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G	26	20	6	4

Justice

DOJ FINANCIAL INSTITUTION FRAUD AMENDMENTS TO S.1970/INDEX

ISSUE/TITLE OF AMENDMENT (statute effected, if any)

B1 Enhancement of Ability to Order Restitution in Certain Fraud Cases (Hughey v. United States);

B2 Debt Collection Provisions

B3 Wiretap Authority for Bank Fraud and Related Offenses and Technical Amendments to Wiretap Law (18 U.S.C. 2516(1));

B4 Cross-Designation of Government Attorneys by the Attorney General to Assist in Prosecution of Financial Fraud Crimes;

B5 Jurisdictional Amendment for Section 2314 to Cover Fraudulent Schemes involving Foreign as well as Interstate Travel (18 U.S.C. 2314);

B6 Fraud Through Use of a Facility of Commerce (18 U.S.C. 1343);

B7 Richmond Amendment (Simplified Version) Re: Alienation or Disposition of Property (18 U.S.C. 1345);

B8 Correction of Misplaced Phrase (18 U.S.C. 3289);

B9 Conforming Amendments to Substitute a Reference to the FDIC for the now Abolished FSLIC in Two Banking Offenses (18 U.S.C. 657; 18 U.S.C. 1006).

ISSUE #B1 ENHANCEMENT OF ABILITY TO ORDER RESTITUTION IN CERTAIN FRAUD CASES.

Section 3663(a) of title 18, United States Code, is amended by adding at the end the following:

"For the purposes of this section the term 'victim of such offense' shall include any victim of an offense involving a scheme or artifice under chapter 63 of this title (or under the second paragraph of section 2314 of this title), or of a conspiracy to commit such an offense, irrespective of whether the defendant was convicted of an offense involving that victim or of an offense involving the property of the victim for which restitution is to be ordered."

ISSUE #B1 SECTION-BY-SECTION ANALYSIS

This would partially overcome the decision of the Supreme Court in Hughey v. United States, (decided May 21, 1990), which held that, for the purposes of the restitution statute, restitution can be ordered only to those victims of an offense for which the defendant has been convicted. Under the proposed amendment, Hughey would be effectively overturned with respect to prosecutions using a "scheme or artifice" provision, such as mail fraud and bank fraud. In those cases, the court would be empowered to order restitution to any victim of a scheme, even if such victim was not included in a count of conviction or (as to the same victim) even if the property for which restitution is ordered was not the subject of a count of conviction.

ISSUE #B2 DEBT COLLECTION

ISSUE #B3 WIRETAP AUTHORITY FOR BANK FRAUD AND RELATED OFFENSES AND TECHNICAL AMENDMENTS TO WIRETAP LAW.

(a) Section 2516(1)(c) of title 18, United States Code, is amended --

(1) by inserting "section 215 (relating to bribery of bank officials)," before "section 224";

(2) by inserting "section 1014 (relating to false statements to financial institutions), "before "sections 1503,";

(3) by inserting "section 1344 (relating to bank fraud)," after "section 1343 (fraud by wire, radio, or television),"; and

(4) by striking out "the section in chapter 65 relating to destruction of an energy facility,";

(b) Section 2516(1) of title 18, United States Code, is amended --

(1) by redesignating the first paragraph (m) which reads "any conspiracy to commit any of the foregoing offenses." as paragraph (o);

(2) by striking out "and" at the end of paragraph (m);

(3) by striking out the period at the end of paragraph (n) and inserting ";and"; and

(4) in paragraph (j), by striking out "any violation of section 1679(c)(2) (relating to destruction of a natural gas pipeline) or subsection (i) or (n) of section 1472 (relating to aircraft privacy) of title 49, of the United States Code" and inserting in lieu thereof "any violation of section 11(c)(2) of the Natural Gas Pipeline Safety Act of 1968 (relating to destruction of a natural gas pipeline) (49 U.S.C. App. 1679a(o)(2) or sections 902 (i) or (n) of the Federal Aviation Act of 1958 (relating to aircraft piracy) (49 U.S.C. App. 1472(i) or (n))".

ISSUE #B4 CROSS-DESIGNATION OF GOVERNMENT ATTORNEYS BY THE ATTORNEY GENERAL TO ASSIST IN PROSECUTION OF FINANCIAL FRAUD CRIMES

Notwithstanding any other provision of law:

(a) The Attorney General may, with the consent of the heads of departments, designate attorneys employed by the departments to assist the Department of Justice in the investigation and prosecution of fraud or other criminal or unlawful activity in or against the savings associations industry.

(b) An attorney designated in accordance with subsection (a) may, subject to the general supervision of the Attorney General, conduct any kind of legal proceedings, civil or criminal, including grand jury proceedings and proceedings before committing magistrates, and perform any other investigative or prosecutorial function, which United States attorneys are authorized by law to conduct or perform, whether or not the attorney is a resident of the district in which the proceeding is brought.

(c) The Attorney General is not required to reimburse the departments for the services of attorneys designated in accordance with subsection (a).

ISSUE #B4 SECTION-BY-SECTION ANALYSIS

Subsection (a): This section is based on current 28 U.S.C. § 543, which the Department of Justice relies on for authority to cross-designate attorneys from other federal agencies to assist the Department. The verb "appoint" in section 543 has been replaced with "designate" to make clear that designated attorneys will not have two government appointments, but simply will have additional duties. The reference to "savings associations industry" is based on FIRREA, which refers repeatedly to "savings associations."

Subsection (b): This section is based on current 28 U.S.C. § 515. The section is designed to insure that the Department of Justice can make full and appropriate use of government attorneys with the requisite expertise.

Subsection (c): This section makes clear that the Department of Justice will not have to pay the salaries of designated attorneys.

ISSUE #B5 JURISDICTIONAL AMENDMENT FOR SECTION 314 TO COVER FRAUDULENT SCHEMES INVOLVING FOREIGN AS WELL AS INTERSTATE TRAVEL

The second paragraph of section 2314 of title 18, United States Code, is amended by inserting "or foreign" after interstate."

ISSUE #B5 SECTION-BY-SECTION ANALYSIS

The amendment in section 102 would plug a loophole in 18 U.S.C. 2314, which punishes schemes to defraud (including those directed against HUD or a HUD program) involving the induced interstate travel of a person other than the perpetrator.

The relevant portion of section 2314 (the second paragraph) was enacted in 1956, in order to combat a then growing species of fraud in which the interstate travel of the victim was a prime ingredient. Congress found that: "This travel by the victim not only serves to provide a means of carrying the money to the criminal by the agency of the victim himself, but because the victim is induced to travel away from home the time incident to his travel and return may also occasion an additional delay which can be used by the criminal to escape from the scene." (H. Rep. No. 2474, 84th Cong., 2d Sess.), reprinted at 1956 U.S. Code Cong. & Adm. News, p. 3038 (1956). This rationale clearly applies to schemes in which the victim is induced to travel in foreign commerce as well as interstate commerce, yet the statute covers only the latter. This anomaly is underscored by the fact that the section's other paragraphs, penalizing the transportation of various items of stolen or counterfeited character, extend both to interstate and foreign commerce transportation. Moreover, the failure to cover foreign commerce in the second paragraph offense creates other anomalies in which a fraud victim's travel, e.g., from the State of Washington to Mexico through other States, would be covered (as "interstate" travel), but a victim's travel from a border State such as Texas directly into Mexico would not. See United States v. Kelly, 569 F.2d 928, 934 (5th Cir. 1978). Accordingly, the amendment adds travel in foreign commerce to the second paragraph of 18 U.S.C. 2314.

ISSUE #B6 FRAUD THROUGH USE OF A FACILITY OF COMMERCE

(a) Section 1343 of title 18, United States Code, is amended by --

(1) striking out "transmits or causes to be transmitted by means of wire, radio, or television communication in interstate or foreign commerce, any writings, signs, signals, pictures, or sounds" and inserting in lieu thereof "uses or causes to be used any facility of interstate or foreign commerce;" and

(2) inserting "or attempting to do so" after "for the purpose of executing such scheme or artifice."

(b) The heading of section 1343 of title 18, United States Code, is amended to read" "Fraud by use of facility of interstate commerce."

(c) CLERICAL AMENDMENT. -- The table of sections for chapter 63 of title 18, United States Code, is amended to by striking out the item relating to section 1343 and inserting in lieu thereof "1343. Fraud by use of facility of interstate commerce.".

ISSUE #B6 SECTION-BY-SECTION ANALYSIS

Section 103 would expand jurisdiction under the current wire fraud statute, 18 U.S.C. 1343, so that there would be federal cognizance over fraudulent schemes in which any facility of interstate or foreign commerce was used, not only schemes promoted by means of wire, radio, or television communication. The wire fraud statute was enacted in 1952 as a supplement to the pre-existing mail fraud law, in order to deal with the rapid growth of fraudulent schemes then being promoted through radio and television advertising. See H. Rep. No. 2426, 82nd Cong., 2d Sess. (1952), reprinted at 1952 U.S. Code Cong. & Adm. News, pp. 2264-5 (1952). Another statute, 18 U.S.C. 2314 (second paragraph), punishes fraudulent schemes in which a person or persons travel in, or are induced to travel in, interstate commerce. A gap, however, exists among these statutes with respect to the use of other facilities of interstate commerce. For example, a sophisticated schemer, aware of the limitations of federal fraud laws, could use an interstate common carrier such as Federal Express rather than the mails to distribute fraudulent solicitations. The federal interest in reaching such schemes is every bit as great as when the mails or a wire facility, such as the telephone, is used in interstate commerce, since the common theme uniting all these situations is that prosecution by a State or local prosecuting authority is difficult when the scheme takes on interstate or international proportions. Many modern federal statutes use the device of expressing the federal interest by reference to the use of any facility of interstate or foreign commerce. See, e.g., 18 U.S.C. 1952(a) and 1465 (as amended by section 7521(c) of the Anti-Drug Abuse Act of 1988). The proposed amendment thus represents an updating of the wire fraud law to foreclose the use of jurisdictional loopholes by which certain unscrupulous persons could escape federal prosecution, including the perpetrators of frauds involving the Department of Housing and Urban Development or an agency or program thereof.

The second part of the amendment, adding coverage of the use of an interstate facility in an attempt to execute the fraudulent scheme, would conform 18 U.S.C. 1343 to its companion statute, the mail fraud law, 18 U.S.C. 1341, which already contains such provision.

ISSUE #B7 RICHMOND AMENDMENT (SIMPLIFIED VERSION)
RE: ALIENATION OR DISPOSITION OF PROPERTY

The first sentence of section 1345 of title 18, United States Code, is amended to read as follows:

"Whenever it shall appear that any person is engaged or is about to engage in any act which constitutes or will constitute a violation of this chapter, or of section 371 (insofar as such violation involves a conspiracy to defraud the United States or any agency thereof), or 1001 of this title, or is engaged or intends to engage in any alienation or disposition of any property, the Attorney General may initiate a civil proceeding in a district court of the United States to enjoin such violation or such alienation or disposition of property or equivalent assets."

substance approved... just waiting for language

ISSUE #B8 CORRECTION OF MISPLACED PHRASE IN 18 U.S.C. 3289.

Section 3289 of title 18, United States Code, is amended by striking out "or, in the event of an appeal, within sixty days of the date the dismissal of the indictment or information becomes final," and inserting that same stricken language after "within six months of the expiration of the statute of limitations,".

ISSUE #B9 CONFORMING AMENDMENTS TO SUBSTITUTE A REFERENCE TO THE FDIC FOR THE NOW ABOLISHED FSLIC IN TWO BANKING OFFENSES.

Sections 657 and 1006 of title 18, United States Code, are each amended by striking out "the Federal Savings and Loan Insurance Corporation" and inserting in lieu thereof "the Federal Deposit Insurance Corporation."

DRAFT -- HILDEBRAND -- 6/20/90

Remarks by Secretary Brady
S&L Initiative -- Justice Department
June 22, 1990

I am pleased to join the President and the Attorney General this morning [as we announce] [to discuss] the Bush Administration's initiative to intensify the fight against financial institution fraud.

In the ten months since the FIRREA legislation was passed by the Congress, those of us tasked with cleaning up the mess have been guided by three principles:

-- First, we will make sure that the millions of men and women who put their life savings in savings and loan institutions are protected to the full extent of their federal deposit insurance.
-- Second, we will do all within our power to do the job at the least cost to the taxpayer.
-- Third, we will aggressively pursue and prosecute the crooks and fraudulent operators who helped create the S&L problem.

The United States Government made a promise to millions of Americans. We promised to protect their savings deposited in a federally-insured savings and loan. Now we are making good on that promise. The problem is huge, and the resolution of it will

neither be quick, nor easy, nor cheap. But we will see that it is done -- and done well. To accomplish that goal, we need the continued assistance and commitment of the U.S. Attorneys.

Making good on our commitment to safeguard the savings of millions of Americans is only part of the cleanup. The American people need to know that the crooks and wheeler-dealers who created this mess, through blatant mismanagement and outright fraud, are going to be hunted down, prosecuted, and sent to jail for their betrayal of trust.

Trust and confidence are an integral part of our financial system. It is up to the regulators, federal law enforcement officials, and the U.S. Attorneys to work as a team in this commitment to clean up the fraud and restore the confidence of the American people -- both current and future depositors -- in thrift institutions.

The Resolution Trust Corporation (RTC) has established an Office of Investigations in Washington and has teams of investigators throughtout the country. The RTC's investigations staff numbers ___ and will reach 300 by year end. These investigators will help to identify negligent and reckless mismanagement, fraud and criminal conduct that contributed to failed thrifts. These investigators will assist the FBI and the

DRAFT -- HILDEBRAND -- 6/20/90

U.S. Attorneys in criminal prosecutions.

