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The Easy Marriage Of Banking and Politics

In Arkansas, banking and politics are as closely intertwined as in any state. While large banks came to dominate the financial life elsewhere, laws here have preserved the independence—and political influence—of the country banker.

With strong ties to both political parties, bankers in many Arkansas counties serve as an informal network for campaign fund-raising and organization.

In the state's tiny, insular towns, the local bank's "coffee room" is a vital social center as well as a place to haggle over loans. When the political season rolls in, borrowers are often invited to fund-raisers in support of the bankers' favored candidates.

"A banker is a respected man around the square," State Sen. W.D. "Bill" Moore said in an interview during Clinton's presidential campaign last year. "He can influence employees, he can influence people to whom he has loaned money. . . . He says, 'The bank is going to support John Jones, we urge you to support him. . . . If you're going to borrow money in the near future, it would be a good idea to come to the fish fry and bring a check.' "

Many of the same bankers, in turn, enjoy a built-in lobby on legislative issues and get appointed to the state boards and commissions that oversee economic development.

In this two-way relationship, banks in the 1980s often granted politicians unsecured loans, according to Marlin D. Jackson, a banking commissioner under Clinton. "Just a slight accommodation for people of prominence in state government," he said. "The notion is you somehow ingratiate yourself slightly by doing this."

When Clinton and McDougal were financing their 1978 purchase of a 230-acre tract of land in the Ozarks, for example, the $20,000 down payment came from an unsecured loan at a Little Rock bank whose board of directors included Clinton's top campaign finance official that year, Walter A. DeRoeck.

Further financing of what became known as Whitewater Estates came from banks owned by Maurice Smith, a mentor and major fund-raiser whom Clinton later appointed chief of the governor's staff, and by Jackson.

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Questions were raised during the 1992 presidential campaign about Clinton's business dealings with McDougal, an official of a company regulated by the state. Clinton said there "was no impropriety." His campaign commissioned a report that found no wrongdoing.

Aides to Fulbright Forge a Friendship

The McDougal-Clinton friendship dates to 1968 when Clinton showed up here to volunteer for Fulbright, then the influential chairman of the Senate Foreign Relations Committee. McDougal, who ran Fulbright's Little Rock office, played a protective big brother to Clinton, who was six years younger.

McDougal assigned the eager college student to drive Fulbright on a campaign swing. Clinton let the car air conditioner overflow and then left the vehicle in a hotel tow zone. When Fulbright was called out of the shower to move it, he found his driver, Clinton, in heated debate with a local Democratic pol.

McDougal and Clinton shared common roots, both coming from families of modest means in small Arkansas towns. They reveled in storytelling, loved politics and idolized the century's two great, flesh-pressing Democrats: Clinton was fascinated by Lyndon B. Johnson's powers of persuasion; McDougal could recite Franklin D. Roosevelt's "Fireside Chats" in a flawless Hyde Park accent and smoked cigarettes from a holder, cocked FDR-style, at a 45-degree angle.

Both longed to be players. While Clinton was electable, becoming attorney general in 1976 at age 30, McDougal, gangling and intellectual, seemed destined for a career as adviser. In his only race, he was trounced in a 1982 run for Congress, defeated by Rep. John Paul Hammerschmidt (R), who had narrowly beat Clinton eight years earlier.

McDougal found politics and finance an easy marriage early in his career, speculating in raw land with Fulbright in the 1970s. In 1978, just before Clinton won his first term as governor, McDougal invited the Clintons to invest in Whitewater Estates and they formed a small development company. Soon, McDougal joined the newly elected governor as an economic development adviser.

McDougal's first foray into banking came in 1980 when he bought the tiny Bank of Kingston. Two years later, McDougal bought Madison, launching the ma-and-pa thrift on a path to exponential growth that turned the would-be politician into a financial player with a ready mechanism for financing speculative real estate deals.

A big break came in September 1983, when McDougal received the permission of state regulators to open a Madison branch here in the state's center of politics and money.

He located Madison on the fringes of downtown Little Rock, renovating a laundry plant in the rundown Quapaw Quarters and painting it maroon. Offering the highest depositor interest rates in town, he worked through brokers around the country and began drawing deposits by the tens of millions.

To regulators, he talked of plans for Saturday hours, a quicker process for opening accounts and neighborhood rehabilitation loans. But in the view of friends, the thrift gave McDougal a way to wield influence.

"He didn't seem consumed with money for the sake of riches," said Steve Cuffman, a Little Rock lawyer who became Madison's chairman after McDougal stepped down in 1986. "It was more that he wanted to see how much he could make to prove who he was."

'Imprudent Loans' Raised Concerns

Within Clinton's cabinet, McDougal's banking practices soon raised concerns. In the fall of 1983, bank-

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From Clinton Circle To Target of Probe

McDougal Mixed Politics, Banking, Risk

By Michael Weisskopf and Howard Schneider A1
Washington Post Staff Writers

LITTLE ROCK, Ark.—Not long after Bill Clinton reclaimed the governorship in 1983, his old friend Jim McDougal landed on the fast track of finance. McDougal's Madison Guaranty Savings and Loan opened a branch office in Little Rock, transforming the rural East Arkansas thrift into a player on the center stage of state commerce.

For years, the two men had traveled the same road as Democratic Party activists in a poor, conservative state. McDougal supported Clinton for governor in 1978, and Clinton brought in McDougal as a top aide. When the governor was defeated two years later, their careers branched in different directions—Clinton to the political comeback trail and McDougal to the world of banking.

Jim McDougal: *From outward appearances, the banker was winning big in the mid-1980s, and the politicians he brought into his deals, including Bill Clinton, fed his reputation.*

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But for McDougal, Madison became an extension of politics. The thrift was his base for wheeling and dealing, whether the task was raising funds for Clinton or launching one of his many business deals. His partners ranged from friends and relatives to the elite of Arkansas politics, including Clinton, his successor as governor, a former U.S. senator and a supporting cast of local politicians.

Today Clinton is president, McDougal is an outcast and Madison is defunct. Yet the old ties still bind: As part of a broader investigation into Madison's affairs, federal authorities are trying to determine if McDougal broke banking laws to help Clinton and other politicians.

Investigators are examining whether McDougal illegally diverted depositor funds to Clinton's 1984 campaign for governor, and whether a company owned by Clinton and McDougal improperly benefited from a misuse of Madison funds or from a loan backed by the Small Business Administration. McDougal, who was acquitted in a 1990 bank fraud case, denies improperly using the S&L's funds.

Clinton has insisted he had no knowledge of McDougal's activities. Federal investigators, however, have listed the Clintons in a small circle of McDougal associates who may have benefited from McDougal's banking practices.

Beyond the question of whether Clinton realized any financial benefit, one thing is clear: At a time when McDougal's operations at Madison and another bank were being sharply criticized by federal regulators and then-governor Clinton's own banking commissioner, the politician who prided himself on an intimate knowledge of his state and its people remained closely tied to a controversial friend.

Throughout most of the

MADISON, From A1

1980s, Clinton continued to entrust McDougal with the management of the Ozark land development venture they jointly owned, even though it appeared to be steadily losing money.

In 1985, while Hillary Rodham Clinton was practicing law and recruiting clients as a partner in the Rose law firm, the governor stopped by Madison on a jog through Little Rock and, in talking to McDougal, complained about his family finances, McDougal recalls. McDougal said he promptly awarded a $2,000-a-month retainer to Rose to represent the thrift. According to former thrift officials, Hillary Clinton helped prepare a plan for state regulators in Clinton's administration to keep Madison open despite mounting losses. She has called her involvment minimal.

When Clinton needed money to pay off debts from his 1984 campaign, McDougal again was of service. In early 1985, McDougal hosted a small fund-raiser in the art deco lobby of Madison's branch here, netting $30,000, according to campaign officials.

McDougal enjoyed regular access to the governor's office, informed sources said. And he traded on it. Promoting a project off the coast of Maine, he gave a Canadian tourism board Clinton's name as a reference. He helped Madison win a $1,300-a-month state lease for a state revenue office in one of the S&L's buildings. And he pressured a state official into dropping a complaint about one of Madison's projects, an informed source said. McDougal had bragged that while the official might be reporting to the attorney general, "I'll be sitting in the governor's office."

In detailed reports, federal bank examiners outlined a series of banking activities that they said ran afoul of state regulations. They charged that Madison's management was inflating profits, lending money to friends and politicians on preferential terms, and funneling millions of dollars in fees and commissions for S&L land deals to a small group of insiders. When it was taken over by federal regulators in 1989, Madison's estimated $47 million loss represented an unusually large percentage of its assets compared to other failed thrifts.

From all outward appearances, McDougal was winning big in the mid-1980s. He tooled around Little Rock in a baby blue Bentley and Jaguars. His then-wife, Susan, became a minor Arkansas celebrity when—clad in hot pants and riding a white horse—she appeared on television to promote the thrift's land development projects.

The politicians McDougal brought into his deals—Clinton, former U.S. senator J. William Fulbright (D-Ark.), former representative Jim Guy Tucker (D-Ark.), who is now governor, 1990 Republican gubernatorial candidate Sheffield Nelson and McDougal's brother-in-law, former state senator William "Friendly" Henley—fed his reputation as a kingmaker.

When the McDougals needed to raise money in early 1986, they had a ready source in David Hale, a part-time municipal judge. Hale owned a finance company here that was backed by the federal Small Business Administration (SBA) to help disadvantaged companies. That March, he lent Susan McDougal $300,000, justifying the loan as financial assistance to a female entrepreneur.

But Hale has now said that both Clinton and McDougal pressured him to make the loan for another purpose. At the time, Madison was about to undergo a rigorous examination by federal regulators and McDougal needed an infusion of cash to help clear up the S&L's books, Hale has said. The White House has denied Clinton ever had such discussions with Hale.

"I've been involved in politics with these people since I was 18 years old," said Hale. "They needed help, and I helped them." Hale has pleaded not guilty to charges of defrauding the SBA in connection with the financing of his investment firm.

When McDougal was questioned about the loan recently, his explanation raised more questions about how the proceeds were used. Without the Clintons' knowledge, McDougal said, he used part of the money to buy more property for the Ozark land development company he and Susan owned with the Clintons. The SBA-backed loan was never repaid. Susan McDougal said she does not recall how the loan was used.

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Questions on Ozarks venture arose early in campaig

By Jerry Seper
THE WASHINGTON TIMES

YELLVILLE, Ark. — The Whitewater Development Corp., which hoped to build waterfront residences along a scenic stretch of the White River as it winds through the rugged Ozarks, has been a source of continuing debate and concern for Bill and Hillary Clinton for more than 18 months.

It began in March 1992, during the early days of his presidential campaign, when the Clintons' connection to the 230-acre development first came under public scrutiny.

The New York Times reported that the Clintons took $5,133 in illegal tax deductions for their Whitewater property on their 1984-85 returns, which reduced their taxes by $2,156.

Questions were also raised in news accounts about the involvement of Mr. Clinton with James B. McDougal, a Whitewater partner who at the time was trying to prevent state regulatory agencies from shutting down his failing savings and loan.

