Keating's family and saying, "We feel that when the matter is tried, the government will never prove its case. The investigation was so inept that we are confident that when a jury of peers evaluates the evidence the government will lose and lose decisively."

The lawsuit follows an independent investigation of Lincoln's finances by the Federal Deposit Insurance Corp., which was ordered by President Bush to take over S&L matters from the much-criticized Federal Home Loan Bank Board.

House Banking Committee Chairman Henry B. Gonzalez (D-Tex.) has launched a congressional investigation into whether Keating received special treatment from regulators as the result of intervention by a group of senators and M. Danny Wall, who was chairman of the bank board and now heads the new Office of Thrift Supervision.

The Federal Home Loan Bank of San Francisco was threatening to take disciplinary action against Lincoln last year when Wall stepped in

and in an unprecedented action took regulatory authority over the thrift away from the San Francisco bank.

An anti-pornography crusader and a major political fund-raiser, Keating also sought help in 1987 from a group of senators for whom he marshaled contributions. Keating's complaints were raised at one meeting with Senators Alan Cranston (D-Calif.), Dennis DeConcini (D-Ariz.),

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John McCain (R-Ariz.) and John Glenn (D-Ohio). Another session also was attended by Sen. Donald Riegle (D-Minn.), who later returned campaign contributions from Keating.

All the senators have denied charges by former bank board chairman Ed Gray that they tried to pressure him into giving special favors for Keating.

Keating and Lincoln also are the targets of an investigation by the Se-

curities and Exchange Commission over the sale of \$200 million worth of junk bonds that became worthless when the S&L failed within weeks after the bonds were issued. A federal grand jury in Los Angeles is also looking into allegations of unspecified criminal violations involving the S&L.

Several types of bank fraud charges were raised in the 150-page lawsuit filed yesterday, many of them involving transactions between Lincoln Savings and its parent company, American Continental Corp. of Phoenix (ACC), which Keating also controls.

The lawsuit asks \$745 million in damages for violation of an agreement made with federal regulators when ACC bought Lincoln in 1984. ACC promised to invest as much money in Lincoln as necessary to maintain its capital reserves, which are meant to protect against losses. The capital contributions were never made and the government had to make up the difference when the S&L failed.

Another \$125 million in damages is sought under a tax-sharing arrangement between the S&L and the parent company that the government called "a device to siphon cash from Lincoln to ACC." The S&L was supposed to reimburse the parent company for its share of corporate income taxes. Lincoln didn't owe any taxes, but paid ACC the money anyway, the lawsuit alleges.

The remainder of the \$1.1 billion in actual damages is for what the government says were fraudulent real estate and stock transactions that shifted money from Lincoln to ACC and other companies controlled by Keating, his family and associates.