Thrift regulators and institutions have made over 17,000 criminal referrals in the last three years. Over the same period, OTS and its predecessors required 664 institutions to enter into binding agreements terminating unsafe and unsound practices; removed over 150 senior officers and directors from thrifts and forbade them ever again to be employed by an insured thrift institution; and issued 111 cease and desist orders, to stop unsafe and unsound practices and to require restitution. In addition, there are over 1,000 civil law suits seeking to recover billions of dollars from the former directors, officers and professionals -- including accountants and lawyers.

[Number] of criminal referrals by OTS to date have already resulted in prosecutions and convictions.

Woody Lemons, the former Chairman and CEO, Vernon Savings and Loan, in Texas, was caught. He will serve 30 years for bank fraud and bribery.

(Additional examples of long prison terms)

The enactment of the FIRREA legislation was the beginning-- not the end -- of the solution. Today's announcement of additional steps to fight financial institution fraud is one more -- not the final -- step in the Administration's efforts to ensure that the federal government's resources are targeted at the root of the problem.

This is not a small enforcement effort. We are stacking the deck against the crooks and the thieves. The Treasury Department, the Office of Thrift Supervision, the Comptroller of the Currency, and the Internal Revenue Service, are committed to working with you, our U.S. Attorneys; the Justice Department; and other financial regulators to see that these high-flyers, who gambled with -- and lost -- depositors' money that didn't belong to them, are made to pay. And whenever possible, I mean, literally, pay.

Our mission is to see that the S&L crooks are not allowed to sail away in their yachts, as some have suggested. To those who have cheated the American people through criminal acts, we make a pledge. Our goal for you -- the crooks, the cheats and the chislers -- is a long stay, not in a plush resort, but behind bars.

See Highlights

c: Alan

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release August 9, 1989

FACT SHEET

Key Provisions of the Financial Institutions Reform, Recovery and Enforcement Act of 1989

STRONG THRIFT CAPITAL REQUIREMENTS

- The bill was designed to require thrifts to meet generally the same capital and accounting standards as national banks. In addition to new, tougher minimum capital requirements for thrifts, the bill provides other new standards which reflect national bank capital provisions.

- The bill also creates a tangible capital requirement of at least three percent of assets. This will prevent the current situation in which institutions with an enormous negative tangible net worth are able to comply with minimum capital rules and continue active expansion. All "supervisory goodwill" must be phased out by January 1, 1995.

- Investments in thrift subsidiaries engaging in nontraditional activities must be deducted from capital. This will prevent the risk of sudden failure of insured institutions as a result of losses in subsidiary businesses.

- Growth by undercapitalized firms will be strictly limited or prohibited.

- Brokered deposits will not be permitted for undercapitalized thrifts.

ESTABLISHMENT OF NEW DEPOSIT INSURANCE FUND

- Deposit insurance for thrifts will be provided by a new insurance fund, called the Savings Association Insurance Fund (SAIF). SAIF will replace the current Federal Savings and Loan Insurance Corporation. The SAIF fund will be directed and administered by the Federal Deposit Insurance Corporation, although it will be separately maintained from the existing bank insurance fund.

- SAIF will continue to receive assessments paid by its members after 1991, and should it become necessary, Treasury payments to maintain the Fund's net worth at specified levels.

RESOLUTION TRUST CORPORATION (RTC) AND RTC OVERSIGHT BOARD

- The RTC will be established to merge or liquidate all existing failed thrifts, as well as any thrifts that fail prior to August, 1992.

- The RTC Oversight Board will establish general policies for the RTC and oversee its activities. Members of the Oversight Board will be the Secretary of the Treasury (Chairman), the Chairman of the Federal Reserve Board, the Secretary of Housing and Urban Development and two public members appointed by the President.

- The Federal Deposit Insurance Corporation (FDIC) will be the exclusive manager of the RTC, handling day-to-day operations.

FINANCING FOR CLOSING AND RESOLUTION OF FAILED THRIFTS

- The bill will establish the Resolution Funding Corporation (REFCORP) to fund the case resolutions undertaken by the RTC. Refcorp will be headed by a three member Directorate, and it will be authorized to issue up to a $30 billion principal amount of long-term bonds to pay the costs of closing down or otherwise resolving insolvent thrifts.

- For current cases, the bill provides $20 billion to pay for resolution activities in FY 1989, including $18.8 billion from Treasury funds, and $1.2 billion from Federal Home Loan Banks.

- The bill provides $32 billion in public and private funds to resolve thrifts that fail from 1992-1999, and to capitalize the new SAIF.

- The bill provides all necessary funds for FSLIC cases resolved before January 1, 1989.

REGULATORY RESTRUCTURING

- The FDIC will be given independent enforcement authority to take action against violations of safety and soundness requirements by any insured thrift. This will enable the FDIC to act to protect the insurance fund against risks allowed by chartering or supervisory agencies.

- Under the legislation, the Federal Home Loan Bank Board will be abolished. Its former activities will be divided into several functions.

- The primary function of examining and supervising both federally and state-chartered thrifts and their holding companies will be performed by a new agency, the Office of Thrift Supervision (OTS). The OTS will be an office of the Department of the Treasury. As an office of the Treasury Department, the interests of taxpayers and the general public can be more fully protected.

- The Federal Savings & Loan Insurance Corporation will be replaced by SAIF, which will be administered by the FDIC.

- The Federal Housing Finance Board will supervise the credit activities of the 12 regional Federal Home Loan Banks.

- The Federal Home Loan Mortgage Corporation (Freddie Mac) will become an independent government-sponsored enterprise.

RESTRICTIONS ON THRIFT POWERS

- The FDIC will have authority to prohibit or limit activities of state-chartered thrifts that it determines involve unacceptable risk levels.

- Investments in junk bonds, either directly or through a subsidiary, will be prohibited, but may be placed in a separately capitalized affiliate where insured deposits will not be at risk.

- Equity investments (such as direct real estate investments) will be prohibited within federally-insured thrifts.

- Loans to one borrower will be generally limited to the amount allowed for national banks.

QUALIFIED THRIFT LENDER (QTL) TEST

- Thrifts must maintain 70 percent of their assets in housing-related loans and other qualified assets.

- Thrifts that fail the QTL test must convert to a bank charter or be subject to certain restrictions.

HOUSING

- Federal Home Loan Banks will be required to contribute at least $100 million a year by 1995 to subsidize interest rates on advances to member institutions that make loans for low and moderate income housing.

- The RTC must provide a three-month "first look" period to qualified buyers of single family homes held by the RTC, and similar opportunities for qualified buyers of eligible multi-family housing extending up to 135 days.

ENFORCEMENT

- Maximum sentences for major financial institution crimes, such as bribery and fraud, are increased to 20 years in prison. The maximum criminal fine for these violations is increased to $1 million.

- The basis for civil penalties imposed by the regulators is expanded, and current generally low penalties are increased to a maximum penalty of $1 million per day.

- The Department of Justice will be authorized to receive substantial new appropriations to enable it to more than double investigators and prosecutors of financial fraud cases.

STUDIES

- The Treasury, in consultation with the depository institutions regulators and others, will conduct major studies on the federal deposit insurance system as well as a study on the risk exposure to the federal government of government-sponsored enterprises.

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See Highlights

THE WHITE HOUSE
OFFICE OF THE PRESS SECRETARY

FOR IMMEDIATE RELEASE February 6, 1989

FACT SHEET

THE PRESIDENT'S REFORM PLAN FOR THE SAVINGS AND LOAN INDUSTRY

President Bush announced that he will send Congress a major reform and financing initiative to resolve the nation's savings and loan industry problems. The President emphasized that all insured savings and loan and bank deposits are and will continue to be backed by the full faith and credit of the federal government.

The President's proposal has the support of all the federal agencies that regulate financial institutions: the Federal Reserve Board, the Comptroller of the Currency, the Federal Home Loan Bank Board and the Federal Deposit Insurance Corporation.

The President's proposal contains these elements:

- The plan will fundamentally restructure the way the savings and loan industry is regulated and insured to prevent such a situation from ever reoccurring.
- It will improve supervisory controls so that regulators will be able to prevent future abuses.
- It will increase the financial integrity of the federal deposit insurance funds for the future.
- It will enhance enforcement and increase penalties aimed at fraud against financial institutions.
- It will create and fund a new corporation to pay the cost of closing all insolvent savings and loan institutions. I have rejected any new fee on deposits as part of this program.
- It will begin placing these institutions under the control of the federal government in an orderly manner.

Structural Reform

The Federal Savings and Loan Insurance Corporation (FSLIC) will be separated from the Federal Home Loan Bank Board and attached administratively to the Federal Deposit Insurance Corporation (FDIC). This will create one strong independent insurer with an overriding mission of providing insurance to protect depositors and maintaining the security of the deposit insurance fund. The considerable expertise of the two corporations will be available to deal with financial insurance and regulatory issues. However, while a single agency will be created, separate insurance funds will be maintained for commercial banks and for S&Ls. The separate insurance funds will

not be commingled, and premiums from each industry will be used only for its own insurance fund.

The current Federal Home Loan Bank Board (FHLBB) will be renamed the Federal Home Loan Bank System (FHLBS). Its current board will be replaced by a single chairman. The Chairman of the FHLBS will be subject to the general oversight of the Secretary of the Treasury in the same manner as the Comptroller of the Currency, who regulates national banks. The system of 12 Federal Home Loan Banks will be maintained to support housing finance. However, supervisory responsibilities will be strengthened, current pay standards for supervisory personnel of the FHLBB will not be altered.

By separating the insurer from the chartering agency, more serious disciplinary standards are likely to be maintained in the future. In addition, by subjecting the actions of the FHLBS to oversight by the Treasury department, the interests of the taxpayers can be more fully and consistently protected. This Treasury oversight has existed for national banks since the Administration of President Abraham Lincoln. These steps will create a system of checks and balances for savings and loans that more closely parallels that for commercial banks.

Improved Supervisory Controls

The President's plan will increase safety and soundness standards for savings and loan institutions. In effect, these institutions will be brought up to commercial bank standards over a two-year period.

All S&Ls will be required to meet the capital requirements applicable to FDIC-insured banks by June 1, 1991. That is, their capital must be increased to approximately six percent of assets, almost double the current capital requirement. Risk-based capital standards would be utilized. The increase of private capital will stand ahead of the government's guarantee of deposits, giving taxpayers an enhanced level of protection.

The FDIC will be given enhanced authority to set insurance standards for all S&Ls, both federal and state-chartered. It will be able to restrict risky activities that have been authorized by some states in the past. In addition, the FDIC would be authorized to take appropriate measures on an expedited basis when unsound practices are found.

Financial Integrity

The President's plan will require increased insurance premiums to put federal deposit insurance on a sound financial basis for the future, funded by the industry.

It will recapitalize the deposit insurance fund for S&Ls, with S&L premium income of a billion dollars a year beginning in

1991. The annual premium rate payable to the FDIC by S&Ls will be increased to 0.23 percent of deposits (from 0.208 percent) from 1991 until 1994, when it will decline to 0.18 percent.

The plan also will require increased premiums for commercial banks to bring the separate FDIC fund more in line with its own historic reserve-to-deposit ratio. When a target reserves level of 1.25 percent of total insured deposits is achieved, excess net premium income will be rebated. The FDIC premium paid by commercial banks will increase to 0.12 percent (from 0.083 percent) in 1990, the first year and to 0.15 percent in succeeding years. Commercial bank premiums will not be used to resolve insolvent S&Ls or to shore up the S&L insurance fund.

Enhanced Enforcement

The President's plan will add new enforcement authorities, increase penalties for fraud, and increase funding to provide for dramatically increased law enforcement staff and prosecutions.

The scope of federal regulators' enforcement authority will be broadened to include all insiders, in addition to those directly involved in running an institution. It will give regulators broader power to impose temporary cease-and-desist orders.

It will increase maximum civil penalties to $1,000,000 per day, and maximum criminal penalties to 20 years or more, with new sentencing minimums. It will provide authority for regulatory agencies to pay rewards to informants.

Most importantly, approximately $50 million per year will be provided from the proceeds of the funding program to the Justice Department to fund a new national program to attack financial institution fraud. This program will include new investigators, auditors, analysts, and prosecutors. Indeed, the number of personnel devoted to investigating and prosecuting bank and thrift fraud will be approximately doubled.

Resolution of Remaining Insolvents

The President's plan will create a new Resolution Trust Corporation to resolve currently insolvent S&Ls in an orderly fashion. The creation of this new private corporation is proposed for practical business reasons. It will allow isolation of insolvent S&Ls during the resolution process, and will facilitate a full and precise accounting of all funds that are used.

The RTC will have an Oversight Board comprised of the Secretary of the Treasury, the Chairman of the Federal Reserve Board and the Comptroller General of the United States. It will not have a large staff of its own, but will contract with FDIC to manage the insolvent institutions. The RTC would seek to

complete the resolution or other disposition of all institutions and their assets over a period of five years.

The RTC will require $50 billion in funding to resolve the remaining insolvent S&Ls. Another $40 billion has already been committed in past FSLIC resolutions. Much of the funding required will come from S&L industry sources, but general revenues will also be required. All Treasury funds will be counted on-budget.