The Washington Times reported that Hillary Rodham Clinton received $2,000 a month in legal fees from Mr. McDougal's company, Madison Guaranty Savings and Loan, then under an insolvency investigation by the Arkansas Securities Department. Three years later, federal authorities closed the S&L at a loss of about $50 million, absorbed by the state.

The Clintons, along with Mr. McDougal and his wife, Susan H. McDougal, were partners in Whitewater with plans to build vacation homes on 42 lots.

The project was never successful. It appears to have been structured to enable the Clintons to receive half of the profits with little or no investment.

Mr. McDougal's use of funds from Madison and Whitewater is now the focus of investigations by the U.S. Attorney's Office in Little Rock and the Resolution Trust Corp., which oversees failed S&Ls. He was indicted in 1989 on federal fraud charges in connection with Madison's failure and acquitted in 1990.

A longtime Clinton associate who once worked for the governor as a top financial aide, Mr. McDougal denied any wrongdoing. The White House also said the Clintons were not involved, and the Justice Department said neither the president nor the first lady is a target in the ongoing investigation.

The Clintons and the McDougals bought the Whitewater land in 1978 for $203,000 with two loans — one acquired, without collateral, from a Little Rock bank and another using the land itself as collateral. It is not clear from the records who paid the $20,000 each year in combined principal and interest.

At the time of the purchase, Mr. Clinton was the state attorney general.

Marion County land records here in Yellville show that 24 Whitewater lots were sold in 1985 to Ozark Realty Co. for $35,000 and a twin-engine Piper Seminole airplane in trade, which was valued at about $30,000. None of the transactions was reported in the Clintons' 1985 tax returns, and it is not clear what happened to the plane.

After the original Whitewater purchase, the Clintons and McDougals transferred the land to the Whitewater corporation but made loan payments allowing them to deduct the interest on their tax returns.

James M. Lyons, a Denver lawyer and longtime Clinton ally, told reporters during the 1992 campaign that the Clintons put $68,900 into Whitewater, without any return, while the McDougals accounted for $92,200. Assigned by the Clinton campaign to review the deal after Whitewater became a campaign issue, Mr. Lyons concluded that the McDougals "exercised total control" over Whitewater.

Mr. Lyons acknowledged, however, that he did not have access to all the documents and that he had never discussed the matter with the McDougals.

His report also takes no notice of the $35,000 sale to Ozark Realty, the receipt of the airplane or an additional purchase in October 1986 of property by Whitewater from International Paper Co., which was secured with a $110,000 down payment. It is not clear whether tax liabilities were incurred, and if so, by whom.

White House spokesmen said the Clintons had no knowledge of the International purchase, which, according to records, was the largest ever made by Whitewater.

The Lyons report also takes no notice of the fact that Whitewater failed to file corporate tax returns from a three-year period from 1985 to 1987. When inquiries were made during the campaign, the Clintons said Whitewater tax records were not available.

The tax problem was resolved in December by the late Vincent Foster Jr., who later became White House deputy counsel and who was at the time the Clintons' personal attorney. The returns were filed this year, although they show that the development earned no income.

Records for the entire Whitewater effort remain difficult to find.

The Clintons have said that they have been unable to find the Whitewater records, though the McDougals say they delivered them to the governor's mansion in Litt Rock at Mrs. Clinton's request 1987.

Mrs. McDougal told The Washin ton Post last year that Mrs. Clint worked on Madison's legal busines and had obtained all the S&L's file Mr. McDougal, in an interview, to The Post this week that the recor were delivered to the Clintons 1987.

The extent of Mrs. Clinton's co nection to the the $2,000-a-month tainer also has never been resolv There are no records available show whether the money was paid by whom to whom, although M McDougal has said Mrs. Clinton w on a monthly retainer. Mrs. Clint has said that she received no su retainer.

Available records show, howe that she participated in the Madis case in the S&L's dealings before t state Securities Department while a partner with Mr. McDou in Whitewater and while her h band was governor of Arkans overseeing the Securities Depa ment.

^BC-AR--Ark. Editorial Rdp., 1st Add,1110<
^UNDATED: $4 trillion.)<

Nov. 16<

Arkansas Democrat-Gazette on Webb Hubbell:<

It now has been more than a decade since a Little Rock lawyer named Webster Hubbell III was representing the Federal Deposit Insurance Corporation in a suit against the accounts for a failed savings-and-loan called Madison Guaranty. That's the outfit Bill and Hillary Clinton were tied to through James B. McDougal, who was (a) the S&L's owner, (b) a political appointee of Governor Clinton's, and (c) the Clintons' partner in a real estate venture called Whitewater Development. Hillary Clinton represented the savingsand-loan when she practiced law with Webb Hubbell as a member of Little Rock's Rose law firm. What a tangled web. Well, it's a small state. If folks aren't related in Arkansas, they've gone to law school or into business together.<

Custom, if not the rules, would ordinarily bar a lawyer whose firm had represented a failed savings-and-loan from representing the government in a case involving that same savings-and-loan. But there are exceptions.<

Webb Hubbell is now associate attorney general of the United States in the Clintons' administration. (It can be a small country, too.) And a spokesman for the Justice Department says Mr. Hubbell remembers telling the FDIC at the time about his firm's connection with Madison Guaranty. The FDIC says its lawyers have ''no recollection'' of being told.<

Some lawyers may see nothing wrong with Webb Hubbell's connection to different sides of an involved S&L case; others do. (It is in the nature of lawyers to argue with one another.)<

You can tell the difference between the two schools of opinion on this question by which side is willing to be identified. Mr. Hubbell is No. 3 man in the Justice Department now (some say he's really No. 1 thanks to his ties to the Clintons) and power tends to breed anonymity in critics.<

Then again, a suddenly former municipal judge David Hale has grown positively loquacious about the Clintons' savings-and-loan now that he's been indicted on charges of defrauding the Small Business Administration. He was on NBC News just the other night regaling the nation. Why didn't he tell us all this before? It's remarkable how talkative an indictment will make some folks.<

An investigation of Mr. Hubbell's ties to Madison and the FDIC may be brewing, and one already has begun of the Clintons' ties to Madison Guaranty. If an investigation of Webb Hubbell's actions does materialize, it won't be the first time one has been needed in the course of this still young administration.<

Whether the affair is a slaughter at a compound outside Waco, Texas, or a meeting of the higher-ups at Justice with friends of an indicted congressman, one name keeps turning up at or near the epicenter of these dubious decisions: Webster Hubbell III.<

Now the same name has turned up in connection with a tangled turn of events in a closely connected state years back.<

Why now?<

Maybe because power attracts attention, and probably should.<

Maybe because an old saying still holds true:<

The law sleeps, but it never dies.<

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Nov. 14<

The Daily Citizen, Searcy, on Maurice Smith:

It seems impossible when you discover that Maurice Smith has served as director of the state Highway and Transportation Department for ''only'' six years.

It reality it seems that Smith, who announced his retirement from the department effective December 31, has been around for much longer.

Actually he has been around the department longer than his six years as director. Then-Governor Orval Faubus appointed Smith to a 10-year term on the Highway Commission in 1965, and he served the final two years of his appointment as the chairman.

During Smith's time as director, spending for highway construction grew from $186 million to $270 million from fiscal 1988 to the fiscal year that ended this past June 30. Much of the spending was to replace or improve existing routes. The state highway system grew from 16,172 miles to 16,228 miles during his tenure.

Former commission chairman Ron Harrod called Smith's tenure ''one of the smoothest running periods'' in department history. He is credited with implementing a reorganization plan in the department that streamlined the chain of command. Smith also developed a program designed to encourage students to take advanced mathematics and science courses in preparation for a career in engineering.

Only recently Smith went to Washington to accept an award for helping develop scenic highways along Arkansas 7, named one of the 10 most beautiful routes in the nation.

But his tenure was not without controversy. His close friend, then-Governor Clinton ordered Smith to cease using the department airplane except for emergencies after it was revealed that he had used the plane for 21 trips in 1988 between his home in Birdeye and Little Rock...

Smith, 72, has been considering retirement for several months. He indicated that he needed to spend more time on his farm in Cross County. We wish him well.

Nov. 15

The Daily Record, Malvern, on Capital for a Day:

It takes capital to run Gov. Jim Guy Tucker's ''Capital for a Day'' program, but we think it is well worth the added expense.

Latest reports show it costs about $1,800 to move state government out of Little Rock for a couple of days. Tucker began the ''Capital for a Day'' program in September with a trip to West Memphis. The goal of the bus trips is to put the residents of outlying areas of Arkansas in touch with state government, to give them a more active voice in state affairs.

Members of the governor's staff and department heads from various state agencies have made the two trips. The second was to Harrison earlier this month. Another trip is planned for December to Lake Village.

Often it seems to many residents of the state that government officials are isolated from the problems of our state while comfortably going about their day-to-day activities in Little Rock. The ''Capital for a Day'' program allows state officials to learn more about the problems many smaller communities face. The residents of these communities are taxpayers, so it seems that less than $2,000 is a small price to pay to have a voice in how their government is operated.

Nothing is free. Though the ''Capital for a Day'' program has a price, that price is far outweighed by the program's benefits in the form of goodwill and better government.

^PM-Clintons-Whitewater, Ark Bjt,380
^RTC Looked at Possible Checking-Kiting Scheme
^tpwdc

WASHINGTON (AP) Federal investigators looked into the possibility that a firm half-owned by President Clinton and his wife was used by their business partners in a check-kiting scheme, The Washington Post reported Thursday.

The Resolution Trust Corp. told federal prosecutors more than a year ago that Bill and Hillary Clinton and other principals in a dozen corporations doing business with Madison Guaranty Savings & Loan during the mid-1980s could possibly have benefited from the alleged scheme.

The prosecutors declined to open a criminal inquiry, citing insufficient evidence, according to the Post.

There is no evidence the Clintons had direct knowledge of the alleged scheme, the newspaper said.

While declining to open a probe, federal prosecutors have decided to act on a second, more detailed request from the RTC to investigate similar allegations regarding Madison and its owner, James McDougal. That probe has been the focus of intense publicity in the past few weeks.

The RTC's first criminal referral last year filled more than 15 pages and outlined dozens of instances of questionable loan transactions among several Arkansas banks and 12 corporations affiliated or doing business with Madison, the Post said, quoting documents and unidentified sources familiar with the probe. Principals of the corporations included the Clintons, the McDougals and Clinton's successor as Arkansas governor, Jim Guy Tucker.

The Post said that, during the first half of 1985 chosen as a sample period the company the Clintons half-own, Whitewater Development, issued 10 checks totaling more than $70,000.

Several were written to the Bank of Cherry Valley, where Clinton had a campaign account, said the Post. Unable to obtain the bank's records, the RTC could not determine if the checks were deposited in the account, the newspaper added.

Five of the checks issued by Whitewater and totaling more than $60,000 were overdrafts that eventually were covered by funds from other alleged shell corporations, or from Madison Financial Corp., the S&L's wholly owned real estate subsidiary, said the Post.

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The Washington Post

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SECTION: FIRST SECTION; PAGE A3

LENGTH: 854 words

HEADLINE: Dealings of Clinton Partners Were Referred to Justice Dept. in 1992

SERIES: Occasional

BYLINE: Susan Schmidt, Michael Isikoff, Washington Post Staff Writers

BODY:

Resolution Trust Corp. investigators examining the mid-1980s affairs of a failed Arkansas savings and loan found a series of irregular transactions involving Whitewater Development Corp., a company then half-owned by President Clinton and his wife, that suggested it was used by the Clintons' business partners in a check-kiting scheme to drain funds from the thrift.