A separate Resolution Funding Corporation ("REFCO") will be authorized to issue $50 billion in 30-year bonds. The principal will be repaid entirely with S&L industry funds, and taxpayer funds or guarantees or commercial bank funds will not be required for repayment of the principal of the REFCO bonds. Approximately $5-6 billion of existing S&L industry funds, retained earnings of the Federal Home Loan Banks and special assessment premiums will be used to purchase zero coupon Treasury securities, which when they mature in 30 years will pay off the $50 billion in principal of the REFCO bonds.

Ongoing REFCO bond interest payments and payments on the $40 billion previously committed will be covered first by S&L industry funds with the shortfall made up by Treasury funds. The Treasury funds will increase budget outlays as they are spent, but the outlays were anticipated in President Reagan's FY 1990 budget.

Immediate Joint Supervisory Cooperation

The President announced that the FDIC and FSLIC immediately will begin joint supervisory cooperation to bring the expertise of the FDIC as well as the FSLIC to bear on the effort to address the expensive problem of resolving insolvent S&Ls.

The FSLIC and FDIC will immediately begin a joint supervisory program with personnel also contributed by the Federal Reserve and Office of the Comptroller of the Currency. Over the next several weeks FDIC personnel will assume supervisory control of insolvent S&Ls to protect depositors. This program will stabilize these institutions by curbing losses and it will provide a head start for the tough job ahead.

CABINET AFFAIRS **DRAFT**

Davis/Blymire
June 12, 1990
Title: S&L
Draft: Two

REGIONAL REPORTERS ASSOCIATION, Rm 450
10:45 a.m., Wednesday, June 13, 1990

((Thank you all. It's a delight to welcome you to the White House. I know how well you combine national and regional perspectives. And so today, I want to address a matter of concern to America, and, I am sure, to many of your communities.))

As you know, this Administration faced, right from the start, the challenge of containing the Savings and Loan crisis. But it is not enough simply to clean up this mess. We must bring the full weight of the law to bear on those guilty few who have lived lavishly off the trust of elderly pensioners and fixed-income savers.

Justice demands that we issue indictments; and so we have already issued ((number)) indictments.

Justice demands that we prosecute. And so we have already begun ((number)) prosecutions.

And cases involving more than a hundred thousand dollars resulted in almost 400 convictions last year, quadruple the convictions of 1982, double those of 1986.

Yet, despite our progress, we can't expect a large number of headline-grabbing convictions overnight. ~~Financial cases like these are torturously complex. They require great patience and,~~

DRAFT

~~I believe, an even greater commitment to support our regulators and law enforcers.~~ And so today, I am here to announce my support of the Dole-Heinz amendment to the crime bill -- a measure to enhance and enforce the civil and criminal penalties for fraud against financial institutions -- legislation that will ~~intensify~~ increase ~~the resources~~ expand the ability of the whole United States government in the service of justice. We want to give our law enforcers the ~~resources~~ tools they need to catch those who cheat our neighbors out of their hard-earned dollars.

So first, today, I am asking for a $25 million increase -- to $100 million in FY 1991 -- for enforcement activities by the IRS and Justice Department. Current appropriations are $46 million.

Second, our courts must give the claims of federal agencies priority over other creditors.

Third, we should prohibit the use of bankruptcy as a strategy to avoid damages, penalties and forfeitures. This would include any debtor who committed fraud while acting in a fiduciary capacity to an insured financial institution.

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Fifth, we must authorize the Federal Deposit Insurance Corporation, the Resolution Trust Corporation and the Office of Thrift Supervision to seek federal court orders to freeze the corporate and personal assets of defendants in civil money penalty cases and civil liability cases.

DRAFT

And finally, later this month I plan to meet with U.S. attorneys from across the country to get a progress report from them, and to discuss their vital work in prosecuting financial fraud.

Let me also say, I am deeply impressed by the cooperation between the men and women of the Departments of Justice and Treasury, and their dedication to prosecute financial frauds. I commend Senators Dole and Heinz for leading this effort. And I look forward to working with Congress in this same spirit to promote justice.

And now I'd be delighted to take your questions.

credit ~~for~~ writing?

~~express my strong~~

to encourage them in strongest terms to

AG & Treasury

Davis/Blymire
June 12, 1990
Title: S&L
Draft: Two

REGIONAL REPORTERS ASSOCIATION, Rm 450
10:45 a.m., Wednesday, June 13, 1990

((Thank you all. It's a delight to welcome you to the White House. I know how well you combine national and regional perspectives. And so today, I want to address a matter of concern to America, and, I am sure, to many of your communities.))

As you know, this Administration faced, right from the start, the challenge of containing the Savings and Loan crisis. But it is not enough simply to clean up this mess. We must bring the full weight of the law to bear on those guilty few who live lavishly off the trust of elderly pensioners and fixed-income savers.

Justice demands that we issue indictments; and so we have already issued ((number)) indictments.

Justice demands that we prosecute. And so we have already begun ((number)) prosecutions.

And cases involving more than a hundred thousand dollars resulted in almost 400 convictions last year, quadruple the convictions of 1982, double those of 1986.

~~Yet, despite our progress, we can't expect a large number of headline-grabbing convictions overnight~~. Financial cases like these are torturously complex. They require great patience ~~and~~, The A.G. AND I view this as an extremely high priority AND we are making solid progress.

I believe, an even greater commitment to support our regulators and law enforcers. So today, I am here to ~~announce my support of~~ work w/ Congressional leaders to amend w/ ~~the Dole-Heinz amendment to~~ the crime bill -- a measure to enhance and enforce the civil and criminal penalties for fraud against financial institutions -- legislation that will intensify the resources of the whole United States government in the service of justice. We want to give our law enforcers the resources they need to catch those who cheat our neighbors out of their hard-earned dollars.

So first, today, I am asking for a $25 million increase -- to $100 million in FY 1991 -- for enforcement activities by the IRS and Justice Department. Current appropriations are $46 million. DROP DOWN Grow w/ their priority

Second, our courts must give the claims of federal agencies priority over other creditors.

Third, we should prohibit the use of bankruptcy as a strategy to avoid damages, penalties and forfeitures. This would include any debtor who committed fraud while acting in a fiduciary capacity to an insured financial institution.

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FACT SHEET

The President's Program for Fighting Financial Institution Fraud

In continuation of the President's reform plan for financial institutions, the President announced that the Administration will continue and enhance its efforts to prosecute those who commit financial institution fraud.

The President is supporting a Dole/Heinz Legislative proposal which contains the following elements:

- Additional authorizations of $25 million for IRS and the Department of Justice for financial institutions fraud. When combined with $75 million in recently authorized funds for 1991, this would yield total authorizations of $100 million. This represents more than a doubling of the 1990 funding -- from $46 million appropriated in 1990 to $100 million authorized in 1991.

- Improve the collection of all fines, penalties, and restitution owed U.S. taxpayers and other victims of S-1L fraud. This legislation would provide one uniform, fair and effective national procedure for the collection of Federal debts. It will enable the Federal Government to collect criminal and civil judgements through such means as attachments, garnishments and drawing on the best features of debt collection laws found in the states.

- Authorize the use of 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.

- Provide that the claims of the Federal Government have priority over those of other creditors in actions against parties responsible for savings and loan losses.

- Authorize Federal agencies to seek court orders to freeze the corporate and personal assets of defendants in civil cases.

- Provide that restitution can be ordered to a victim of a fraudulent schedule even if that victim was not named in the conviction.

- Authorize the Justice Department of accept without reimbursement the services of attorneys, law enforcement personnel, and other employees of any Federal agency.

- Direct U.S. Courts to give cases brought by the FDIC and RTC expedited consideration, and establish tight deadlines for appeals.

9:50

Ede -

Call me at 395-4892 with your thoughts.

Michael Jackson

The AB and E Views

This as a ~~very~~ extremely ~~and~~ high priority and we are ~~indeed~~ making solid progress.

TAB B

SUMMARY OF ISSUES AND RESOLUTIONS

Treasury Proposals

Issue 1: Expand list of crimes that the USSS can investigate, thereby providing the USSS with concurrent jurisdiction (e.g., with FBI) to investigate crimes committed against financial institutions and the Resolution Trust Corporation. The USSS currently has no jurisdiction to investigate such crimes.

Resolution: Treasury agreed to consider administrative action ("cross-designation" by Justice) to make Secret Service agents available to investigate S & L fraud. Under this approach, Treasury would agree not to seek to "backfill" the designated USSS positions to handle its protection workload.

Issue 2: ~~Provide authorizations of additional appropriations~~ Asking Authorizations for Secret Service ($38.5M full year cost), IRS ($16M), and Justice ($96M), beginning in FY 1991.

Resolution: No decision on authorization/appropriation levels. Justice believes that increased authorizations should be proposed only if budget amendments will also be transmitted. Treasury believes that the budget summit negotiators should be asked to make room for additional appropriations. Agencies were advised that any budget amendment would require offsets, but none were proposed.

Issue 3 (a) Provide that claims of FDIC and RTC have priority over those of other creditors.

(b) Direct courts to give FDIC and RTC claims expedited consideration and docket priority.

Resolution: Accepted, with amendment to ensure that all Federal agencies' claims have priority (i.e., FDIC and RTC do not necessarily have priority over other Federal agencies).

Issue 4: Amend RICO statute to include additional RICO predicates related to financial institution fraud cases, thereby making available RICO's special sentencing and forfeiture procedures.

Resolution: Dropped. FIRREA provides substantial enforcement tools. Could conflict with efforts to amend RICO.

Issue 5: Prohibit the use of bankruptcy as a strategy to avoid damages, penalties, forfeitures, etc., ordered by a court, issued by a Federal regulatory agency, or contained in any settlement agreement, by any debtor who committed fraud while acting in a fiduciary capacity to an insured financial institution.

Resolution: Agreed in principle. Treasury to review alternative Justice language, which would protect all (i.e., not only S&L-related) restitution orders and fines from discharge in bankruptcy.

still language

Issue 6: Authorizes the FDIC, RTC and OTS to seek ex parte Federal court orders to freeze the corporate and personal assets of defendants in civil money penalty cases and civil liability cases.

Resolution: Agreed. Justice has also proposed a parallel criminal code provision enabling prosecutors to seek to enjoin disposition of assets. Treasury to react.

DOJ

Issue 7: Technical and conforming amendments.

Resolution: Agreed. Need Treasury reaction to additional technicals proposed by Justice.

Treasury OK

Justice Proposals

In addition to its resource request (see Issue 2 above), Justice proposed the following:

1. Enable Justice to utilize lawyers from other agencies without reimbursement.

discretionary

lawyers to other proposal

- if statutes would need be appropriate

Resolution: Agreed in principle.

2. Clarifying amendment to insure that enhanced capital requirements in Section 301 of FIRREA apply to all savings and loan associations.

Resolution: Treasury objects because provision amends FIRREA.

3. Additional wiretap authority for S&L cases.

Resolution: Received June 12th. Need Treasury, White House Counsel, and OPD reactions.

FAX TO

395-7238
395-4892

Davis/Blymire
June 12, 1990
Title: Briefing
Draft: One

REGIONAL REPORTERS ASSOCIATION BRIEFING
10:45 a.m., Wednesday, June 13, 1990

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Yet, despite our progress, we can't expect a large number of headline-grabbing convictions overnight. Financial cases like these are torturously complex. They require great patience and, I believe, an even greater commitment to support our regulators and law enforcers. So today, I am here to announce my support of the Dole-Heinz amendment to the crime bill -- a measure to enhance and enforce the civil and criminal penalties for fraud

against financial institutions -- legislation that will put the resources of the whole United States government at the service of justice. First, I want the Secret Service to have the authority to investigate crimes against financial institutions and the Resolution Trust Corporation.

Second, I am asking for the authorization to increase for enforcement activities by the Secret Service, IRS and Justice Department.

Third, our courts must give the claims of federal agencies priority over other creditors.

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Fifth, we must authorize the FDIC, RTC and OTS to seek federal court orders to freeze the corporate and personal assets of defendants in civil money penalty cases and civil liability cases.

And finally, I am issuing a call to all U.S. attorneys to come to the White House later this month, so we can work together to uphold and enforce the letter of the law.

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MD

DRAFT
6/13/ #2

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release June 13, 1990

FACT SHEET
Fighting Financial Institution Fraud

The President today announced his support for measures that will substantially enhance the Administration's ability to investigate and prosecute financial institution fraud. The President endorsed an amendment to the crime bill pending in the Senate that is sponsored by Senators Robert Dole and John Heinz and was developed in conjunction with the Departments of Justice and Treasury.

[Go with prioritization]

The Dole/Heinz proposal would:

- Make aggressive use of federal resources for investigation and prosecution of financial institution crimes by allowing the Justice Department to accept without reimbursement the services of federal attorneys, law enforcement personnel and other employees.

- Give law enforcement authorities a needed tool: the ~~authority~~ Ability to request the use of wiretaps to investigate ongoing bank fraud, false statements to financial institutions, bribery of bank officials and related offenses for which wiretap authority is not presently available.

- Encourage the swift administration of justice by directing U.S. courts to give cases brought by the Federal Deposit Insurance Corporation and the Resolution Trust Corporation ~~expedited~~ consideration and to establish ~~tight deadlines for~~ appeals.

- Protect ~~the federal Treasury~~ by (a) authorizing ~~federal agencies~~ to seek court orders to freeze the corporate and personal assets of defendants in civil cases; and (b) providing that claims of the federal government have priority over those of other creditors in actions against parties responsible for losses at financial institutions ~~where fraud is alleged~~.

- Authorize courts to order payment of restitution to victims of financial institution fraud even in cases where all victims were not identified in the count of conviction.

- Prohibit the use of bankruptcy as a strategy to avoid damages, penalties and forfeitures. This would apply to any debtor who committed fraud while acting in a fiduciary capacity to an insured financial institution.

- Authorize an additional $25 million for the Internal Revenue Service and the Department of Justice for investigation of financial institutions fraud.

- Improve the collection of fines, penalties, and restitution owed U.S. taxpayers and other victims of financial institution fraud. The legislation would provide one uniform, fair and effective national procedure for the collection of federal debts. It would enable the federal government to collect criminal and civil judgements through such means as attachments and garnishments and draw on the best features of debt collection laws found in the states.

These measures are supported by the President to augment vigorous Administration efforts to root out fraud at financial institutions and bring to justice those who have violated the law. Enforcement activities by the Departments of Justice and Treasury, the Federal Deposit Insurance Corporation the Resolution Trust Corporation and the Office of Thrift Supervision have yielded substantial progress:

- The Department of Justice has hired 760 new attorneys, investigators, financial accountants and support staff -- the number of federal investigators has increased by 50 percent since 1989. Convictions in major cases of fraud are projected to exceed 460 cases this year, a one-year increase of almost 20 percent. Based upon the highly successful example of the Dallas Bank Fraud Task Force, the Department of Justice has established a team of Bank Fraud Task Forces nationwide.

- The Resolution Trust Corporation has established an Office of Investigations and a national network of investigative teams. Approximately 300 new investigative staff will have been added by the end of this year.

- Over the last three years, the Office of Thrift Supervision and its predecessor have required 664 institutions to agree to terminate unsafe and unsound practices, removed over 150 senior thrift officers and directors and issued 111 cease and desist orders to stop unsafe and unsound practices.

- ~~Currently the federal government is prosecuting over~~ There are more than [illegible] (?) 1,000 civil law suits seeking to recover billions of dollars from former thrift directors officers and other employees.

# # #

Davis/Blymire
June 12, 1990
Title: S&L
Draft: Two

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10:45 a.m., Wednesday, June 13, 1990

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CMB

DRAFT
6/13/ #2

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Office of the Press Secretary

For Immediate Release June 13, 1990

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- Give law enforcement authorities a needed tool: the ability → ~~authority~~ to request the use of wiretaps to investigate ongoing → bank fraud, false statements to financial institutions, bribery of bank officials and related offenses for which wiretap authority is not presently available.

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- ③ ④ ⑦ Protect the federal Treasury and taxpayers by (a) authorizing ~~federal~~ ① DOJ and RTC, OTS, FDIC ~~agencies~~ to seek court orders to freeze the corporate and personal assets of defendants in civil cases; and (b) providing that claims of the federal government have priority over those of other creditors in actions against parties responsible for losses at financial institutions where fraud is alleged.

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# # #

Davis/Blymire
June 12, 1990
Title: Briefing
Draft: One

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Second, I am asking for the authorization to increase enforcement activities by the Secret Service, IRS and Justice Department.

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Fourth, we should prohibit the use of bankruptcy as a strategy to avoid damages, penalties, forfeitures ordered by a court, issued by a federal regulatory agency or contained in any settlement agreement. This would include any debtor who committed fraud while acting in a fiduciary capacity to an insured financial institution.

Fifth, we must authorize the FDIC, RTC and OTS to seek federal court orders to freeze the corporate and personal assets of defendants in civil money penalty cases and civil liability cases.

And finally, I am issuing a call to all U.S. attorneys to come to the White House later this month, so we can work together to uphold and enforce the letter of the law.

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their dedication to prosecute financial frauds. I commend Senators Dole and Heinz for leading this effort. And I look forward to working with Congress in this same spirit to promote justice.

And now I'd be delighted to take your questions.

DRAFT 6/12 - 4:30

Legislative Proposals on Savings and Loan Enforcement

1. Appropriations Authorizations. SS?

~~[Will there be budget amendments?]~~

2. Priority of Federal claims. In actions against directors, officers, attorneys, accountants, and other S&L-related parties responsible for losses, generally grants priority to Federal claims over those of depositors, shareholders, and other creditors.

3. Expedited Judicial Review. Directs U.S. courts to give cases brought by the FDIC and RTC expedited consideration and docket priority. Establishes expedited deadlines for appeals.

4. Bar to Bankruptcy Discharge. Prohibits the bankruptcy discharge of any damages, penalty, fine, forfeiture, restitution, reimbursement, indemnification, or guarantee against loss, ordered or approved by a court, issued by a Federal financial institutions regulatory agency, or contained in any settlement agreement entered into by a debtor who committed fraud while acting in a fiduciary capacity to an ensured financial institution.

   [Also protects non-Savings and loan restitution orders and fines from discharge in bankruptcy.]

5. Authority to freeze assets and appoint receiver. To prevent the dissipation or concealment of assets prior to judgment in court enforcement actions and civil recovery cases:

   (a) authorizes FDIC, RTC, and OTS to seek ex parte Federal court orders to freeze the corporate and personal assets of defendants in civil money penalty cases and civil liability cases;

   (b) authorizes Federal courts to appoint receivers to administer frozen assets; **[and**

   (c) enables prosecutors to seek to enjoin the disposition of assets].

6. Interagency sharing of personnel. Authorizes Justice to utilize personnel from other agencies for _____.

7. **[Scope of Restitution. Provides that restitution can be ordered to any victim of a "scheme or artifice," even if such victim was not included in a count of conviction or the property for which restitution is ordered is not the subject of a count of conviction.]**

8. Technical amendments to Title 18, U.S. Code. Nonsubstantive technical and conforming amendments.

~~9. [Debt Collection.]~~

10. **[Wiretap.]**

!R! CASS 1; EXIT;

THE WHITE HOUSE
WASHINGTON

Davis/Blymire
June 20, 1990
Title: Justice
Draft: One

PRESIDENTIAL ADDRESS: U.S. ATTORNEYS, GREAT HALL, JUSTICE
11:20 a.m., Friday, June 22

((Acknowledgements))

((I have to tell you, my grandkids heard that I'd be spending time with some of America's finest crime-fighters. And wouldn't you know it -- one of them asked me if I would be sure and bring them back an autograph \\ . . . from Dick Tracy.)) \\\

Well, true villians are drawn from life, not from primary colors. And where financial fraud is concerned, it takes a discerning mind and an open heart to distinguish the incompetent from the fraudulent, the unlucky from the unlawful. This nation is very fortunate to be able to look to you -- the U.S. Attorneys of America -- to make these tough calls. We depend on you to read through piles upon voluminous piles of documents, and find in them, among the cold numbers of a ledger -- the heartache of a lost pension, the tragedy of a lost home -- and then act on that knowledge, in the spirit of justice.

This Administration, from our very first days in office, has had to work with Congress to try and contain the Savings and Loan crisis. We have also been challenged by pinstriped bankers who launder the smell of blood out of drug money. By white-collar thiefs who cheat the elderly out of their life's work. By government contractors who steal by the numbers.

You know of the ((number)) of convictions from the ill-wind probe of federal defense contractors. You know that ((example of crackdown on drug financiers.)) When it comes to cases involving abuse of HUD contracts, the Department of Justice has obtained ((number)) of convictions in Oklahoma alone, while courts have ordered almost two and one-half million dollars in restitution in that state -- more than half of which will come from a bank president ~~sentenced to~~ five years in prison.

When it comes to Savings and Loans swindles, one of my first actions as President was to direct Attorney-General Thornburgh to ~~make prosecution of~~ these cases ~~one of~~ the highest judicial priorities. The Department of Justice has already aggressively brought ~~about~~ almost 800 convictions in cases involving more than $100,000 ~~in 1989 alone~~.

An S&L Chairman gets 30 years in a celebrated case in Dallas, while the court deliberates restitution for $17 million in losses. 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 repay $17 million. And we ~~are~~ seeking further restitution through tens of thousands of civil cases leveled against S&L executives, owners and borrowers, to the benefit of the taxpayer and depositor.

~~Our~~ approach is determined, aggressive. We ~~will boost our~~ effort with 153 FBI agents and 100 FBI accounting technicians, 118 Assistant U.S. Attorneys, and ~~others~~. The Dallas Task Force

has been particularly successful, obtainting 52 convictions; so successful, that Attorney-General Thornburgh is expanding the task force concept to 37 other U.S. Attorney's offices.

We are bringing to bear the resources of all federal agencies to bear against financial fraud. For example, an alert passport clerk stopped a former savings and loan owner from skipping the country, which led to the recovery of almost $3 million in cash, gold and jewelry.

Yet, despite our progress, you know best that successful indictments and prosecutions don't happen overnight. Cases of financial fraud are torturously complex -- it has taken prosecutors three and a half years to bring an indictment in that legendary case in Dallas. They require great patience and, I believe, an even greater commitment to support our regulators and law enforcers. **We must leave no stone unturned.**

So today, I am here to announce to support of an amendment to the crime bill to enhance and enforce the civil and criminal penalties for fraud against financial institutions. This legislation, supported by Minority Leaders Bob Dole and Bob Michel, and Senators Heinz and Garn, will intensify the resources of the the whole United States in the service of justice. Let me cite the prime measures of this legislation.

First: It will put the very best legal minds of all the agencies of our government at the service of the Department of Justice.

Second: Allow law enforcement agencies to request wiretaps to investigate bank fraud.

Third: Direct the courts to give priority to cases brought by the Federal Deposit Insurance Corporation and the Resolution Trust Corporation; and to establish procedures for expedited appeals.

Fourth: Protect taxpayers by authorizing the FDIC and RTC, and the Office of Thrift Supervision to seek court orders to freeze the corporate and personal assets of defendants in civil cases -- and to give the claims of the federal government priority in financial fraud cases.

Fifth: Protect the victims of financial fraud by authorizing the courts to order the payment of restitution. This would apply to even in cases where all victims were not identified in the count of conviction.

Sixth: Protect victims of fraud by prohibiting the use of bankruptcy as a strategy to avoid paying damages, penalties and forfeitures.

And **Seventh:** Authorize an additional $25 million for the IRS and the Department of Justice to boost their already vigorous efforts in the investigation of financial institutions fraud.

These are the legislative steps we can and must take. But there are also administrative steps we are taking. Attorney-General Thornburgh will establish, within the Department of Justice, a new unit to sharpen the Department's actions even

Acting as a coordinating body w/ other federal agencies

further, And the Attorney-General and Secretary Brady are establishing "flying squads" from their departments and other regulatory agencies -- teams of crack prosecutors and auditors who will travel from city to city, so breaking case after case.

The IRS is also preparing to aggressively pursue individuals suspected of tax fraud in connection with failed savings and loan institutions; while RTC is adding about 300 members to its investigative staff this year, to be part of a new national network of investigative teams. Treasury's Office of Thrift Supervision has also required 664 institutions to agree to terminate unsafe and unsound practices, removed more than 150 senior thrift officers and directors, and issued 111 cease and desist orders to stop unsafe and unsound practices.

In addition, Secretary Brady will announce ((Treasury proposal to come.))

Let me say, I am deeply impressed by the cooperation between the men and women of the Departments of Justice and Treasury, and their determination to prosecute financial frauds. I commend Senators Dole and Heinz for leading this effort on Capitol Hill. And I hope all members of Congress work with us in this same spirit of cooperation.

((Sob story))

((Your sacred duty))

FACSIMILE TRANSMISSION SHEET

OFFICE OF THE DEPUTY ATTORNEY GENERAL
U.S. DEPARTMENT OF JUSTICE
WASHINGTON, D.C.

TO: Chris Winston
Office of Communications
The White House

Fax #: (202) 456-6218 Voice #: (202) 456-2930

FROM: John Smietanka
Office of the Deputy Attorney General Room #
U.S. Department of Justice, Main Justice Building
Washington, D.C. 20530

Fax #: ( ) - Voice #: ( ) -

THIS TRANSMISSION CONTAINS 8 SHEETS INCLUDING THIS SHEET
7

* *

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14

OKLAHOMA TASK FORCE/HUD CASES

SUMMARY OF STATISTICS

As of 5/23/90

DEFENDANTS CHARGED BY INDICTMENT OR INFORMATION		-	34
CONVICTIONS		-	25
GUILTY PLEAS	(21)		
JURY TRIALS	(4)		
ACQUITTAL	(1)		

FINES, PENALTIES, ETC.

CRIMINAL FINES	-	$ 15,000
RESTITUTION	-	$2,439,489
SPECIAL ASSESSMENTS	-	$ 6,000
TOTAL	-	$2,460,489

OKLAHOMA TASK FORCE/HUD CASES

SUMMARY OF PROSECUTIONS

Kirby L. Abney - Pleaded guilty on 10/12/89 to two counts of conspiracy to defraud the United States and submitting false statements to HUD in order to obtain HUD-insured loans. Sentenced on 3/1/90 to 4 months imprisonment, 3 years probation $100 special assessment.

Rudolph J. Hymer - Pleased guilty on 10/12/89 to two counts of conspiracy to defraud the United States and submitting false statements to HUD in order to obtain HUD-insured loans. Sentenced on 3/1/90 to 4 months imprisonment, 3 years probation, $100 special assessment.

Charles Joseph-Bazarian, Jr. - Housing project owner/operator pleaded guilty on 9/20/89 to one felony count of equity skimming and one misdemeanor count of failure to file federal income taxes for 1982. Bazarian also pleaded guilty to one felony count of wire fraud filed in the Central District of California. Defendant is currently incarcerated on a 2-year sentence for a fraud conviction in the Middle District of Florida. Sentenced on 2/13/90 to 5 years incarceration and 3 years probation.

Bazco Investments - On behalf of Bazco Bazarian pleaded guilty to one felony count of making false statements to HUD.