The RTC, according to documents and interviews with sources familiar with the probe, told federal prosecutors more than a year ago that Bill and Hillary Clinton and other principals in a dozen corporations doing business with Madison Guaranty Savings & Loan during the mid-1980s could possibly have benefited from the alleged scheme, though there is no evidence they had direct knowledge of it.

But the agency, which named the Clintons' business partners as targets in the October 1992 referral to the Justice Department, said further investigation was needed to find out where money ended up after passing through a Whitewater account at Madison.

The Justice Department did not notify the RTC of its disposition of that referral until last month, when federal prosecutors declined to open a criminal inquiry. But federal prosecutors have decided to act on a second, more detailed request from the RTC to investigate similar allegations regarding Madison and its owner, James McDougal.

The Clintons repeatedly have denied doing anything improper in connection with Whitewater and have said that it was a money-losing investment run by McDougal and his wife, Susan.

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During the first half of 1985, the sample time period examined in detail by the RTC, Whitewater issued 10 checks for more than $ 70,000. Several were written to the Bank of Cherry Valley, where Clinton had a campaign account. Unable to obtain the bank's records, the RTC could not determine if the checks were deposited in the account.

The Washington Post, November 11, 1993

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One $ 30,000 check was issued on Whitewater's account to McDougal with the notation "loan repayment," though sources said the RTC found no records of any loan from McDougal.

That check resulted in an overdraft that was covered by a deposit of $ 30,000 from Madison Financial Corp. (MFC). In April 1985, according to S&L documents, MFC deposited $ 30,000 directly into Whitewater's account as a "prepayment" on a 1985 bonus to McDougal, MFC's president.

Some of the money that went through the alleged shell corporations to Whitewater came from bank loans, according to sources familiar with the RTC referral. Those corporations were created legally but appeared to have no business purpose, said a source familiar with the probe.

Among the "shell" companies cited in the first referral were ventures named "Tucker-Smith-McDougal," "Smith-Tucker-McDougal" and a third named "Smith-McDougal." Also cited were two Madison real estate ventures.

The RTC's initial request for criminal investigation of the S&L's affairs came after a long-running politically sensitive probe of Madison and McDougal, a longtime friend of the Clintons who, with his wife, jointly owned the small real estate venture that has been a continuing source of controversy for the president.

The first RTC referral was reviewed earlier this year by career Justice Department officials, who concluded there was insufficient evidence to warrant further investigation. The RTC says it was never informed.

Two weeks ago, U.S. Attorney Paula Casey told the RTC in a letter that her office "concurs" with the earlier Justice Department conclusion that there was "insufficient information" in the first referral to warrant a law enforcement probe, said sources familiar with the contents of the letter.

"This was not a review conducted by Paula Casey," said Carl Stern, the Justice Department's chief public affairs spokesman. "The information should have been communicated to the RTC months earlier. . . . As far as I know, Paula Casey didn't participate in any decision-making."

The second RTC referral forwarded early last month included questions about the possible diversion of Madison depositor funds into accounts at other institutions maintained by Clinton's 1984 campaign for reelection as Arkansas governor.

Casey last week recused herself from the continuing investigation of Madison. A Clinton appointee and volunteer in some of Clinton's gubernatorial campaigns, she said she stepped aside because of her "familiarity with some of the parties." She declined to comment yesterday on why she had not recused herself two weeks ago on the first referral.

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LANGUAGE: ENGLISH

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LEVEL 1 - 1 OF 1 STORY

The Washington Post

November 11, 1993, Thursday, Final Edition

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HEADLINE: Dealings of Clinton Partners Were Referred to Justice Dept. in 1992

SERIES: Occasional

BYLINE: Susan Schmidt, Michael Isikoff, Washington Post Staff Writers

BODY:

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The Clintons repeatedly have denied doing anything improper in connection with Whitewater and have said that it was a money-losing investment run by McDougal and his wife, Susan.

The RTC's first criminal referral last year, filling more than 15 pages, outlined dozens of instances of questionable loan transactions involving several Arkansas banks and 12 corporations affiliated or doing business with Madison, sources said. They said principals of the corporations included the Clintons, the McDougals and Arkansas Gov. Jim Guy Tucker (D).

During the first half of 1985, the sample time period examined in detail by the RTC, Whitewater issued 10 checks for more than $ 70,000. Several were written to the Bank of Cherry Valley, where Clinton had a campaign account. Unable to obtain the bank's records, the RTC could not determine if the checks were deposited in the account.

Five of the checks issued by Whitewater totaling more than $ 60,000 were overdrafts that eventually were covered by funds from other alleged shell corporations, or from Madison Financial Corp., the S&L's wholly owned real estate subsidiary.

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That check resulted in an overdraft that was covered by a deposit of $ 30,000 from Madison Financial Corp. (MFC). In April 1985, according to S&L documents, MFC deposited $ 30,000 directly into Whitewater's account as a "prepayment" on a 1985 bonus to McDougal, MFC's president.

Some of the money that went through the alleged shell corporations to Whitewater came from bank loans, according to sources familiar with the RTC referral. Those corporations were created legally but appeared to have no business purpose, said a source familiar with the probe.

Among the "shell" companies cited in the first referral were ventures named "Tucker-Smith-McDougal," "Smith-Tucker-McDougal" and a third named "Smith-McDougal." Also cited were two Madison real estate ventures.

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Dealings of Clinton Partners Were Referred to Justice Dept. in 1992

By Susan Schmidt and Michael Isikoff
Washington Post Staff Writers

Resolution Trust Corp. investigators examining the mid-1980s affairs of a failed Arkansas savings and loan found a series of irregular transactions involving Whitewater Development Corp., a company then half-owned by President Clinton and his wife, that suggested it was used by the Clintons' business partners in a check-kiting scheme to drain funds from the thrift.

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loan. Because it was a state-chartered institution, Madison needed the approval of Arkansas regulators.

The savings and loan did not rely on its usual outside counsel for this issue, turning instead to the Rose firm of Little Rock, where Mrs. Clinton was a senior partner. In written answers to questions last year, she said she met with Mr. McDougal once in April 1985 to discuss working for Madison, but declined to elaborate.

In the documents forwarded to prosecutors, investigators for the Resolution Trust Corporation have questioned whether the campaign contributions were connected to Madison's effort to get state regulators to approve its stock plan, Federal officials say. By May, Arkansas regulators had concurred that the stock plan was legal, but it was never carried out.

James M. Lyons, a Denver lawyer who reviewed Mr. Clinton's dealings with Mr. McDougal for the Clinton Presidential campaign last year, said today that there was no connection between the contributions and the effort before the state regulators.

Mr. McDougal, in interviews, denied any impropriety in connection with the campaign contributions or the attempt to win approval for the stock plan.

At the end of 1985, Mr. McDougal said last year, Mr. Clinton did do him another favor, helping set up a state revenue office in a Little Rock building owned by a subsidiary of Madison.

By the fall of 1985, Mr. McDougal faced mounting pressures, including a Federal audit scheduled for early 1986.

David Hale, a Democratic municipal judge in Little Rock who operated a federally sponsored lending company, said he was approached by Mr. McDougal in late 1985 to make loans that would help the "political family" of Arkansas Democrats.

Mr. Hale's company was part of a Small Business Administration program intended to provide capital for businesses owned by "socially or economically disadvantaged" people. Mr. Hale was recently indicted on charges of misleading the Government about the condition of his lending company. He has since resigned as a judge and is contesting the charges.

In interviews before his indictment, Mr. Hale said Madison financed a land deal in February 1986 in which he was paid hundreds of thousands of dollars more than the property was worth. Court records show that this loan was never repaid, with a loss of $672,000 to taxpayers.

Questionable Transactions

With profits from that deal in hand, Mr. Hale said he was able to fulfill Mr. McDougal's request for a $300,000 loan to his wife.

Mr. Hale said in an interview that Mr. McDougal told him the $300,000 would not be used by the designated borrower. Instead, he said, it would conceal questionable transactions by Madison, including indirect help for the Clintons.

Mr. Hale asserts that Mr. Clinton twice pressed him to make this loan. Mark Gearan, the White House communications director, said the President has "no recollection" of any such conversation and does not believe it took place.

Mr. McDougal denied any wrongdoing in his dealings with Mr. Hale, and said he thinks the $300,000 wound up in his real estate ventures.

Federal officials are now trying to trace where the $300,000 lent by Mr. Hale ultimately went.

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THE WHITE HOUSE WIRE REPORT
6:30 p.m. edition
Thursday, Nov. 11, 1993
Compiled by the Office of News Analysis (x7151)

Index of wire stories:

AM-Clinton-Whitewater, 1st Ld-Writethru,600
Probe Focuses on Possible Check-Kiting by Clinton Associate
EDS: Recasts throughout with confirmation from officials tpwdc
By RICHARD KEIL= Associated Press Writer=

WASHINGTON (AP) Federal regulators have prepared nine reports recommending possible criminal prosecutions in the failure of an Arkansas savings and loan with ties to the first family, government officials familiar with the case said Thursday.

The Justice Department, citing a lack of evidence, has already rejected one of the reports that alleged a real estate venture once partly owned by President Clinton and his wife was used in a check-kiting scheme, the officials said, speaking on condition of anonymity.

That report, also known as a criminal referral, stated there was no evidence that the Clintons were aware of the transactions, the officials said.

But it detailed dozens of examples of alleged check-kiting that allowed money from the failed Madison Guaranty S&L to be diverted to various sources in

The Washington Times THURSDAY, NOVEMBER 11, 1993

PAUL CRAIG ROBERTS

Whitewater whitewash

We have here the makings of a best-selling scandal novel that could be written and published before the White House ever clears the air.

The First Couple has been tarred with a conflict of interest scandal that has uncomfortably close links to a criminal indictment for Small Business Administration loan fraud. The doubts swirling around the Clintons' failed Arkansas real estate venture, "Whitewater Development," as described in a series of reports in The Washington Times, must be quickly cleared up before we become a nation of cynics.

For 15 months beginning in 1984, Hillary Clinton received a $2,000 per month retainer to represent Madison Savings and Loan Association in insolvency hearings before the Arkansas State Securities Commission, whose members were appointed by her husband, Gov. Bill Clinton. The charges were that the S&L, which later failed at a taxpayer cost of $50 million, was insolvent. Hillary worked to keep the S&L open with a scheme, approved by the State Securities Commissioner whose brother was Mr. Clinton's gubernatorial campaign manager, to put the S&L into the brokerage business.

Moreover, during this time the Clintons were partners in the Whitewater real estate venture with the S&L's owner and wife, James and Susan McDougal. The picture is not pretty of a governor being involved in a venture with a businessman who is regulated by the state and whose legal representative before the state regulatory commission is the governor's wife.

During this time Whitewater Development made payments on some of Gov. Clinton's personal bank loans, and McDougal's troubled S&L made political campaign loans and contributions to Mr. Clinton. The personal loan repayments caused a problem for Mr. Clinton when it came to light that he had claimed the interest deductions on his tax return but apparently omitted to report the loan repayments as personal income.