Jerry W. Roy - Pleaded guilty on 6/14/89 to one count of mail fraud in connection with the purchase of homes with HUD/VA mortgages. Sentenced on 8/14/89 to 4 years' imprisonment with all but 3 months suspended, 3 years' probation, and fined $1,000, ordered to perform 200 hours of community service and pay a $50 special assessment.

Dwight Fimson - Pleaded guilty on 6/18/89 to one count of equity skimming. On 8/14/89, defendant was sentenced to 14 months' imprisonment, 3 years' of supervised release, and $184,000 restitution.

Bruce T. Thompson - President of a real estate business, pleaded guilty on 6/7/89 to 3 counts of conspiring to commit bank fraud, bank bribery, false statements & misapplication; bank fraud; and submitting false statements to HUD in order to obtain HUD-insured loans. Sentenced on 11/17/89 to 5 years incarceration and ordered to pay restitution to the FDIC and HUD totalling $1,798,105.

Lewis C. Simms - Purchaser, pleaded guilty on 6/7/89 to one count of providing false information to a bank in connection with a $150,000 real estate loan. Sentenced on 10/16/89 to 2 years suspended with probation plus $5,000 restitution to the FDIC.

Johnny G. Roby, Jr. - Pleaded guilty on 6/7/89 to one count of furnishing false information to HUD. Sentenced on 10/19/89 to 18 months incarceration, 4 hours of community service per week during probation, and $86,584.74 restitution to HUD.

Dennis J. Boyles - Pleaded guilty on 6/7/89 to two counts of furnishing false information to HUD in connection with a HUD-insured loan. Sentenced on 8/21/89 to 1 year probation and a $50 special assessment.

David E. Krause - Convicted on 3/6/89, after a week-long jury trial of conspiracy to defraud HUD, HUD fraud, and false statements to HUD. Sentenced on 5/15/89 to 1 year incarceration, $6,000 restitution to HUD and a $650 special assessment.

Cecil R. Johnson, Jr. - Convicted on 3/6/89, after a week-long jury trial, of conspiracy to defraud HUD, HUD fraud, and false statements to HUD officials. Sentenced on 5/15/89 to 4 years' incarceration, $150,000 restitution to HUD and a $3,450 special assessment.

Dan W. Thompson - Convicted on 3/6/89, after a week-long jury trial, of conspiracy to defraud HUD, HUD fraud, and false statements to HUD officials. Sentenced on 5/15/89 to 2 years' incarceration, $75,000 restitution to HUD, and a $1,450 special assessment.

Lloyde I. Billman - Purchaser, pleaded guilty on 8/17/88 to one-count information charging false statements in a loan application for HUD-insured mortgage. Sentenced on 5/15/89 to 2 years' incarceration suspended upon service of 2 years' probation, $2400 restitution to HUD, and a special assessment of $50.

Thommie D. Hinds - Purchaser, pleaded guilty on 8/17/88 to a one-count information charging false statements in a loan application for HUD-insured mortgage. Sentenced on 5/15/89 to 2 years' incarceration suspended upon service of 2 years' probation, a $5000 fine and a $50 special assessment.

Robert F. Towell - Purchaser, pleaded guilty on 8/17/88 to a one-count information charging false statements in a loan application for HUD-insured mortgage. Sentenced on 5/15/89 to 2 years' incarceration suspended upon service to 2 years' probation, $2400 restitution to HUD and a $50 special assessment.

Gary N. Wright - Real estate salesman was charged on 8/17/88, with one count of submitting false statements in connection with a real estate loan insured by HUD. Sentenced on 10/12/88 to 5 years' probation, 2 weekends in jail and a $50 special assessment.

William J. Connelly, Jr. - Purchaser, pleaded guilty on 4/21/88 to two counts of submitting false loan applications to FHA-HUD in order to obtain two FHA-HUD insured mortgage loans on distressed real estate. Sentenced on 7/13/88 to 9 months' imprisonment on each of the counts, to run concurrently, and was also ordered to perform 200 hours of community service.

Thomas A. Hand - Purchaser, pleaded guilty on 5/4/88 to one count of submitting false loan applications to FHA-HUD in order to obtain a FHA-HUD insured mortgage loan on distressed real estate. Sentenced on 7/13/88 to 2 years' imprisonment, suspended upon service of 4 weekends in jail.

Kimberly L. Hawkins - Secretary/Bookkeeper for Jeary Enterprises, Inc., pleaded guilty on 4/21/88 to one count of submitting a false loan application relating to fraudulently obtained FHA-HUD insured real estate loans. Sentenced on 6/21/88, to 5 years' probation conditioned upon serving 5 weekends in jail.

Anthony D. Jeary - Owner of Jeary Enterprises, Inc., pleaded guilty on 4/21/88 to one count of conspiracy relating to fraudulently obtained FHA-HUD insured real estate loans. Sentenced on 8/4/88 to 20 months' incarceration, a $5,000 fine and $100,000 restitution to HUD.

Robert M. McKitrick - Purchaser, pleaded guilty on 8/17/89 to a one count information charging false statements in a loan application for HUD-insured mortgage. Sentenced on 5/23/89 to 2 years' probation, $4,000 fine and $50 special assessment.

Leslie Don Steele - Strawbuyer, charged on 11/15/89 with one count of conspiracy and 24 counts of false statements to HUD in connection with the procurement of HUD-insured loans. Acquitted 1/26/90.

Jerald L. Hook - Equity skimmer, charged on 11/15/89 with 10 counts of mail fraud and one count of equity skimming in connection with the purchase of HUD/VA-insured homes. Pleaded guilty on 2/12/90 to one count of mail fraud. Sentenced on 4/5/90 to 2 months imprisonment, 4 months in a halfway house and 3 years probation.

James Reilly - Real estate agent, pleaded guilty 11/30/89 to a one count information charging conspiracy to defraud HUD and making false statements. Sentenced on 1/29/90 to 2 years incarceration and $30,000 in restitution.

Stanley Sasser - Loan officer, charged on 2/22/90 with conspiracy, mail fraud, and false statements to HUD.

John Bizzell	-	Salesman, charged on 2/22/90 with conspiracy, mail fraud and false statements to HUD.
Charles Kent Bizzell	-	Salesman, charged on 2/22/90 with conspiracy, mail fraud and false statements to HUD.
Michael L. Johnson	-	Equity skimmer, charged on 2/22/90 with 10 counts of mail fraud and 1 count of equity skimming. Convicted on all counts on 4/11/90.
Bryn Gaty	-	Charged on 5/22/90 with conspiracy, mail fraud and false statements to HUD.
Paul Nicholson	-	Charged on 5/22/90 with conspiracy, mail fraud and false statements to HUD.
Hiram Stanley Sasser	-	Charged on 5/22/90 with conspiracy, mail fraud and false statements on HUD.
William Bentley	-	Charged on 5/22/90, with conspiracy, mail fraud and equity skimming.
Ann Marie Lavit	-	Charged on 5/22/90 with conspiracy, mail fraud and equity skimming.

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USA TODAY

August 16, 1989, Wednesday, FINAL EDITION

SECTION: MONEY; Pg. 1B

LENGTH: 1246 words

HEADLINE: Locating the loot;
Investigators comb world for lost assets

BYLINE: Dennis Cauchon

BODY:

Former savings and loan owner John Molinaro was ready for the easy life: a new identity, a few million dollars stashed in secret bank accounts and safe deposit boxes, a plane ticket to the sunny Cayman Islands.

Only an alert passport clerk, who detected a phony birth certificate, spoiled the scheme. Today, instead of working on his tan, the former owner of Ramona Savings and Loan of Orange, Calif., is on trial in Los Angeles for bank fraud and conspiracy.

Molinaro's biggest mistake: On the front seat of his Mercedes, FBI agents found a handwritten list in a spiral notebook detailing - under a ''Things to Do'' heading - his fake identities, secret bank accounts and methods for hiding money allegedly misappropriated from his S&L.

The Federal Savings and Loan Insurance Corp. used the notebook to recover about $ 3 million in cash, gold and jewelry. That's not enough to cover the $ 65 million it cost taxpayers to bail out Ramona S&L, but it was a victory nonetheless in the difficult fight to get money back from the rogues who caused much of the S&L crisis.

The public, angry at having to pay $ 166 billion-plus to rescue the S&L industry, is pressuring the government to go after the assets of the men and women who defrauded S&Ls. Regulators, the FBI, the IRS and a band of private lawyers are scouring the world to find assets misappropriated from S&Ls during the unprecedented looting in the 1980s.

The government has filed 13,000 civil suits against S&L executives, owners, borrowers and others believed responsible for contributing to the insolvency of several hundred S&Ls. Another 75,000 suits are on the way, estimates L. William Seidman, chairman of the Resolution Trust Corp., the S&L bailout agency. Under the bailout, Congress authorized $ 75 million more a year for battling S&L fraud.

Also, after winning criminal convictions, prosecutors are asking for - and getting - court orders that the convicts pay restitution. ''The president and attorney general have made it clear: We're supposed to go after restitution,'' says U.S. Attorney Marvin Collins in Dallas.

Yet the government's efforts have met with limited success - even when the government wins, which has been more often than not. ''These fellows don't

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have enough left to contribute significantly'' to the S&L bailout, says Seidman.

Example: FSLIC this year won an $ 86 million judgment, its largest ever, against former officers of failed Alliance Savings of Kenner, La. But the defendants didn't have liability insurance. ''We'll get every penny they've got, but we won't get $ 86 million,'' concedes Jack Smith, chief litigator for S&L regulators.

Even if S&L officers still have the money, it's often impossible to find unless the culprits slip up. ''The stuff you've heard about secret bank accounts in Switzerland and the Bahamas - it's all true,'' says Howard Feinstein, a former federal prosecutor now working for S&L regulators.

The government scours phone records, fund transfers and other S&L documents to try to piece together where the money went. ''It's not that difficult to get the assets back once you find them, even from overseas,'' says Anthony Adamski, head of financial fraud investigations at the FBI. ''But it's hard to locate assets that have been intentionally hidden or commingled with other funds that are protected, such as trusts for children.''

The government has recovered $ 407 million (above its costs) in S&L-related civil suits since 1986. It expects to get back another $ 100 million in the remainder of 1989.

Some S&L rogues get off the hook. For example, Mainland Savings of Houston was one of the FSLIC's biggest bailouts. Yet ''we decided not to sue, not because we thought there'd been no negligence, but because recovery costs would have exceeded recovery,'' Smith says.

So far, the government has recovered $ 2.50 for every $ 1 spent on S&L cases, he says. ''We do a cost-benefit analysis for each case. Generally - but not always - we try to recover more than our costs,'' Smith says.

Most of what FSLIC has recovered are personal assets - cars, houses, etc. - from S&L executives and borrowers. Other big sources for paybacks: law firms, accountants and companies that insured S&L directors. ''Insurance companies don't like to set precedents, so they settle out of court,'' Smith says. ''Likewise with accounting firms and law firms.''

Another roadblock is Texas' liberal bankruptcy law. The state is a debtor's haven because, for example, a bankrupt person is allowed to keep a rural home and 200 acres, or an urban residence and one acre, even if it's a mansion in downtown Dallas. ''One of the first rules of Texas debtors is to go out and buy a large home,'' says Collins. ''You can shelter a great deal of wealth that way.''

Consider one case prosecuted by Collins' staff. Larry Vineyard, owner of Key Savings Association in Colorado, was convicted in January 1987 of fraud and conspiracy that led to his S&L's downfall. After his conviction, he paid cash for a 5,700-square-foot house near the Dallas Country Club. Now in the penitentiary serving a five-year sentence, he says he's indigent. Legally, he may be right.

But Collins' staff is pressuring Vineyard using a novel method: get a restitution order and challenge the convict's parole if he doesn't pay it.

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While he is legally entitled to keep his home, Vineyard can have his parole denied or revoked for failing to pay $ 3 million in restitution if he has the financial resources to do so.

''I wouldn't say we're putting the squeeze on,'' says Collins. ''But I have no qualms whatsoever about saying when a person is convicted of a crime, he should pay restitution if he can.'' A U.S. Court of Appeals in June upheld Collins' strategy in a case involving Roy Ryan, a Texas developer who defrauded S&Ls and was sentenced to five years and $ 2.2 million in restitution.

Overall, restitution orders in S&L cases rose from $ 12 million in 1987 to $ 34 million in 1988. Yet so far, only about 10% to 15% of the total has been paid, Feinstein says.

One big problem, of course, is that S&L cheats don't often give a list of all their assets to the government. Molinaro's notebook shows just how far a person will go to hide his money.

When he was nabbed at the passport office, Molinaro was trying to take on the identity of John Anthony Cook, a boy who had died in an accident in 1969. In his possession: the child's birth and death certificates, and a ticket to the Cayman Islands, a haven for secret bank accounts. Molinaro, 48, has already served two years on passport fraud charges. Some of his notebook entries:

- ''Write out a plan for depositing Cayman cash, consider bringing some back (to USA) thru Canada, buying gold coins, safe deposit boxes in the Caymans.''

- ''Consider bouncing $ on-shore, then off-shore again - CASH.''

- (Give) undated liquidation letters to Ed K. - if FSLIC starts to snoop, wire funds to: $ 500,000 to bank x, $ 500,000 to bank y, etc.''

The notebook led the FSLIC to $ 1.8 million in offshore bank accounts in the names of Molinaro and ''John Cook.'' Another $ 1.3 million was found in his wife's name and is being used for her legal defense. In two safe deposit boxes at a Wells Fargo Bank in Los Gatos, Calif., the FBI found $ 270,000 in neatly wrapped cash and about $ 150,000 in Krugerrand gold coins, diamonds and jewelry.