In 1986 Susan McDougal, whose joint financial statement with her husband showed assets in excess of $3 million, received a special SBA loan that is limited to the socially or economically disadvantaged. According to newspaper reports, a chunk of the SBA loan was used to buy land for the Clinton-McDougal Whitewater Development project.

David L. Hale, a former Arkansas judge, owned the SBA-approved lending agency that got the SBA loan for Susan McDougal. Two months ago Mr. Hale was indicted by a federal grand jury for SBA loan fraud. Mr. Hale has offered to testify against Bill Clinton about his role in the SBA loan to Susan McDougal, which Mr. Hale says was used to bail out the troubled S&L and Whitewater venture. The U.S. Attorney in Little Rock is a Clinton appointee as is her husband.

Deputy White House Counsel Vincent Foster, who mysteriously committed suicide last July (part of his suicide note is still missing), resolved Mr. Clinton's Whitewater tax problem in December 1992. As a Rose Law Firm partner, he was involved with Hillary in the Madison S&L matter, as was Webster Hubbell, currently associate attorney general of the United States.

We have here the makings of a best-selling scandal novel that could be written and published before the White House ever clears the air. Indeed, in August 1992, when Hillary was queried about Whitewater by The Washington Post, she replied: "I think we've given you all we're going to give you." The Whitewater records are apparently missing.

During the 1992 presidential campaign, the New York Times asked Mr. Clinton to explain the tax deductions he took on the loan repayments by Whitewater. The Clintons explained the problem as an error resulting from their "passive involvement" in the venture. Clinton campaign officials also denied that Hillary had received pay for legal advice in the Madison S&L matter and said she was not the attorney of record.

However, published letters from the Rose Law Firm to the State Securities Commission contradict this claim. One says that "further information or assistance" in the Madison matter could be obtained from "Hillary Rodham Clinton or Richard Massey of this firm." Another from Mr. Massey himself says that state officials with any questions should call "Hillary Rodham Clinton or me."

During the Reagan years there was a constant drumbeat against Attorney General Ed Meese, alleging a lack of ethical judgment that disqualified him from office even though he was exonerated by special prosecutors. If similar standards are applied to the Clintons, Al Gore will soon be in the Oval Office.

House Small Business Committee Chairman John LaFalce, New York Democrat, has asked for a full report from the SBA, and Rep. Toby Roth, Wisconsin Republican, and Jan Meyers, Kansas Republican, have called for a congressional investigation. Rep. Henry Gonzalez, Texas Democrat, chairman of the House Banking Committee, has announced an invesigation of Madison S&L by his committee.

Paul Craig Roberts, a columnist for the Washington Times and the Scripps Howard News Service, is a Distinguished Fellow at the Cato Institute.

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47 New Death Penalties. Big Deal.

By Robert M. Morgenthau

In the 1993 crime bill working its way through Congress, the proposals to put more police officers on the beat nationwide and to construct new high-security prisons are sound. Little else deserves support. The bill lacks a coherent national anticrime strategy. It is a potpourri of programs that offers something to everyone — except perhaps those who live in fear of violent crime.

Most disturbing are provisions extending the death penalty to an additional 47 Federal crimes and creating more than 60 new Federal crimes for conduct already harshly punished under state law. Legislators who think these measures will reduce violent crime fool themselves and the public.

The bill would provide no new Federal judges, prosecutors or courtrooms. That isn't surprising: the new crimes and death sentences are window dressing. I doubt the proponents expect they would lead to a significant rise in prosecutions. Consider a section that authorizes the death penalty for 15 Federal crimes now punishable by life in prison. They include wrecking trains, placing injurious articles in the mail, destruction of aircraft facilities, murder by a Federal prisoner serving a life sentence and "fatal violence against maritime platforms." Our streets will not be safer if they become law.

Another section would create a new Federal crime, punishable by 25 years' imprisonment, for drive-by shootings. Why is a new Federal crime needed when this conduct is severely punished in every state?

The new crime bill is good for politicians, period.

A Senate provision would make evidence of a "commission of another sexual assault" automatically admissible in any Federal case in which a defendant is accused of such an assault. This would eviscerate the longstanding principle that a defendant should not be tried for past deeds. The rule, however, would apply only to sex crimes on Federal property; only a few such cases were tried in New York City last year.

Such provisions may be good politics, but they are not good law enforcement. They divert our attention from pressing needs. I know of no law-enforcement professional who believes that all the death penalty provisions and new Federal crimes would affect public safety in the slightest. The criminal laws we need are already on the books; what's missing is the commitment to use them.

A serious program to stem violent crime must have components that are conspicuously absent from this measure.

First, we must enact strong Federal gun control legislation. By itself, no state or city can control the spread of illegal guns. Federal leadership and laws are required. Current law bans the importation of assault weapons, but not their manufacture or distribution within our borders. It is small solace to police officers that the weapons overpowering them are made in America. Enacting a law that purports to deal with violent crimes while ignoring guns is hypocritical.

Second, an effective Federal-state anti-drug strategy is needed. While the community policing concept that the bill embraces is welcome, the beat cop is no match for organized-crime gangs that terrorize urban neighborhoods; their members must be imprisoned. Funds are needed for sophisticated investigations of these gangs. The Senate's passage of an amendment yesterday that would expand Federal officials' authority to probe and prosecute gang crimes seems encouraging. Congress should also provide funds for enforcing the Federal money-laundering statute, woefully underenforced since its enactment in 1986.

In addition, we must expand drug treatment programs so that addicts who want help can find it. New York City has 500,000 hard-core addicts and only 55,000 treatment slots, of which 34,000 are in methadone maintenance programs that serve heroin addicts only.

Third, the Government must assume responsibility for those who cross our borders illegally and commit violent crimes. There are 2,621 illegal aliens in New York State prisons at an annual cost of $63 million. They would not be ours if the Government had kept them out of this country. Washington should pay for the incarceration of these individuals or transfer them to Federal custody. This would go far toward relieving the crushing burden on state prisons — a burden that forces the early release of violent offenders nationwide after they have served less than 50 percent of their sentences.

Fourth, we must make a national commitment to our youth. Raising children in broken homes, educating them in overcrowded schools and feeding them a steady diet of television violence is a recipe for more crime. We should earmark Federal money for youth programs in neighborhoods blighted by drugs.

The bill would establish a 22-member commission to study crime and violence and a 13-member commission to study the causes of the demand for drugs. Do we really need more studies of these problems? Instead of fancy blue-ribbon commissions, let us have an iron-willed commitment to address, on all fronts, a crime problem that may engulf us if we do not act decisively. □

Robert M. Morgenthau is Manhattan District Attorney.

THE NEW YORK TIMES, WEDNESDAY, NOVEMBER 10, 1993

U.S. Steps Up Investigations In Arkansas

Justice Dept. Names 3 As Prosecution Team

By Michael Isikoff
and Susan Schmidt
Washington Post Staff Writers

A1

The Justice Department yesterday named a special three-member prosecution team to oversee politically sensitive investigations into a federally backed investment company and a failed Arkansas savings and loan that had ties to prominent figures in the state, including President Clinton.

The move came after U.S. Attorney Paula Casey formally rec[...] herself and her office from any further involvement in the probes. After consulting with Deputy Attorney General Philip B. Heymann and his staff, acting criminal division chief John C. Keeney dispatched three career lawyers from the fraud section, headed by Donald B. Mackay, a former U.S. attorney in Illinois, to Little Rock to take over the investigations.

Casey, a Clinton appointee and volunteer in some of Clinton's gubernatorial campaigns, had resisted earlier requests that she recuse herself. But late last week, following news media reports about the probes, she informed department officials that she and her staff were stepping aside "because of their familiarity with some of the parties and the need to ensure that there be no misperceptions about the impartiality of the investigation," according to a department statement.

The investigations have received widespread attention in recent days following disclosures that the Resolution Trust Corporation asked Casey's office to open a criminal inquiry into a number of matters relating to the now-defunct Madison Guaranty & Trust, including the possible improper [...] of depositors' funds for contributions to Clinton's 1984 reelection campaign as governor of Arkansas.

Yesterday, Republicans on the House Banking Committee asked Chairman Henry B. Gonzalez (D-Tex.) to open hearings on Madison, which had business relationships with a partnership half-owned by Bill and Hillary Clinton and with

See WHITEWATER, A20, Col. 1

[J]ust[i]ce [D]ept. S[t]eps Up Arkansas [I]n[v]es[t]iga[t]ions

WHITEWATER, From A1

companies formerly controlled by Arkansas Gov. Jim Guy Tucker (D). Rep. Jim Leach (Iowa), the committee's ranking Republican, called Madison "a rogue thrift" and said Republicans are concerned that "Keating-like influence peddling may have occurred, although on a smaller, state-centered scale." Madison failed in 1989 at an estimated $47 million cost to taxpayers.

Casey's office also is probing Capital Management Services, a Small Business Administration-backed investment fund that provided a $300,000 loan in April 1986 to Susan McDougal, a former business partner of Clinton and the wife of Madison's owner, James McDougal. Part of the loan was used by Whitewater Development Corp., the firm half-owned by the Clintons, to buy a tract of rural land near Little Rock. White House officials have said the Clintons had no knowledge of the purchase, which was made by the McDougals.

David Hale, a retired municipal judge who has been indicted on fraud charges, has publicly alleged that he was pressured by Clinton to make the loans as a means of shoring up Madison's books—a claim that has been flatly denied by the White House.

The Arkansas probes have been repeatedly played down by White House and Justice Department officials, and last week press secretary Dee Dee Myers dismissed Hale's allegations as stories concocted to "save his butt."

Casey's recusal is the latest sign that the investigations are being taken more seriously. Late last week, Associate Attorney General Webster L. Hubbell, a former partner of Hillary Clinton in the Rose law firm in Little Rock, sent a memo to Attorney General Janet Reno and Heymann stating he was also recusing himself and his entire staff from the matter. The Rose firm had previously represented Madison, and Hubbell later represented the RTC in a lawsuit against Madison's accountants.

Hubbell is the No. 3 official in the Justice Department; his responsibilities include overseeing civil matters relating to the savings and loan industry. Department officials said Hubbell would have had no direct oversight over the Little Rock criminal probes anyway.

Randy Coleman, Hale's lawyer, who had initially sought appointment of an independent counsel last September in the days preceding Hale's indictment, said yesterday that Casey's recusal was "kind of a step in the right direction" although a "little less" than what he requested.

"David Hale always said he wanted the playing field to be a little more level," said Coleman. "You would hope this means an objective investigation."

Casey, a former legislative aide to Sen. Dale Bumpers (D-Ark.), in September turned down Coleman's request that Hale be granted immunity in exchange for information about Clinton and other political figures in the state who had gotten loans from Capital Management, including Tucker.

After consulting with high-level department officials, Casey said she saw no reason to step aside and that Hale's allegations lacked "specifics."

That came one month after Coleman had contacted the White House about Hale's allegations, calling associate counsel William Kennedy in mid-August. "I told him we have clients with mutual problems developing in a federal investigation down here," Coleman said yesterday.

A few days later, Coleman said, Kennedy called back and asked him if it would be alleged there were any "face to face" meetings between Clinton and Hale—a question that Coleman said he answered in the affirmative. But Coleman said Kennedy did not accept his offer to meet with him in Washington to discuss the matter.

Coleman said he was not asking Kennedy to intervene in the case. White House senior aide Bruce Lindsey said that Kennedy, a former partner of Hillary Clinton and Hubbell in the Rose law firm, discussed Coleman's statements with White House counsel Bernard Nussbaum, but neither took any action or alerted anyone else in the White House. "Both he and Bernie didn't do anything with the information because they didn't take it seriously," said Lindsey.

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Justice Dept. to Run Probe of Arkansas S&L

■ **Inquiry:** A senior trial attorney arrives from Washington to replace a Clinton appointee. The criminal case involves former allies of the President.

By DOUGLAS FRANTZ
and WILLIAM C. REMPEL
TIMES STAFF WRITERS

LITTLE ROCK, Ark.—The Justice Department took charge Tuesday of a criminal investigation into the failure of an Arkansas savings and loan that involves some of President Clinton's oldest friends and political allies.

A veteran senior attorney in the department's fraud section arrived here to take over the probe of Madison Guaranty Savings & Loan from the new U.S. attorney, a Clinton appointee who had asked that she be excused from the case.

The action comes on the heels of claims that Clinton and his wife may have benefited improperly from transactions at the defunct savings and loan. Clinton last week dismissed the allegations as an "old story" with no foundation.

However, the Justice Department's announcement Tuesday provides an acknowledgment that the case remains active and politically sensitive.

In addition, Rep. Henry B. Gonzalez (D-Tex.), the chairman of the House Banking, Finance and Urban Affairs Committee, responded affirmatively Tuesday to a request from Republicans that he open a preliminary inquiry into the 1989 failure of Madison Guaranty, which cost the taxpayers $47 million.

James B. McDougal, the former owner of Madison Guaranty and a longtime business partner of the Clintons, told The Times last week that he hired Hillary Rodham Clinton as a lawyer for the ailing thrift in 1984 after Gov. Clinton said his family needed financial help. Presidential Press Secretary Dee Dee Myers denied that Clinton solicited business for his wife.

After being hired, Hillary Clinton lobbied a state agency on behalf of Madison Guaranty. McDougal also hosted a campaign fund raiser for Clinton at the savings and loan. Federal investigators reportedly are looking into whether some of the contributions were made improperly with S&L overdrafts.

Another former Clinton political supporter, David Hale, claims that he made a $300,000 loan to McDougal's wife in 1986 at the urging of Clinton, who had appointed him to the municipal court bench.

Interviews and loan documents indicate that about one-third of that loan ended up going into a land development deal in which the Clintons were 50-50 partners with the McDougals.

Hale, who was forced to resign from his judgeship, is under indictment for loan fraud in connection with other loans he made that were backed by the Small Business Administration.

Hale and his attorney, Randy Coleman, had asked for a special prosecutor to handle the investigation because they claimed the U.S. attorney and her staff were too close to Clinton and other Arkansas political figures with potential involvement in the scandal.

"We've got to feel better that our case is not being prosecuted by an appointee and lifelong supporter of the President," said Coleman. The attorney had complained that Hale's offers to cooperate with investigators in exchange for leniency had been rebuffed without consideration.

U.S. Atty. Paula Casey declined to comment on her reasons for withdrawing from the case. However, a Justice Department statement said Casey and her staff had withdrawn "because of their familiarity with some of the parties and the need to ensure that there be no misperceptions about the impartiality of the investigation." She was appointed to the post by Clinton, her brother ran one of Clinton's gubernatorial campaigns, and her husband is a lawyer for a state agency.

The investigation will now be headed by Donald B. Mackay, a senior trial attorney in the fraud section at the Justice Department in Washington. He will be assisted initially by two other staff lawyers from Washington.

In addition, Rep. Gonzalez said Tuesday that his House Banking Committee staff would open an initial inquiry into the failure of Madison Guaranty.

Gonzalez acted on a request from the committee's Republicans, who said they recognized the inquiry could embarrass the Clinton Administration.

"The issue isn't politics; it is political example," the Republicans said in a letter to Gonzalez. "Individuals holding public trust cannot be allowed to abuse power at taxpayer expense without accountability."

Hale already has volunteered to testify before any congressional committee that examines his loans or the failure of Madison Guaranty.

'We've got to feel better that our case is not being prosecuted by an appointee and lifelong supporter of the President.'

RANDY COLEMAN
Attorney for David Hale, indicted for loan fraud

Los Angeles Times
WEDNESDAY
NOVEMBER 10, 1993

Court Clarifies Sex Harassment

■ **Civil rights:** Justices ease way for women to win damages. High court says proof of adverse effect on job performance or mental health would not be required. A

By DAVID G. SAVAGE, TIMES STAFF WRITER

WASHINGTON—Sending a strong message that sexual harassment will not be tolerated, the Supreme Court made it easier Tuesday for working women to win damages if they are abused or ridiculed on the job.

Federal civil rights laws create a "broad rule of workplace equality," said Justice Sandra Day O'Connor and those laws are violated when women or men are subjected to "intimidation, ridicule and insult" by supervisors or co-workers because of their gender.

The 9-0 ruling clarifies the law more than it breaks new legal ground. But women's rights advocates said that the court's firm condemnation of workplace harassment will help curtail that form of abuse. Business attorneys welcomed the ruling because it nore sharply defines illegal beavior.

In recent years, some judges iave decreed that a woman must uffer a distinct "injury," such as a iervous breakdown or an inability o work, before she can win a exual harassment case.

Rejecting those strict requirenents, the high court said a comlaining employee can win her case imply by showing that she sufered severe and persistent harassient, regardless of whether it hurt er job performance or her mental ealth.

The decision revives a sexual arassment suit filed by Teresa arris, a Tennessee woman, whose ipervisor called her a "dumb ass oman" and regularly made jokes oout her anatomy. A magistrate id an all-male panel of a U.S. ipeals court earlier had dismissed er claim because the harassment d not appear to have harmed her isychological well-being."

Women's rights advocates hailed e quick and unanimous opinion, hich came less than four weeks ter the case was heard.

"This sends a real message that e court is taking sexual harassnt seriously and that employers better do so as well," said Nancy Duff Campbell, co-president of the National Women's Law Center.

"I predict that we are going to see a lot of voluntary compliance with this decision," added NOW President Patricia Ireland, as employers scramble to make sure that they have clear-cut policies against workplace harassment.

NOW issued a press release calling on corporate America to "wake

Please see COURT, A7

Disabled Girl's Parents Win School Case

By DAVID G. SAVAGE
TIMES STAFF WRITER

WASHINGTON—In a victory for the parents of children with disabilities, the Supreme Court ruled Tuesday that public schools must pay the cost of private schooling for a learning-impaired child who was not offered adequate help in the public system.

The court's opinion makes clear that public schools can be forced to pay a heavy penalty if they default on their duty to offer these parents a good learning program for their child.

On a 9-0 vote, the justices sided with the disgruntled parents of a South Carolina girl who, against

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COURT

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up and smell the coffee now being fetched by someone other than a babe, broad or bimbo."

Business attorneys said they were pleased with the ruling too because it clarifies the law.

"This confirms what we have been saying all along, that you can't harass people," said Douglas S. McDowell, counsel for the Equal Employment Advisory Council.

Most large companies now have policies forbidding workplace harassment, he said. Usually, these policies require victims to report any harassment to a supervisor. Generally, employees who say that they were harassed cannot sue the company if they have ignored the complaint procedure, he noted.

Employers certainly have an incentive to keep such complaints out of court. In 1991, Congress amended the job bias laws to say that employers can be forced to pay up to $300,000 in damages for illegal job discrimination, which includes sexual harassment.

Tuesday's decision was only the high court's second dealing with sexual harassment.

The rulings stem from the Civil Rights Act of 1964, which prohibited employers from discriminating in "compensation, terms, conditions or privileges of employment" because of "race, color, religion, sex or national origin."

No one doubted that the law was violated if a supervisor demanded sex in exchange for a job or a promotion. But it was not clear that harassment alone violated the law.

In the landmark case of Meritor Savings vs. Vinson in 1986, the court said unanimously that illegal sex discrimination is "not limited to economic or tangible discrimination." The law also forbids sexual harassment that creates a "hostile environment" for a working woman, regardless of its impact on her job prospects, the court said.

But lower courts have split since then on how to define a hostile environment. The three U.S. appeals courts that cover the Midwest had adopted the strict standard that a harassment victim must prove she suffered psychological harm. By contrast, the U.S. 9th Circuit Court of Appeals in California had taken the more lenient view adopted by the high court.

Perhaps not coincidentally, the strong women's rights ruling handed down Tuesday was the first opinion to emerge from a court that now has two female justices.

Not only did O'Connor speak for the court but new Justice Ruth Bader Ginsburg added a brief statement saying that she was pleased the decision makes clear that a woman can win a sex harassment claim simply by showing that abuse and ridicule "make it more difficult [for her] to do the job." During the argument last month, Ginsburg jousted with Justice Antonin Scalia over whether a woman's job performance must suffer before she can file a discrimination claim.

Associated Press

Teresa Harris, who filed suit.

O'Connor characterized the court's opinion as following a "middle path" on sexual harassment. To win her case, a woman must prove more than that she heard a few "merely offensive" jokes or comments. However, she is not required to prove that she suffered a "tangible psychological injury" to prevail.

O'Connor admitted that there is no single formula or a "mathematically precise test" to determine when an employee has been illegally harassed. Judges should examine the allegations and consider whether the victim was truly offended and whether a "reasonable person" would have viewed her workplace as a "hostile or abusive work environment."

Several factors can be taken into account, she said, such as the "frequency of the discriminatory conduct, its severity, whether it is physically threatening or humiliating or a mere offensive utterance and whether it unreasonably interferes with an employee's work performance."

Officials of the U.S. Equal Employment Opportunity Commission have said that complaints about sexual harassment have increased more than 50% since 1991. But that increase is not attributed to new laws or court rulings.

Instead, most experts attribute the increase to Anita Faye Hill's televised accusation of sexual harassment charges during the 1991 confirmation hearings of Justice Clarence Thomas.

Thomas, a former EEOC chairman, joined O'Connor's opinion without commenting separately.

Los Angeles Times

WEDNESDAY
NOVEMBER 10, 1993

Justice Dept. to Run Probe of Arkansas S&L

■ **Inquiry:** A senior trial attorney arrives from Washington to replace a Clinton appointee. The criminal case involves former allies of the President.

By DOUGLAS FRANTZ
and WILLIAM C. REMPEL
TIMES STAFF WRITERS

LITTLE ROCK, Ark.—The Justice Department took charge Tuesday of a criminal investigation into the failure of an Arkansas savings and loan that involves some of President Clinton's oldest friends and political allies.

A veteran senior attorney in the department's fraud section arrived here to take over the probe of Madison Guaranty Savings & Loan from the new U.S. attorney, a Clinton appointee who had asked that she be excused from the case.

The action comes on the heels of claims that Clinton and his wife may have benefited improperly from transactions at the defunct savings and loan. Clinton last week dismissed the allegations as an "old story" with no foundation.