''Sometimes you just get lucky,'' says Feinstein, the S&L regulators' attorney.

GRAPHIC: color (drawing, people, bank in sinking boat); PHOTO; color, Layne Murdoch (Marvin Collins)

CUTLINE: MARVIN COLLINS: 'When a person is convicted...he should pay restitution if he can', U.S.attorney says.

TYPE: Cover Story

SUBJECT: BANK; SAVING; INVESTIGATION

NOTES: SERIES; THE S&L MESS; Accompanying stories; The war on S&L fraud; About the S&L report; Decade of change

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June 5, 1988, Sunday, Home Edition

SECTION: Business; Part 4; Page 1; Column 2; Financial Desk

LENGTH: 1982 words

HEADLINE: WHEN BOOM GOES BUST;
BANKING SINKS IN SAME DRY WELL AS TEXAS' SPECULATIVE FEVER

BYLINE: By DOUGLAS FRANTZ, Times Staff Writer

DATELINE: DALLAS

BODY:

The man with the toughest job in Texas banking has a scale model of the Titanic on the sill of his office window.

"Gene Bishop, the chairman of MCorp, gave it to me a few days after I took this job," said Albert V. Casey, an industry outsider who became chairman and chief executive of First RepublicBank here in April. "He said, 'You deserve this.' "

The sunken luxury liner is an apt symbol, not just for First Republic but for the entire Texas financial industry.

Fifty Texas banks failed last year, more than in any other state and better than a quarter of the nation's 184 bank failures. Estimates for 1988 are worse: Regulators predict that Texas bank failures will top 70. Texas banks lost $1.7 billion in the first quarter of this year, compared to $2 billion in all of 1987.

First Republic, the state's biggest bank company, is being kept afloat by a $1-billion federal life preserver. MCorp, the state's last major independent bank, lost $58 million in the first quarter, and some say it could need an out-of-state partner to survive.

The numbers are even grimmer on the savings and loan side of the ledger. More than a third of the 279 thrifts in Texas are insolvent, and the tab for bailing them out could run as high as $20 billion.

Many experts feel that the size of the thrift problem in Texas requires a federal taxpayer bailout, and $20 billion would translate into about $200 per U.S. taxpayer.

While the depth of the crisis remains unplumbed, the reasons behind the collapse of the state's financial industry have been well scrutinized and offer a lesson for the rest of the country.

"When you take the whole confluence of events, this may be a microcosm for what could happen elsewhere if you were to have any series of shocks that can affect the regional economy," said Harvey Rosenblum, director of research at the Federal Reserve Bank of Dallas. "It could be California or Ohio or New

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England."

Surely not California, where conventional wisdom says that the economy is too diverse to suffer the shame of Texas. Yet there are enough similarities to necessitate considering the possibility.

For instance, California's economy depends heavily on agriculture, just as Texas' was tied to energy. The nation's three biggest agriculture lenders are Bank of America, Wells Fargo and Security Pacific.

Another similarity is the speculative run-up in real estate prices. Any time housing becomes an investment for reasons other than shelter, its value gets inflated, and the seeds for potential disaster are sown. When economic factors bring the speculation to a halt, prices plunge, leaving banks with loans that are less than the value of the housing.

Building Boom

"What can affect an economy can come out of the blue," said Alex Sheshunoff, a financial industry analyst in Austin, Tex. "But when real estate starts to look like a basic industry, it is an indicator of some problems."

California has also been a magnet for the kind of shady manipulators who helped bring down the thrift industry in Texas. That entrepreneurial subset is attracted to both states because their regulations impose fewer restrictions on the way thrifts can invest their funds than most other states do.

For those who say it couldn't happen here, that is what they used to say about the bottom falling out of oil prices in Texas.

Throughout the late 1970s and early 1980s, Texas enjoyed a building boom of unprecedented proportions. It was fueled largely by rising oil prices, which approached $40 a barrel at their peak in 1981.

But the boom also fed on itself, spawning construction projects at a pace that went beyond what $60 a barrel would have justified.

In 1981, oil prices began to drop. The most oil-dependent sections of Texas, such as Houston, were the first to suffer as layoffs began to spread to related businesses. Yet housing prices kept going up and did not peak in Houston until 1983.

In Dallas and Austin, the decline in Houston was essentially ignored. The big Dallas banks could see that energy loans were no longer a growth area, but they were smug in the knowledge that their local economy was too diversified to suffer the fate of Houston.

At the same time, banks were under pressure from their boards to get in on the real estate bonanza that the thrifts were reaping. Thrifts, flush with new powers under deregulation, were expanding at rates of 300% a year, and banks wanted a piece of the action.

"I remember the head of our department telling us to get out there and make more loans a few days after a board meeting in 1984," a former loan officer at First Republic said in an interview.

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So the big banks began making big loans to the real estate developers, who seemed to be putting up apartment houses and office buildings on every corner.

Texas has four major metropolitan areas -- Dallas -Ft. Worth, Houston, San Antonio and Austin. Total real estate loans at the big banks in those cities reached a peak of $32.8 billion in 1986, an increase of more than 50% in three years, according to figures compiled by Sheshunoff & Co.

Housing Prices Plummet

"The good news is that the banks diversified," the Fed's Rosenblum said. "The bad news is that the area they chose was real estate."

The next shock came in January and February of 1986, when oil prices plunged from $28 a barrel to about $10 before stabilizing in the teens. For Texas, where the cost of producing oil is high, the impact was devastating.

Growth stopped. The influx of jobs turned into an outflow. Vacancy rates in office buildings approached 33% in Dallas and Houston, and Austin gained the dubious distinction of having the nation's highest vacancy rate of 38%. Housing prices across the state plummeted, dropping 35% to 40% in Houston and nearly 20% in Dallas.

"What this means is that a normal, prudent lender that made mortgage loans with 10% down payments, now those properties have much less value than the mortgage," said Paul M. Horovitz, a banking professor at the University of Houston and former research director for the Federal Deposit Insurance Corp. in Washington. "People tend to walk away or just wait for foreclosure."

The percentage of loans on which interest was not being paid rose to 11.43% at Texas' big city banks in 1986 and 14.63% the following year, the worst of any region in the country.

The bad times also pulled down the curtain on the abuses festering within the savings and loan industry.

More than 100 people have been charged in connection with fraud at the failed Empire Savings in Mesquite, Tex., and investigation is continuing. Some Empire-backed construction projects along the so-called "Interstate 30 corridor" outside Dallas were so ill-conceived that they have been demolished by the federal regulators who took them over. Losses from Empire's portfolio are expected to run $500 million to $750 million.

'Very Large' Problem

"What we are now seeing in north Texas just dwarfs the Empire case in terms of dollar losses," said Marvin Collins, the U.S. Attorney in Dallas. "Without any doubt, it will be billions of dollars of loss."

With help from Washington, Collins set up a 50-member task force of prosecutors and agents from the FBI and Internal Revenue Service to investigate abuses in the state's savings and loan and banking industries. Collins said at least 25 thrifts and 10 banks are under investigation for fraud.

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"The further we look, the worse it gets," Collins said. "I don't think any number of investigators is going to be enough. The problem is very large and very complicated."

Collins is one who thinks the scope of the troubles at Texas savings and loans will ultimately require a taxpayer bailout of the regulatory agency, the Federal Savings and Loan Insurance Corp. His opinion is shared by many industry experts and analysts.

Texas S&Ls were $10 billion in the red at the end of March. But Frank W. Anderson, an analyst with the investment banking firm of D. Latin & Co. in Dallas, said the final cost of rescuing the industry will be closer to $20 billion because bad real estate loans are still showing up. For example, Sunbelt Savings & Loan in Dallas lost a reported $1.2 billion in the first three months of 1988.

The banking industry has not been hit as hard as the thrifts, chiefly because commercial banks are prohibited from most of the development-type lending that brought down the savings and loans.

Nonetheless, the state's biggest banks have been forced to seek outside investors to remain open. Texas Commerce Bank was sold to New York's Chemical Bank, and Allied Bank was bought by First Interstate of Los Angeles. First City Bank was rescued by investors led by Chicago banker A. Robert Abboud, and First Republic has as its partner the FDIC, which insures deposits in commercial banks and rescues failing institutions.

Damage Assessment

L. William Seidman, chairman of the FDIC, predicted last month in San Antonio that the Texas banking industry will show signs of a turnaround in 1989. But not before more troubles.

"We think this will be the worst year for Texas, and next year will be better," Seidman said. "From what we can see, the economy is improving. While the real estate market hasn't shown any improvement, we think the damage, particularly to large banks, will be known and containable."

Albert Casey is still assessing the damage at First Republic, which is both a child and a casualty of the crisis.

For 59 years, Republic Bank and First National Bank were bitter rivals, "the Hatfields and McCoys" of Dallas banking, according to the Dallas Morning News. But in the face of the banking crisis, a merger seemed the only ticket to survival.

On June 6, 1987, the two rivals became First RepublicBank, the state's largest bank and the nation's 13th-largest banking company. Its chairman, Gerald W. Fronterhouse, brushed aside the loan problems and boasted that no federal aid would be required.

The cost savings of the merger and the additional capital raised proved inadequate, however, prompting one analyst to liken the merger to two drunks trying to hold each other up.

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The company lost $656 million in 1987. In three months, depositors withdrew more than $1 billion from the bank, including $600 million from the main Dallas branch in five days last March.

On March 14 the bank sought the aid of the FDIC.

Full Extent Unknown

The regulators provided a $1-billion loan as the first stage of what some expect to be a bailout that tops the $4.5-billion price tag for Continental Illinois Bank in 1984. The FDIC also tried to restore confidence by ousting Fronterhouse and persuading the 68-year-old Casey to come out of retirement to resuscitate the banking company.

Casey is a former president of Times Mirror, which publishes the Los Angeles Times, a former chairman of the parent of American Airlines and a former U.S. postmaster general. At a recent meeting with First Republic employees, he said that he had "about an hour and a half" of experience as a banker.

Working seven days a week, Casey is assembling a plan to spin off the worst loans to a separate entity. Despite his hope to present the plan to the FDIC by mid-June, Casey said he does not know the full extent of the potential losses from the loan portfolio.

However, he stressed that the bank is not universally troubled, and, once the bad loans are stripped away, the operation should be profitable. He refused to blame the previous management, saying no one could have foreseen the twin catastrophes of the energy crisis and the collapse of the real estate market.

"You can protect against certain sizes of tragedies, and you cannot protect against others," Casey said. "You could be a child genius running IBM and McKinsey & Co. (a consulting firm), but if you were in Nagasaki and the bomb came down, it wouldn't matter how good your management was."

GRAPHIC: Photo, Albert V. Casey, chairman and chief executive of First RepublicBank, with model of the Titanic. SHELLY KATZ; Photo, A deserted condominium project, below, about 15 miles outside of Dallas. The Texas housing market was a victim of falling oil prices. LORI SHEPLER; Photo, Buddy Birdwell was a roughneck for 10 years before his company went out of business. He now works for Oilfield Tools in Houston. ; Photo, Apartment complex started in the heat of Houston's real estate boom is now abandoned. PATTY WOOD; Chart, The Crisis in Texas Banking; Total Real Estate Loans, in billions of dollars, in Major Metropolitan areas; Nonperforming Real Estate Loans, in billions of dollars, as Percentage of Total Loans.

SUBJECT:
REAL ESTATE INDUSTRY -- TEXAS; BANK FAILURES; BANKING INDUSTRY -- TEXAS; TEXAS -- ECONOMY; SAVINGS AND LOANS; LOAN DEFAULTS; LOANS

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USA TODAY

February 27, 1989, Monday, FINAL EDITION

SECTION: MONEY; Pg. 1B

LENGTH: 1262 words

HEADLINE: A Texas-sized scandal;
S&L trial: 'Folk heroes' or crooks?

BYLINE: Dennis Cauchon

BODY:

The government last week began the trial of seven men accused of looting five Texas savings and loans via a highly complex web of land deals. The case is the biggest S&L fraud case yet - and a big test for the government.

LUBBOCK, Texas - ''Hold on,'' says baby-faced prosecutor Terry Hart. ''I think I've confused myself.''

In the middle of a three-hour opening statement at the biggest savings and loan fraud trial ever, Hart looks momentarily befuddled. He's trying to explain a complex financing arrangement, and how one of the defendants profited from it. Hart rests his right palm against his forehead. The jury waits.

Finally, Hart blurts: ''What it comes down to is the defendant got a $ 4 million mansion out of the deal.''

That's something the jury can understand. But whether it's enough to win Hart convictions is far from certain.

The public is crying for the scalps of those who dug the S&L industry into a $ 100 billion hole. But on the front lines of justice, convicting the alleged scoundrels isn't so easy.

That has seldom been more obvious than in a second-floor courtroom here, where last week the government began its most important S&L fraud trial so far. The case involves the failure of Empire Savings of Mesquite, Texas, and four other S&Ls in the mid-1980s. Seven defendants are charged with looting $ 136 million from the now-dead S&Ls.

Prosecutors are battling first-rate defense attorneys and colorful defendants who may well win the jury's heart. One is Danny Faulkner, an illiterate ex-house painter who became one of Texas' most flamboyant millionaires. The government says he stole $ 40 million from S&Ls.

Yet nothing hurts prosecutors more than the stupefying complexity of many S&L fraud schemes and the boredom that overtakes juries. ''The smoking gun is a file cabinet,'' says S&L analyst Bert Ely.

The complexity poses a major problem for the government, because a jury would be hard-pressed to unanimously vote ''guilty beyond a reasonable doubt'' if it's confused. ''It gets riskier as the case gets bigger,'' says U.S. Attorney

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Marvin Collins of Dallas. ''When a case reaches a certain size, it becomes complex enough to create a lot of possibilities and doubts.''

Hart has lined up 440 possible witnesses for this trial, which is expected to last six months. When the case was moved from Dallas to Lubbock because of pretrial publicity, the government had to ship 60 file cabinets and 2 million documents.

A government task force has spent five years investigating this case, a monumental condo-land fraud scheme involving property along a five-mile strip of Interstate 30 near Dallas. One hundred people have been found guilty so far. The men on trial now are the alleged ringleaders.

Hart must educate the jury on everything from arcane tax law - do you know what a Starker Trust or tax-free 10-31 exchange is? - to the intricacies of real estate dealing.

The case centers on land flips - the sale of the same piece of property, as often as six times a day, at soaring prices. In one deal, a 21-acre plot went from $ 933,000 in value to $ 7 million all in one day of flipping.

The prosecution says the sales were shams, nothing more than paper shuffling among confederates - developers, S&L executives and appraisers - who used the inflated land values to get big S&L loans that were never repaid. Instead, the money was spent on cars, helicopters, furs and other luxuries for the looters, the government alleges.

Faulkner and fellow real estate developer James Toler financed the purchase of Empire Savings by Spencer Blain Jr. in 1982. Blain, who became Empire's chairman, then dished out more than $ 300 million in loans for I-30 land and condos to be built on the land. In return, Blain allegedly got $ 22 million in kickbacks.

Four other S&Ls also joined in the scheme, the government says. It all collapsed in 1983-84. The defendants argue that the Dallas condo market fell apart, and that's what dragged them down. The government says the defendants conspired to get loans illicitly and squander them.

Defense attorneys plan to make the government doggedly prove that their clients benefited from deals that they had no involvement in - at least, no paper records show their involvement. And if the government can prove that, the defense argues there was no criminal intent anyway.

The defense largely concedes the men made $ 136 million from Sept. 1982 to Sept. 1983. But they argue that Faulkner, Toler, Blain and others had no criminal intent. They just got into legitimate business deals that went bad, their lawyers argue.

''It's one thing to convince a jury of criminal intent when someone puts a gun to a head and pulls the trigger,'' says Collins. ''It's another to show criminal intent was the signing of a paper.''

To prove a lack of criminal intent, defense attorneys are describing their clients as perhaps the stupidest people ever to make $ 136 million in 12 months. ''Ken Cansler did not have an original thought in his head about this case,''

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his attorney, Dan Guthrie, told the jury.

Cansler, 41, who met Faulker on a cruise, was a $ 21,000-a-year assistant high school football coach one year. The next year, he made $ 12 million in I-30 condo developments.

The government needs to win this case for more than just the money involved. In October, the Justice Department task force prosecuting S&L fraud lost its first major case: the criminal trial of Thomas Gaubert, owner of failed Independent American Savings of Dallas.

Yet, for as important a case as this is, the atmosphere in the courtroom is anything but electric. The jury yawns. The prosecutors yawn. The defense attorneys yawn. Even the defendants yawn. Hart, 35, a former FBI agent, presents his case in the federal prosecutor's traditional just-the-facts monotone.

Leading the defense's team are a pair of lawyers acting in good cop-bad cop style. Abrasive attorney Mike Fawer of New Orleans is the bad cop. Fawer looks like actor Richard Dreyfuss and argues like TV talk-show host Morton Downey, only smarter.

The ''good cop'' is soft-spoken attorney Cheryl Wattley, who approaches the jury like a big sister asking forgiveness for her troublesome but likable client.

''Danny Faulkner was born in Mississippi, the son of sharecroppers, on Christmas Day in 1932,'' she begins. Children ridiculed him because he was dyslexic and could not learn to read or write. ''They called him goo-goo eyes.'' When Faulkner was 12, the jury learns, his teacher asked him to step outside the classroom. He overheard her scold the class: ''Don't make fun of him because he's dumb and stupid. He can't help it.''

Dramatic pause. ''Danny Faulkner walked out of school that day for good,'' says Wattley.

The illiterate house painter got his big break when he was hired in the 1970s to paint the luxury boxes at Texas Stadium, home of the Dallas Cowboys. He parlayed painting profits and connections into a real estate fortune. His first condo development, Faulkner Point, is featured in the opening sequence on the TV show Dallas. He drove a $ 150,000 Rolls-Royce, traveled in a $ 4 million jet and left waitresses $ 100 tips.

Faulkner isn't a greedy, crooked showboat, Wattley says. He flaunted money because ''he's gone through life seeking approval from adults that he could not get as a child.''

''Danny Faulkner became a folk hero,'' Wattley concludes.

''Objection!'' complains Hart. But the point is made. Folk hero who made bad investments, or crook? Six months or so from now, the jury will have to decide.

GRAPHIC: PHOTO; color, Brian Hendershot (Danny Sr., Danny Jr., Danica, Debbie Faulkner, Cheryl Wattley); PHOTO; color (Terry Hart)

CUTLINE: DAY IN COURT: From left, Debbie Faulkner holding Danica; Danny

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11TH STORY of Level 1 printed in FULL format.

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December 8, 1989, Friday, Home Edition

SECTION: Business; Part D; Page 1; Column 2; Financial Desk

LENGTH: 456 words

HEADLINE: JUSTICE DEPT. TO DOUBLE NUMBER OF INVESTIGATORS OF THRIFT FRAUD

BYLINE: By ROBERT L. JACKSON, TIMES STAFF WRITER

DATELINE: WASHINGTON

BODY:

Using funds already approved by Congress, the Justice Department will double the number of federal investigators assigned to root out fraud in the nation's banks and savings and loan institutions, Atty. Gen. Dick Thornburgh announced Thursday.

Thornburgh, labeling the S&L scandal as perhaps the largest white-collar swindle in U.S. history, said Los Angeles and 26 other cities will receive more than 400 additional prosecutors, FBI agents and federal accountants to complete 8,000 pending cases and to open new investigations of financial fraud.

Twenty-seven of the FBI agents will be assigned to Los Angeles, along with 14 FBI accounting technicians and 15 prosecutors. Ten additional enforcement officers will go to San Francisco and three to Sacramento.

The emphasis is on "target cities where alleged criminal violations in the banking and savings and loan industries are most acute," said FBI Director William S. Sessions.

Thornburgh said he is concerned that, without the additional investigative effort, the kind of widespread abuses detected so far could recur.

The S&L bailout and reform legislation approved by Congress this year included $45.8 million requested by President Bush for law enforcement, which Thornburgh said was being used to beef up investigations around the country.

"Prosecutions of those who are accused of violating the law will come -- perhaps not as quickly as we would like -- but they will come," Thornburgh said.

Sessions added that "complex bank and thrift fraud investigations are often tedious and long. Investigations involve owners, board members and high-ranking bank officials and often take place against a backdrop of seemingly legitimate business transactions."

The officials warned that not all stolen or misappropriated assets would be recovered.

"We will make every effort we can to recover lost assets but some have been dissipated or spirited overseas" by the culprits, Thornburgh said.

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Marvin Collins, the U.S. attorney in Dallas who attended the news conference, said his experience also has shown that "a lot of assets are in worthless real estate" currently valued at a fraction of its original cost.

Thornburgh, asked why the government had not moved a year or two earlier to put additional FBI agents on the S&L scandal, replied that "President Bush was the first to address the need for additional resources."

Asked if he was not closing "the barn door" after most of the horses had escaped, he responded: "No. This barn door still shelters a number of persons who have been engaged in criminal activities."

He declined comment on specific cases such as Lincoln Savings & Loan of Irvine, whose collapse is expected to cost taxpayers as much as $2.3 billion.

GRAPHIC: Photo, Dick Thornburgh AL STEPHENSON / For The Times

SUBJECT:
THORNBURGH, RICHARD L; DEPARTMENT OF JUSTICE (U.S.); POLICE INVESTIGATIONS; SAVINGS AND LOANS; THRIFTS AND LOANS; FRAUD; BANKING INDUSTRY -- UNITED STATES; FEDERAL BUREAU OF INVESTIGATION

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5TH STORY of Level 1 printed in FULL format.

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April 15, 1990, Sunday, Final Edition

SECTION: OPINION EDITORIAL; PAGE D6

LENGTH: 464 words

HEADLINE: S&L Fraud

SERIES: Occasional

BODY:

SINCE DALLAS is the center of the S&L scandals, it is naturally the center of the cleanup as well. The House Banking Committee stopped by the other day to hold hearings and see how things are going. It got the kind of answers that do not make the congressional heart sing. Those billions and billions of dollars are well and truly gone. But you will be gratified to know that an impressive number of people are going to jail.

Marvin Collins, the U.S. attorney for the northern district of Texas, is now bringing to a conclusion the highly successful investigation carried out by what was known as the I-30 Task Force. Fraudulent lending and real estate dealings led to an enormous oversupply of condominiums along Interstate 30 east of Dallas. The investigation was begun by the FBI and the Texas Department of Public Safety in 1984 -- long before, you will notice, the collapse of oil prices and Texas real estate values. It found losses to the lending institutions of more than a half-billion dollars, Mr. Collins told Congress.

This task force alone has brought criminal charges against 111 people. So far 102 have been convicted and 54 have gone to prison. But there's much more to come. Altogether, Mr. Collins' office is investigating more than 500 people in cases involving 39 failed S&Ls and several banks.

Is the Bush administration putting enough money into S&L prosecutions? For years the Reagan administration obviously did not -- the same years in which it consistently played down the scale of the thievery and the losses. But late last year, with administration support, Congress appropriated $ 49 million for more prosecutors, FBI agents and other staff. Many members of Congress suspect that even that won't be enough. But it takes time to hire and train people for this work, and it may well be next year before anyone knows with assurance whether still more is needed.

As for recapturing the vanished billions, that looks unlikely. Some of it was spent buying property at values that later fell. Some of it was spent building houses for which there are now no buyers and shopping centers for which there now are no tenants. A lot of it went for high living by S&L officials -- private planes, yachts and sumptuous entertaining. Perhaps some of it got salted away in Swiss bank accounts, and that's another reason for vigorous prosecution without budget constraints. But it's a matter of punishing the guilty rather than hoping to retrieve large caches of wealth.

A few die-hards still argue that the S&L losses were caused mainly by bad luck -- high interest rates and falling land prices. That's bosh. In most of the S&L failures, there is clear evidence of fraud. Competent regulation will

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discourage a recurrence. So will prosecution of criminal fraud.

TYPE:
EDITORIAL

SUBJECT:
BANKING INDUSTRY; FRAUD

ENHANCEMENT:
SAVINGS - LOAN

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June 14, 1990, Thursday, NORTH SPORTS FINAL EDITION

SECTION: BUSINESS; Pg. 1; ZONE: C

LENGTH: 611 words

HEADLINE: Ex-S&L owner indicted on fraud charges

BYLINE: Associated Press

DATELINE: DALLAS

BODY:

The former owner of Vernon Savings & Loan, accused of illegally using bank funds to raise money for Jim Wright, was indicted Wednesday on bank fraud charges in the collapse of his thrift three years ago.

A 38-count indictment was handed up by a federal grand jury accusing Don Dixon of conspiracy, misapplication of funds, making false statements and false entries, and interstate travel in aid of racketeering.

Five other former officials of the defunct thrift, one of the most notorious of the entire S&L debacle, have pleaded guilty to various crimes. Former president Patrick G. King and former chairman Woody F. Lemons have been sentenced to prison for their part in the thrift's collapse, which cost the government $1.3 billion, authorities said.

Under Dixon, who moved the thrift to Dallas from its home in the north Texas town of Vernon, Vernon assets grew tenfold until 1987 when federal regulators shut it down.

When regulators seized Vernon, they found it owned 17th Century castle doors, various expensive art objects and even a silver-studded saddle purchased by Dixon on various shopping trips.

Wednesday's indictment is the most significant case developed by savings and loan investigators in the Dallas area, said Atty. Gen. Dick Thornburgh.

"These complicated, white-collar crime cases take time to develop, but the Justice Department is committed to the investigation, prosecution and incarceration of those who ripped off our financial institutions and have left the taxpayers of the United States holding the bag," Thornburgh said in a statement.

U.S. Attorney Marvin Collins said the 3 1/2 years it took to indict Dixon is typical for savings and loan cases.

Dixon is scheduled to surrender himself to federal authorities on Thursday, Collins said.

The indictment alleges that Dixon conspired with other Vernon officials to use savings and loan funds to make illegal political contributions to 13

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candidates, including Wright, the former House speaker and Texas Democrat, and then-Rep. Jack Kemp (R-N.Y.).

The indictment said Dixon encouraged employees to make political contributions and then reimbursed them with expense money or phony bonuses. Prosecutors have said the candidates did not know the contributions were illegal.

Wright was not named as a defendant in the indictment. An administrative assistant in Ft. Worth said Wright was unavailable for comment.

Dixon also misapplied funds for pleasure trips for Vernon officials, the indictment said.

If convicted of all the charges, Dixon faces 190 years in prison and a fine of up to $9.5 million. His attorney, William Ravkind, did not immediately return a phone call Wednesday to the Associated Press.

Former thrift executive vice president Patrick Malone testified in King's 1989 trial that he solicited contributions from King and other top thrift executives for the 1986 gubernatorial primary campaign of former Rep. Tom Loeffler (R-Texas), and the re-election bids of Wright, who resigned after a House Ethics Committee investigation; Kemp, now secretary of housing and urban development; Sen. Jake Garn (R-Utah); and Sen. Alan Cranston (D- Calif.).