However, the Justice Department's announcement Tuesday provides an acknowledgment that the case remains active and politically sensitive.

In addition, Rep. Henry B. Gonzalez (D-Tex.), the chairman of the House Banking, Finance and Urban Affairs Committee, responded affirmatively Tuesday to a request from Republicans that he open a preliminary inquiry into the 1989 failure of Madison Guaranty, which cost the taxpayers $47 million.

James B. McDougal, the former owner of Madison Guaranty and a longtime business partner of the Clintons, told The Times last week that he hired Hillary Rodham Clinton as a lawyer for the ailing thrift in 1984 after Gov. Clinton said his family needed financial help. Presidential Press Secretary Dee Dee Myers denied that Clinton solicited business for his wife.

After being hired, Hillary Clinton lobbied a state agency on behalf of Madison Guaranty. McDougal also hosted a campaign fund raiser for Clinton at the savings and loan. Federal investigators reportedly are looking into whether some of the contributions were made improperly with S&L overdrafts.

Another former Clinton political supporter, David Hale, claims that he made a $300,000 loan to McDougal's wife in 1986 at the urging of Clinton, who had appointed him to the municipal court bench.

Interviews and loan documents indicate that about one-third of that loan ended up going into a land development deal in which the Clintons were 50-50 partners with the McDougals.

Hale, who was forced to resign from his judgeship, is under indictment for loan fraud in connection with other loans he made that were backed by the Small Business Administration.

Hale and his attorney, Randy Coleman, had asked for a special prosecutor to handle the investigation because they claimed the U.S. attorney and her staff were too close to Clinton and other Arkansas political figures with potential involvement in the scandal.

"We've got to feel better that our case is not being prosecuted by an appointee and lifelong supporter of the President," said Coleman. The attorney had complained that Hale's offers to cooperate with investigators in exchange for leniency had been rebuffed without consideration.

U.S. Atty. Paula Casey declined to comment on her reasons for withdrawing from the case. However, a Justice Department statement said Casey and her staff had withdrawn "because of their familiarity with some of the parties and the need to ensure that there be no misperceptions about the impartiality of the investigation." She was appointed to the post by Clinton, her brother ran one of Clinton's gubernatorial campaigns, and her husband is a lawyer for a state agency.

The investigation will now be headed by Donald B. Mackay, a senior trial attorney in the fraud section at the Justice Department in Washington. He will be assisted initially by two other staff lawyers from Washington.

In addition, Rep. Gonzalez said Tuesday that his House Banking Committee staff would open an initial inquiry into the failure of Madison Guaranty.

Gonzalez acted on a request from the committee's Republicans, who said they recognized the inquiry could embarrass the Clinton Administration.

"The issue isn't politics; it is political example," the Republicans said in a letter to Gonzalez. "Individuals holding public trust cannot be allowed to abuse power at taxpayer expense without accountability."

Hale already has volunteered to testify before any congressional committee that examines his loans or the failure of Madison Guaranty.

'We've got to feel better that our case is not being prosecuted by an appointee and lifelong supporter of the President.'

RANDY COLEMAN
Attorney for David Hale, indicted for loan fraud

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Probe of S&L chief touches on Hillary's legal fee

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Then-Arkansas first lady said to have been on retainer

By Jerry Seper
THE WASHINGTON TIMES

LITTLE ROCK, Ark. — The federal fraud investigation of a business partner and longtime friend of President and Mrs. Clinton is focusing in part on the $2,000-a-month retainer purportedly paid to the first lady.

The fee — $30,000 over a 15-month period — is said to have been paid to Hillary Rodham Clinton, then a senior partner at the powerful Rose Law Firm here, beginning in 1984 by James B. McDougal, whose failing Arkansas savings and loan association was under investigation by state banking regulators.

Mr. Clinton was governor at the time.

The investigation into the payments, according to law enforcement sources, hinges on information uncovered in the past several months, including:

- State records and Rose Law Firm documents showing that Mrs. Clinton was actively involved in representing Mr. McDougal's company, Madison Guaranty Savings and Loan.
- Information that Mrs. Clinton was not considered a legal financial expert by the Rose Law Firm but represented Madison anyway — even though 10 other senior partners at the firm were listed as experts in the field.
- Comments by Mr. McDougal's wife, Susan B. McDougal, to The Washington Post last year that Mrs. Clinton was actively involved with Madison's legal problems, that she had obtained all the S&L's files and that she was on retainer to Madison.
- Allegations that Mr. Clinton and Mr. McDougal personally agreed to the payments and that the then-governor picked up the checks.

Inquiries into the payments, law enforcement sources say, are part of an investigation by the Resolution Trust Corp. (RTC) and the U.S. Attorney's Office here into allegations that Mr. McDougal illegally approved $250,000 in loans and funneled campaign funds to several Arkansas politicians, including Mr. Clinton.

Investigators also are looking into a $300,000 Small Business Administration loan approved for Mrs. McDougal and the Rose Law Firm's assistance to Mr. McDougal in his efforts to prevent state regulators from closing the S&L.

The federal inquiry, according to the law enforcement sources, is concentrating on allegations that Mrs. Clinton and the Rose Law Firm sought to help Mr. McDougal at a time when state regulators were recommending to her husband, the governor, that Madison was insolvent and should be closed.

The sources said the probe also is aimed at determining if the monthly retainer was paid to Mrs. Clinton through a secret bank account.

The RTC and the U.S. Attorney's Office in Little Rock are not talking about their probes, and calls yesterday to White House Communications Director Mark Gearan for comment were not returned.

Mr. McDougal, who was indicted in 1989 on fraud charges in connection with Madison and was acquitted in 1990, has denied any wrongdoing.

Mr. Clinton this week also denied any impropriety in the couple's longstanding business relationship with Mr. McDougal but declined to com-

see HILLARY, page A12

White House NAFTA blitz fails to win over Congress

A1

By Major Garrett
THE WASHINGTON TIMES

As the Clinton White House nears the end of a weeklong campaign to kindle support for the North American Free Trade Agreement, all signs in Congress indicate the efforts have fallen far short of expectations.

An array of bad news greeted the White House yesterday, and opponents were beginning to boast that grass-roots opposition to the pact would overwhelm any last-minute deals the White House cut to protect Florida citrus, vegetable and sugar crops nationwide.

NEWS ANALYSIS

"We have a lot of votes [among House members] to come in from industrial states that have nothing to do with citrus other than a glass of orange juice in the morning," said Jim Jontz, director of the Citizens Trade Campaign, which opposes the treaty.

Anti-NAFTA forces said they had 213 votes against the trade pact, which would gradually lower all existing tariffs among the United States, Canada and Mexico over the next 15 years. The treaty's supporters scoffed at the number, but their own vote counts showed them at least 40 votes away.

With one vacancy in the 435-member House, 218 votes will be required to pass NAFTA, but only 217 votes are necessary to kill it.

Other bad news:

• White House pollster Stanley Greenberg drew derisive catcalls and angry shouts from roughly 20 senior and midlevel House Democrats when he pitched polling data he said justified votes for NAFTA.

Two Democrats — House Majority Whip David E. Bonior of Michigan, the chief NAFTA opponent, and Rep. David R. Obey of Wisconsin — displayed a recent polling analysis by Democratic pollsters Celinda Lake and Mark Mellman showing deep hostility to NAFTA among voters who have an opinion about the treaty.

The analysis warned that Democrats stand to lose substantial support among blue-collar voters and Ross Perot supporters if they back the treaty.

"Elected officials get little credit from the voters for supporting the treaty," the analysis said. "However ... they can lose significant numbers of votes, particularly in the Midwest, among non-college-educated men and among Perot voters."

After several minutes of being bullied by the assembled Democrats, Mr. Greenberg abruptly stopped his NAFTA presentation and shifted to other topics, sources said.

• Several of the 24-member Florida congressional delegation, which has emerged as the most important bloc of votes for the White House, balked at new agreements with Mexico designed to support citrus, vegetable and sugar crops.

And the agreements failed to win a single new vote from the seven-member Louisiana delegation, representing a major farming and

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NAFTA

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sugar-producing state. From the two states, the administration hoped to harvest about 20 votes, a total that at least for now appears out of reach.

• Former independent presidential candidate Ross Perot drew the White House into a public debate over NAFTA when Vice President Al Gore announced he would join the Texas billionaire for a series of televised debates.

The administration has tried mightily to avoid a direct confrontation with Mr. Perot over NAFTA, fearing it would alienate his supporters and at the same time raise him once again to the status of political heavyweight.

Mr. Perot came to the foot of the Capitol to declare he and his supporters "will not sleep" and "will not blink" until the Nov. 17 NAFTA votes occurs.

"The people have spoken, and this thing is dead on arrival," Mr. Perot said.

Of all the events, the lukewarm reaction among Floridians to the new deals struck on behalf of their farmers was most troublesome to the White House. After months of intense negotiations with the Mexican government, the administration extracted a series of concessions to protect Florida agriculture.

But uncertainty over whether the new deals will be binding or how either government would enforce them left many Florida lawmakers uneasy. Until now, 23 of the delegation's members have withheld support for NAFTA until the negotiations had been completed.

Winning a majority of the Florida delegation is viewed as crucial to NAFTA's chances. Hopes ran high that agreements from Mexico to reduce vegetable and citrus imports and not to dump refined sugar into the U.S. market would turn the tide.

But so far, it is still low tide for the White House.

"I'm still a 'no,'" declared Republican Rep. Tom Lewis, whose 16th District includes sugar, vegetable and citrus crops grown near Lake Okeechobee.

"To think that because you solve Florida agriculture's problems will carry the majority of the delegation is simplistic," said Republican Rep. Porter J. Goss, who said he still opposed the treaty.

NAFTA's supporters in Congress said the Florida votes will fall in line once members review the agreements with agriculture leaders back home this weekend.

"I think they'll come on," said Rep. Robert T. Matsui, California Democrat and co-chairman of the pro NAFTA caucus. "We're going to win this thing."

But even an agreement on sugar imports failed to move a single vote among the Louisiana delegation. Democratic Rep. W.J. "Billy" Tauzin, whose 3rd District contains most of the state's sugar refineries, said he still opposed NAFTA.

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The Washington Post

November 10, 1993, Wednesday, Final Edition

SECTION: FIRST SECTION; PAGE A1

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Justice Dept. Names 3 As Prosecution Team

SERIES: Occasional

BYLINE: Michael Isikoff, Susan Schmidt, Washington Post Staff Writers

BODY:

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The move came after U.S. Attorney Paula Casey formally recused herself and her office from any further involvement in the probes. After consulting with Deputy Attorney General Philip B. Heymann and his staff, acting criminal division chief John C. Keeney dispatched three career lawyers from the fraud section, headed by Donald B. Mackay, a former U.S. attorney in Illinois, to Little Rock to take over the investigations.

Casey, a Clinton appointee and volunteer in some of Clinton's gubernatorial campaigns, had resisted earlier requests that she recuse herself. But late last week, following news media reports about the probes, she informed department officials that she and her staff were stepping aside "because of their familiarity with some of the parties and the need to ensure that there be no misperceptions about the impartiality of the investigation," according to a department statement.

The investigations have received widespread attention in recent days following disclosures that the Resolution Trust Corporation had asked Casey's office to open a criminal inquiry into a number of matters relating to the now-defunct Madison Guaranty & Trust, including the possible improper use of depositors' funds for contributions to Clinton's 1984 reelection campaign as governor of Arkansas.

Yesterday, Republicans on the House Banking Committee asked Chairman Henry B. Gonzalez (D-Tex.) to open hearings on Madison, which had business relationships with a partnership half-owned by Bill and Hillary Clinton and with companies formerly controlled by Arkansas Gov. Jim Guy Tucker (D). Rep. Jim Leach (Iowa), the committee's ranking Republican, called Madison "a rogue thrift" and said Republicans are concerned that "Keating-like influence peddling may have occurred, although on a smaller, state-centered scale" -- a reference to the scandal involving five U.S. senators and S&L executive Charles H. Keating Jr. Madison failed in 1989 at an estimated $ 47 million cost to taxpayers.

The Washington Post, November 10, 1993

Casey's office also is probing Capital Management Services, a Small Business Administration-backed investment fund that provided a $ 300,000 loan in April 1986 to Susan McDougal, a former business partner of Clinton and the wife of Madison's owner, James McDougal. Part of the loan was used by Whitewater Development Corp., the firm half-owned by the Clintons, to buy a tract of rural land near Little Rock. White House officials have said the Clintons had no knowledge of the purchase, which was made by the McDougals.

David Hale, a retired municipal judge who has been indicted on fraud charges, has publicly alleged that he was pressured by Clinton to make the loans as a means of shoring up Madison's books -- a claim that has been flatly denied by the White House.

The Arkansas probes have been repeatedly played down by White House and Justice Department officials, and last week press secretary Dee Dee Myers dismissed Hale's allegations as stories concocted to "save his butt."

Casey's recusal is the latest sign that the investigations are being taken more seriously. Late last week, Associate Attorney General Webster L. Hubbell, a former partner of Hillary Clinton in the Rose law firm in Little Rock, sent a memo to Attorney General Janet Reno and Heymann stating he was also recusing himself and his entire staff from the matter. The Rose firm had previously represented Madison, and Hubbell later represented the RTC in a lawsuit against Madison's accountants.

Hubbell is the No. 3 official in the Justice Department; his responsibilities include overseeing civil matters relating to the savings and loan industry. Department officials said Hubbell would have had no direct oversight over the Little Rock criminal probes anyway.

Randy Coleman, Hale's lawyer, who had initially sought appointment of an independent counsel last September in the days preceding Hale's indictment, said yesterday that Casey's recusal was "kind of a step in the right direction" although a "little less" than what he requested.

"David Hale always said he wanted the playing field to be a little more level," said Coleman. "You would hope this means an objective investigation."

Casey, a former legislative aide to Sen. Dale Bumpers (D-Ark.), in September turned down Coleman's request that Hale be granted immunity in exchange for information about Clinton and other political figures in the state who had gotten loans from Capital Management, including Tucker.

After consulting with high-level department officials, Casey said she saw no reason to step aside and that Hale's allegations lacked "specifics."

That came one month after Coleman had contacted the White House about Hale's allegations, calling associate counsel William Kennedy in mid-August. "I told him we have clients with mutual problems developing in a federal investigation down here," Coleman said yesterday.

A few days later, Coleman said, Kennedy called back and asked him if it would be alleged there were any "face to face" meetings between Clinton and Hale -- a question that Coleman said he answered in the affirmative. But Coleman said Kennedy did not accept his offer to meet with him in Washington to discuss the matter.

Coleman said he was not asking Kennedy to intervene in the case. White House senior aide Bruce Lindsey said that Kennedy, a former partner of Hillary Clinton and Hubbell in the Rose law firm, discussed Coleman's statements with White House counsel Bernard Nussbaum, but neither took any action or alerted anyone else in the White House. "Both he and Bernie didn't do anything with the information because they didn't take it seriously," said Lindsey.

LANGUAGE: ENGLISH

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AM-Clinton S&L,420

Republicans Call for Probe of Arkansas Bank Linked to Clintons

By DAVE SKIDMORE= Associated Press Writer=

WASHINGTON (AP) The House Banking Committee should probe a failed savings and loan in President Clinton's home state of Arkansas, just as it earlier investigated an institution linked to former President Bush's son Neil, Republicans said Tuesday.

``Given the record of this committee in addressing thrift issues that touched the former president, it is incumbent that this committee not refuse to address issues that may embarrass the current administrations in Washington and Little Rock,'' Rep. Jim Leach, R-Iowa, said in a letter to the committee chairman, Rep. Henry B. Gonzalez, D-Texas.

Leach, the senior Republican on the committee, said he was acting after a caucus Tuesday of GOP committee members and with the concurrence of House Republican leaders.

Federal investigators are looking into the 1989 failure of Madison Guaranty Savings and Loan and its dealings with Whitewater Development Corp., a real estate development company in which President and Mrs. Clinton had invested. Mrs. Clinton also did legal work on behalf of Madison for the Rose Law Firm in the mid-1980s.

The president has told reporters, ``We did nothing improper.'' But Leach wants the banking panel to invite federal regulators to testify and subpoena state regulators, Madison's top officers and representatives of Mrs. Clinton's former law firm.

Gonzalez has a record of going after alleged S&L wrongdoers linked to politicians of both parties. He conducted high-profile hearings on Lincoln Savings and Loan of Irvine, Calif., making its owner, Charles Keating, a household name.

That later led to Senate hearings on the so-called Keating Five
five senators, four of them Democrats, accused of helping Keating.

Gonzalez also investigated CenTrust's David Paul, who was active in Democratic campaigns, and Silverado Banking, Savings and Loan Association of Denver, where Neil Bush served as a director.

Leach said the Madison Guaranty case bears a striking resemblance to the Lincoln and Silverado failures. Gonzalez and his aides did not immediately respond to telephone calls seeking comment on Leach's request.

Last week, Rep. John J. LaFalce, D-N.Y., chairman of the House Small Business Committee, asked the inspector general of the Small Business Administration to look into

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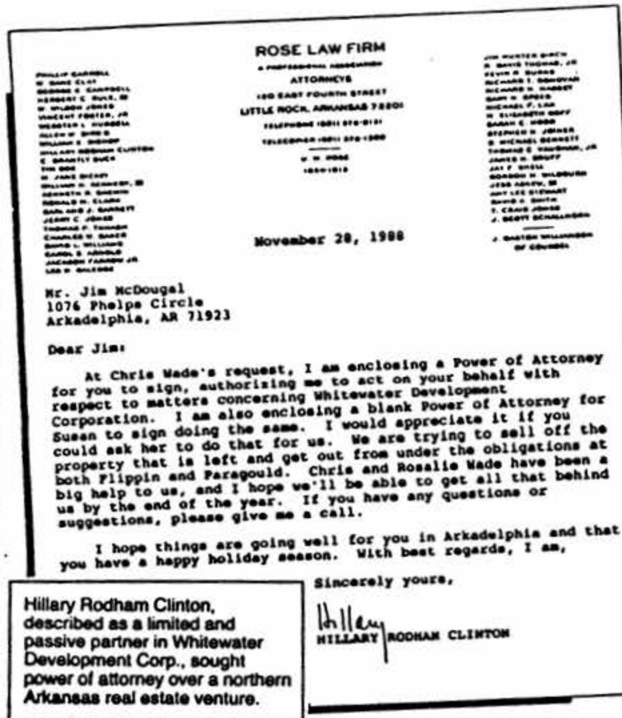
The Washington Times THURSDAY, NOVEMB



ROSE LAW FIRM
A PROFESSIONAL ASSOCIATION
ATTORNEYS
120 EAST FOURTH STREET
LITTLE ROCK, ARKANSAS 72201

November 28, 1988

Mr. Jim McDougal
1076 Phelps Circle
Arkadelphia, AR 71923

Dear Jim:

At Chris Wade's request, I am enclosing a Power of Attorney for you to sign, authorizing me to act on your behalf with respect to matters concerning Whitewater Development Corporation. I am also enclosing a blank Power of Attorney for Susan to sign doing the same. I would appreciate it if you could ask her to do that for us. We are trying to sell off the property that is left and get out from under the obligations at both Flippin and Paragould. Chris and Rosalie Wade have been a big help to us, and I hope we'll be able to get all that behind us by the end of the year. If you have any questions or suggestions, please give me a call.

I hope things are going well for you in Arkadelphia and that you have a happy holiday season. With best regards, I am,

Sincerely yours,

Hillary

HILLARY RODHAM CLINTON

Hillary Rodham Clinton, described as a limited and passive partner in Whitewater Development Corp., sought power of attorney over a northern Arkansas real estate venture.

Clintons understated involvement in venture

U.S. investigating Arkansas real estate dealings

By Jerry Seper
THE WASHINGTON TIMES

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LITTLE ROCK, Ark. — A search of state and county records and documents reveals that, despite their disclaimers, President Clinton and his wife, Hillary Rodham Clinton, were active in the management of an Arkansas real estate partnership under investigation by federal authorities.

A spokesman for then-candidate Clinton first described the Clintons as "passive shareholders" in the Whitewater Development Corp. during the 1992 presidential campaign, and similar descriptions have been repeated since in the wake of a growing controversy over their participation.

The documents show that both Mr. and Mrs. Clinton took an aggressive part in the management of Whitewater's affairs and that, at one point, Mrs. Clinton sought power of attorney from partners James B. McDougal and his wife, Susan H. McDougal, to "manage and conduct all matters related to Whitewater Development."

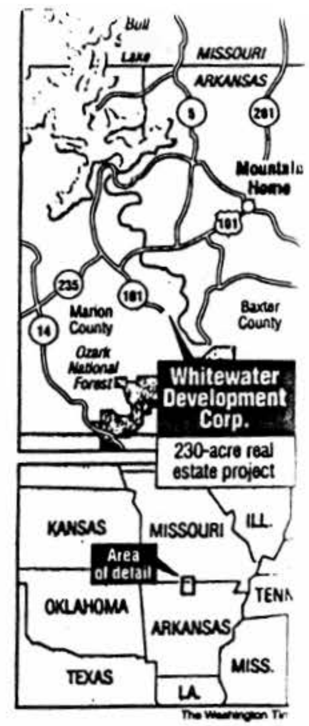
The Nov. 28, 1988, request, written by Mrs. Clinton on the letterhead of the Rose Law Firm, where she was a senior partner, included the power to endorse, sign and execute "checks, notes, deeds, agreements, certificates, receipts or any other instruments in writing of all matters related to Whitewater Development Corp."

White House spokesman did not return calls yesterday for comment on the power-of-attorney request. It is not clear when, or if, it was granted, but Mr. McDougal has told reporters he sent all of Whitewater's records to Mrs. Clinton in late 1987 and was not involved in the project after 1988.

Mr. Clinton this week denied any impropriety in the couple's half-ownership of Whitewater, now under investigation by the U.S. Attorney's Office here and the Resolution Trust Corp. on charges of fraud and loan manipulation. Federal investigators are said to be looking at questionable deals between Whitewater and a defunct savings and loan association.

That inquiry includes an examination of at least $250,000 in loans authorized by Madison S&L and campaign funds funneled by Mr.

see CLINTONS, page A20



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HILLARY

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ment on the investigation.