Dixon threw parties for other S&L operators aboard his yacht, the "High Spirits," when it was docked on the Potomac River in Washington to raise money for the Democratic Congressional Campaign Committee, chaired by then-Rep. Tony Coehlo (D-Calif.).

At Coehlo's request, Wright intervened with federal thrift regulators to determine if there were any plans to shut down Vernon Savings and Loan, according to a report to the House Ethics Committee by the outside counsel hired to investigate Wright.

TERMS: BANK; EXCEUTIVE; INDICT; FRAUD; TEXAS; OFFICIAL

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SECURITIES AND COMMODITIES FRAUD

Pervasive fraud in new securities and commodities markets has warranted a special interest in the Department's war on economic crime.

The Securities' Fraud Task Force Program (Task Forces) (established by the AG Jan. 31, 1989) concentrates assets of the United States Attorneys, Federal Bureau of Investigation, Postal Inspection Service, Internal Revenue Service and the Criminal Division on this type of crime. Currently, there are Task Forces operating in eight United States Attorneys' Offices across the country.

In addition, the Securities and Commodities Fraud Working Group (Working Group) (established March 29, 1988) is actively working with the task forces. The Working Group, comprised of Federal and State law enforcement and regulatory agencies as well as industry self regulatory organizations (i.e., SEC, NYSE, NASD, FBI, IRS, NAAG, FTC, etc), meets 3 to 4 times annually to discuss current issues pertinent to law enforcement and continues to play a vital role in training prosecutors and investigators for the complex schemes and transactions they encounter in these cases.

The Working Group plays a vital role in training prosecutors and investigators for the complex schemes and arcane transactions they encounter in the cases. In the past year several hundred federal agents and prosecutors attended training programs sponsored under the auspices of the Working Group.

On August 18, 1989, the Securities and Commodities Task Forces reported that there were 137 matters under investigation, 51 cases, and 34 indictments/ informations returned or filed. Those indictments include the widely publicized commodities fraud indictments resulting from the Chicago FBI undercover operations directed by the U.S. Attorney for the Northern District of Illinois. The Task Forces indicated that 38 attorneys have been assigned to Task Force cases, 16 of which are full time. Investigative support included 23 FBI special agents, 7 postal inspectors and 10 IRS agents.

Recent Accomplishments:

As of April 1, 1990, the Criminal Division reported approximately 245 open investigations relating to securities and commodities fraud.

Among these cases are the four indictments brought by the U.S. Attorney for the Northern District of Illinois, charging more than forty individuals with widespread fraud in floor trading on Chicago's commodities exchanges.

Task Force investigations to date have produced approximately 50 indictments.

PENNY STOCK FRAUD

Penny stock fraud is a growing and serious type of securities and commodities fraud. Penny stocks are offered for sale at less than a dollar per share, sometimes for as little as 10 or 20 cents per share which makes them particularly attractive to first-time, unsophisticated investors looking to strike it rich in the stock market. They attract legitimate interest because some investors made fortunes in penny stocks, such as those who bought shares of Tandy Corp. or Apple Computer before the companies grew and eventually reached the blue-chip level.

However, penny stocks that are sold primarily through telephone solicitations and are traded over-the-counter rather than on a stock exchange are more susceptible to manipulation than are blue chip or big board stocks. Fraud relating to the sale of penny stocks generally involves illegal tactics employed by the penny stock salesman such as: using high pressure, "badgering" telephone sales techniques to sell stocks of companies with little or no operating histories, charging fraudulent and excessive markups in connection with stock sales to the public, and maintaining false and misleading books and records.

Most federal prosecutions of penny stock fraud are conducted by the United States Attorneys, but the Criminal Division's Fraud Section is actively participating in several important current prosecutions.

Recent Developments:

About 80 of the approximately 245 open investigations of the Securities and Commodities Task Forces involve penny stock schemes.

F.D. Roberts Indictments

On Tuesday, March 27, 1990, the U.S. Attorney for the District of New Jersey, Samuel A. Alioto, Jr., announced the indictment of eight men in a massive stock manipulation scheme allegedly netting the defendants $67 million in illicit profits. Known as the F.D. Roberts case, after the name of the now defunct Paramus based penny stock brokerage, the indictment seeks forfeiture of more than $12 million from seven of the defendants under provisions of the Racketeering Influenced and Corrupt Organizations (RICO) Law. Named in the indictment are four former owners of the brokerage, including two former board chairmen.

Indictment of Meyer Blinder

On Feb. 26, 1990, "Penny Stock King" Meyer Blinder and two associates were indicted by a federal grand jury on 11 criminal

counts of securities and wire fraud, racketeering and money laundering. The indictment stems from an 18-month investigation that was conducted jointly by the U.S. Attorney for Nevada, the Criminal Investigations Division of the Internal Revenue Service and the Los Angeles regional office of the U.S. Securities and Exchange Commission. According to the indictment, Mr. Blinder and two associates conspired with others to create a fraudulent market for the penny stock of sham corporations. If convicted on all counts, Mr. Blinder could receive a 60-year jail sentence. The indictment also asks for $9.5 million that Mr. Blinder and his associates purportedly gained from the alleged fraud.

Frontier Resources Corporation

The Criminal Division's Fraud Section has sole responsibility for the case against against Frontier Resources Corporation, in the District of Nevada, involved charges stemming from the manipulation of the stock of a worthless shell company. **The defendents, including the somewhat notorious swindler Sam Merit, were able to inflate the price of the stock from a few cents per share to over $7.00 in one week.** Three defendents were convicted in that case, on counts involving conspiracy, making false statements to a federally insured institution, and mail fraud. Merit was sentenced to nine years' imprisonment and a $20,000 fine.

HUD FRAUD AND CORRUPTION

The Department is aggressively pursuing HUD and related program fraud matters in virtually every judicial district in the U.S. These matters involve individual borrowers/owners, mortgage lenders, developers, Public Housing Authority officials, escrow agents, former HUD officials, and rental subsidy recipients.

The scope of our current investigations and prosecutions is staggering. In fiscal year 1989 alone, U.S. Attorneys filed civil suits involving HUD fraud against 3,633 defendants in 88 of the 94 judicial districts. Criminal charges relating to HUD programs were filed against 140 defendants is 46 judicial districts. An additional 181 criminal matters and 2,245 civil matters were under investigation during FY89.

On September 20, 1989, the Department formed the HUD Fraud and Corruption Coordinating Group to monitor the progress of all HUD investigations and ensure that sufficient Departmental resources are being devoted to HUD matters. The Fraud Section of the Criminal Division has assigned attorneys to supplement the resources of the United States Attorneys in three judicial districts with significant numbers of HUD matters pending.

The Department has set up formal and informal task forces in judicial districts where there are widespread allegations of of HUD fraud. For example, in Knoxville, Tenn., federal prosecutors, FBI agents, agents from HUD Inspector General's Office and IRS investigators have joined forces to investigate allegations of fraud associated with the Benton Mortgage Co. A special task force set up in Oklahoma has to date resulted in the conviction of 24 defendants.

Following the recommendation of the Attorney General, on March 2, 1990, Retired Appeals Court Judge Arlin M. Adams of Philadelphia, Pennsylvania, was named as the Independent Counsel appointed to investigate allegations of wrongdoing by former HUD Secretary Samuel Pierce, et al. in connection with his administration of the Moderate Rehabilitation Program.

In the past four years, the amount of fines, recoveries and restitutions assessed against wrongdoers as a result of FBI HUD fraud investigations and increased 300%, from $1.9 million in FY84 to a record $7.6 million in FY89. More importantly, the total amount assessed as a result of FBI investigations over the last five years is over $25 million. (NOTE: The FBI does not collect data on how much of this amount was collected-too expensive to track.)

CIVIL FRAUD RECOVERIES

The Department is aggressively pursuing civil remedies for contract, procurement and program fraud, bribery and kickbacks. Civil fraud recoveries are coordinated with criminal investigations to the extent possible.

Enactment of major anti-fraud laws in 1986 increased the arsenal of weapons available to recover Government monies lost through fraud. The impact of the Program Fraud Civil Remedies Act and Anti-Kickback Act will become more apparent over time. Both laws apply only to frauds committed after the statutes were passed. The preparatory administrative groundwork has been completed and we should begin to feel the impact of these laws on our caseload during the next fiscal year. The drafting of essentially uniform regulations by the principal agencies to establish procedures for the adjudication of Program Fraud cases has been completed. In addition, the Department has issued informal guidelines to the agencies regarding how referrals to the Department of Justice under the Act are to be handled.

Recent accomplishments:

$128 million recovered from Sunstrand Corporation in a defense procurement case involving cost mischarging and defective pricing.

$14.7 million settlement from Industrial Techtronics, Inc., a qui tam case, for defectively priced ball bearings used in the F-100 jet engine and in Navy nuclear reactors. The relator received $1.4 million.

$17.3 million settlement from LTV Corporation subsidiary involved in thousands of Federally-insured student loans obtained under an illegal financing scheme.

$13.5 million settlement plus $1.15 million in costs and contract savings from Boeing, RCA, Hughes Aircraft, Grumman, and Raytheon under Operation Uncover, in conjunction with the USA - E.D. Va.

Freezing assets and complaints filed against Marilyn Harrell, a HUD closing agent, as well as various former employees.

The Government's recoveries from judgments and settlements, under these and other statutes, in FY89 totalled $225 million, based on a total of 25 attorney years committed to the program. This is $50 million more than recoveries in FY88 (based on 23 attorneys) and more than double recoveries in FY87. It represents almost a fourfold increase over our recoveries in FY86. In FY91 we are requesting 6 additional positions to pursue Savings and Loan fraud cases.

[see also Defense Procurement Fraud; Qui Tam Cases]

7

THE TEXCON BANK FRAUD INVESTIGATION IN TEXAS

TEXCON is a major bank fraud task force investigation involving five federally insured institutions covering the Northern and Eastern Districts of Texas.

From 1984 to March 5, 1990:

* Of the 111 people charged in the bank fraud investigation, 99 people have been convicted. Of these 99 people, 15 were professionals (including attorneys, CPA's, bankers, a doctor, a stockbroker, a real estate appraisor, and a chiropractor).

* NONE were acquitted. (2 cases dismissed)

* 95 were sentenced. 42 were imprisoned (include split sentences). 55 were probated.

* The average imprisonment was 4.32 years. The total imprisonment was 181.58 years.

* The total fines were $571,000. Total restitution ordered was over $20 million ($20,358,000).

DEFENSE PROCUREMENT FRAUD: OPERATION ILL WIND

A special focus in the area of defense procurement fraud has been "Operation Ill Wind." The investigation and prosecution have been conducted by a task force in the Eastern District of Virginia, which includes U.S. Attorney Henry Hudson and his staff and members of the Criminal Division. In addition, Civil Division attorneys have worked closely with this task force and with the Secretary of the Navy's Office and the General Counsel's Office of the Air Force to achieve a coordinated resolution.

° William Galvin. On March 28, 1990, Galvin, a defense consultant who was a major target of Ill Wind, pled guilty to conspiracy, bribery, and tax evasion. Sentencing is set for August 3. Galvin faces up to 40 years in prison and a fine of up to $1 million.

° Charles Gardner and James Neal. Gardner, a former vice-president and general manager of Unisys, and Neal, a co-conspirator, pled to counts of bribery, conspiracy, and filing a false tax return. Gardner was sentenced to 32 months in prison and a $40,000 fine; Neal's sentence was 27 months and $30,000.

° Teledyne Industries, Inc. Teledyne pled to one count of conspiracy, and to two counts of filing false statements. The company agreed to pay a criminal fine of $1.5 million and costs of $786,000 in addition to civil penalties.

° Loral Corp. Loral pled guilty to counts of conspiracy, converting government property, and filing a false claim. Loral agreed to pay a criminal fine of $1.5 million and costs of $1.27 million in addition to civil penalties.

Between January 1, 1989, and April 12, 1990, 41 defendants have been charged (37 since the beginning of this Administration). As of April 2, 1990, 36 defendants have been found guilty, either by admission or by jury, with two acquittals. The United States, through fines, restitution, or other penalties has recovered over $24 million. Sentences for individual defendants have been as long as 32 months.

The Civil Division is monitoring the criminal cases for possible follow-on civil actions and directing investigations to ensure that the Government's civil claims are preserved and pursued. **The Department has entered into global settlements with four corporations (Hazeltine Corp., Teledyne Industries, Whittaker Corp. and Loral Corp.), recovering almost $10 million in civil claims plus additional contract savings up to $25 million as well as reimbursement for the costs of investigation.**

DEFENSE PROCUREMENT FRAUD:
OPERATION UNCOVER

The Civil Division, in conjunction with the United States Attorney's Office for the Eastern District of Virginia, has recently completed global settlements of criminal and civil charges in five cases code named by investigators "Operation Uncover."

The cases arose from an investigation of Boeing whose marketing analyst, Richard Fowler, illegally obtained and trafficked over 700 classified DoD and NSA documents. The documents were secret planning, programming, and budgeting papers, which may have given the companies an advantage in its long term planning, but did not have a provable impact on the award or pricing of any particular contract or program.

Boeing, RCA, Hughes Aircraft, Grumman, and Raytheon are paying $13.5 million in criminal fines and civil penalties plus another $1.15 million in costs and contract savings.

Fowler was convicted after trial on 39 counts and was sentenced to 2 years in prison. Three other individuals have been indicted.