A senior White House aide said yesterday that Mr. and Mrs. Clinton would not respond to queries from The Washington Times about their roles in a failed northern Arkansas development project in which the Clintons and McDougals held half-interests.

The Times reported yesterday that despite 1992 presidential campaign claims that they were "passive shareholders" in Whitewater Development Corp., the Clintons took an aggressive part in the development and Mrs. Clinton sought power of attorney to control the partnership.

"We have no reason to know it's being investigated," said presidential counselor Bruce Lindsey. A Nov. 28, 1988, letter from Mrs. Clinton to Mr. McDougal requesting that he sign power of attorney over to her was an effort by the Clintons to get out of a deal that cost them $70,000 over a 10-year period, he said.

According to Mr. Lindsay, the letter, first reported yesterday by The Times, "does not suggest an act of involvement. It suggests a disengagement."

In the first publicly negative comment about the McDougals, he said they had not been "forthcoming with a lot of information. So she [Mrs. Clinton] was to end things." He did not elaborate.

In the letter, and various attachments, Mrs. Clinton said she wanted to "manage and conduct all matters related to Whitewater Development."

While federal prosecutors and the Justice Department have said the Clintons are not targets of the ongoing probes, the sources said investigators are interviewing potential

David Hale

Hillary Rodham Clinton

Jim McDougal

witnesses and examining allegations that the monthly fee paid to the first lady was arranged by Mr. Clinton during a summer 1984 meeting with Mr. McDougal.

Federal investigators, according to the sources, are looking into allegations that the payments were routed into a bank account, through which the Rose Law Firm was paid for legal work.

One longtime Clinton business associate, who asked not to be identified, said the then-governor used to "jog over to McDougal's office about once a month to pick up the check for his wife." He said the alleged deal was "common knowledge here among a lot of people who knew the governor and Hillary."

At the time, Madison had been targeted by the Arkansas Securities Department as being insolvent — a position Mr. McDougal was appealing. Madison eventually was closed in 1987, but only after federal banking regulators stepped in.

The closure cost taxpayers about $50 million.

When allegations of the alleged retainer agreement were first reported by The Times on March 20, 1992, Clinton campaign officials said Mrs. Clinton did not provide Madison with any legal advice concerning its dealings with state officials.

They said that she did not "intervene or attempt to influence" the state concerning Madison, that she had not been paid for legal advice and that she was not the attorney of record in the case.

Jeff Eller, a Clinton campaign spokesman who now works as deputy assistant to the president and director of media affairs, said at the time that the Clintons did not ask anyone for legal fees in the Madison matter.

"Clinton did not solicit business for Hillary Clinton or the Rose Law Firm as it pertains to Madison Guaranty," he said.

But Associate Attorney General Webster L. Hubbell, then managing partner at the Rose Law Firm, said in a March 1992 interview that Mrs. Clinton did "some limited work" and had a "limited role before the Securities Department" in the firm's representation of Madison.

Mr. Hubbell said most of the work was handled by other lawyers in the firm and declined to elaborate on Mrs. Clinton's role. He also refused to discuss any legal fees paid to Mrs. Clinton or the firm but did not contradict assertions that Mrs. Clinton was paid a $2,000 monthly retainer.

"What a client pays us is confidential," Mr. Hubbell said at the time.

Mr. Hubbell, a longtime friend of the Clintons and a business partner himself with Mrs. Clinton in other ventures, has since declined comment.

Mr. Gearan confirmed earlier this week that Mrs. Clinton had done work for Madison but did not provide details. "We know there were several firms representing Madison, and Rose was one of them," he said. "We don't know beyond that."

Records show the Rose Law Firm attempted to negotiate a deal for Madison to keep it afloat, suggesting to state regulators that the S&L be allowed to form a brokerage subsidiary.

The request was approved by Securities Department Commissioner Barbara Bassett Schaffer, a Clinton appointee whose brother was Mr. Clinton's gubernatorial campaign manager and whose husband, Archie, was a large contributor to the governor's re-election campaigns. Mrs. Schaffer had been on the job for three months at the time. Before her appointment, she worked for a law firm that also had represented Madison.

The Rose Law Firm brokerage plan failed when Madison could not come up with the financing.

Later, the Federal Deposit Insurance Corp. — in a effort to recoup some of the money it lost when Madison failed — hired the Rose Law Firm firm to sue Frost & Co., an auditing firm here that said Madison had $109 million in assets, including $86 million in loans receivable.

In what appears to have been a conflict of interest, the Rose Law Firm took the case, although the audit reports were the same ones the firm used to argue for Madison's survival. Conflict-of-interest rules generally preclude law firms from representing the government in cases in which they have worked for the S&L.

The lawsuit was handled by Mr. Hubbell.

A call by The Times to Rose Law Firm for comment was not returned.

The FDIC case had been actively sought by the Rose Law Firm, according to a 1989 letter by the late Vincent Foster Jr., another Rose senior partner. Mr. Foster, at the time White House deputy counsel, killed himself in July.

Mr. McDougal, who served as a top financial adviser to Gov. Clinton in 1979-80, was indicted in 1989 by a federal grand jury on fraud charges in connection with Madison's failure. Charged with diverting $75,000 to his own use, he was acquitted in 1990.

In Rose Law Firm's correspondence regarding the Madison case, Mrs. Clinton's name is mentioned in at least two letters sent by the firm to the state Securities Department. Both letters suggest that the state's return correspondence in the matter be directed to Mrs. Clinton.

One Rose Law Firm letter, dated April 30, 1985, and addressed to Charles F. Handley, a department financial supervisor, was signed by the firm. The letter noted that "further information or assistance" in the matter could be obtained from "Hillary Rodham Clinton or Richard Massey of this firm." Mr. Massey is another partner at Rose.

Three months later, on July 10, 1985, Mr. Massey suggested in a second letter that state officials should call "Hillary Rodham Clinton or me" with any questions on a proposal by the firm to allow Madison to operate a brokerage subsidiary.

The Securities Department's initial response to the law firm's April letter came from Mrs. Schaffer. She said in a May 14, 1985, letter to Mrs. Clinton that proposals by the firm to allow Madison to sell preferred stock and to form a brokerage service subsidiary were acceptable and in accordance with state law.

Mr. McDougal bought Madison Guaranty in late 1982, four years after he and the Clintons formed the Whitewater partnership.

• *Ronald A. Taylor contributed to this report from Lexington, Ky.*

Gorbachev helps GOP raise cash

D.C. event draws a diverse protest

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By Ralph Z. Hallow
THE WASHINGTON TIMES

Former Soviet leader Mikhail Gorbachev stepped out of a limousine and into the partisan limelight of downtown Washington last night, helping Senate Republicans raise money to defeat Democrats.

Sponsored in part by the National Republican Senatorial Committee (NRSC), the Republican Inner Circle fund-raiser was expected to net the former Communist leader at it $50,000 — a point of contention for some members.

But most of last night's audience of 800 donors, each of whom had shelled out at least $1,180 to attend the event, seemed to care little about the controversy surrounding the Gorbachev appearance. They arri by the busload from nearby hotels.

Former Secretary of State James A. Baker III, in an interview before the fund-raiser, defended Mr. Gorbachev, calling him a "historic figure who exhibited tremendous personal and political courage."

"Whatever you think of his politics or his political leanings, were it not for him, we would not have today Russia committed to reform," said Mr. Baker, who introduced Mr. Gorbachev to the audience last night. The fund-raiser was closed to the press.

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EVENT

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Before Mr. Gorbachev's arrival, Inner Circle donor Kevin Lamb, 32, a medical products manufacturer from Little Rock, Ark., said he was eager "to see what this previous socialist's views are of what has happened to his country in the past few years."

Conservative activist Joe Petrone, 70, former U.S. ambassador to the United Nations in Geneva, said he was attending because "to me, Reagan and Gorbachev won the Cold War without firing a shot, and I want to see and hear this fellow who was the catalyst."

Outside the National Building Museum, where the fund-raiser was held, a hastily assembled coalition of nearly 40 self-described young conservatives, young socialists, Lithuanians, Ukrainians and labor activists noisily demonstrated against the Gorbachev appearance.

A member of the Young Social Democrats, 20-year-old Jennifer O'Dell of Toledo, Ohio, stood next to another demonstrator, Mike Waller, 31, of Bethesda, who said, "Hey, we're holding the same sign, and I'm a Republican."

The sign read "Gramm & Gorbachev in '96."

"Gorbachev never renounced communism or defended Lithuanians, and he tried to keep Chernobyl quiet," said Eugene Iwanciw, Washington office director of the National Ukrainian Association.

But Mr. Baker said: "Were it not for Gorbachev, we would not have hundreds of thousands of free people in Eastern Europe, who were formerly under the domination of the Soviet Union. And we would still be going to bed at night worrying about the distinct possibility of nuclear attack."

Mr. Baker said he planned, during his talk to donors last night, to "reminisce about the meetings we had during my time as secretary of state — talk a little about the Gulf war. It's the first time since the Cold War began that we and the Soviets who were able to cooperate, and that was due to Shevardnadze and Gorbachev."

Former Soviet Foreign Minister Eduard Shevardnadze, now president of Georgia, has been accused by dissidents of running a repressive government that jails citizens for expressing their political preferences.

Mr. Lamb said he could not attend a similar NRSC event recently featuring former British Prime Minister Margaret Thatcher.

"But if I had to choose between the two, I'd pick hearing Gorbachev over Thatcher. She sings from the same hymnal as I do," he said. "Gorbachev sings from another one, and I'd like to find out where he's been."

Sen. Phil Gramm, Texas Republican and NRSC chairman, saw the opportunity to engage Mr. Gorbachev as a major drawing card for the fund-raiser.

During his administration, President Reagan embraced Mr. Gorbachev as the most open and reform-minded Comm tory.

But GOP critics, Education Secretary Wi nett, have said that inviting bachev was a terrible idea b he is, in their view, a "reaction and a defender of communism.

NRSC sources said they expec Mr. Gorbachev to turn his speaking fee over to the Gorbachev Foundation, which he founded after the Soviet Union's demise to promote world peace.

What irks some conservatives is that former Sen. Alan Cranston of California, a liberal Democrat, heads the American branch of the international foundation — so some of Mr. Gorbachev's fees may make their way to Mr. Cranston's operation.

Senate Minority Leader Bob Dole of Kansas, a probable competitor against Mr. Gramm for the 1996 GOP presidential nomination, was "not pleased that the money was going to Cranston," a Dole aide said.

Neither was Mr. Petrone pleased. "I would prefer the money not go to Cranston, but, no, I don't mind if some of the $180 I paid ends up going to him," he said. "I want to see Gorbachev."

Inner Circle donors were required to pay $180 each to defray Mr. Gorbachev's travel costs.

It is estimated this year's three-part series of lectures by Mr. Reagan, Mrs. Thatcher and Mr. Gorbachev will net the NRSC "nearly $2 million," said committee spokesman Gary Koops.

U.S. schools 'squander' gifted students' talents

A1

By Carol Innerst
THE WASHINGTON TIMES

Most gifted elementary school students have mastered from a third to half of the year's curriculum before the first day of class, yet most teachers make few provisions for their special needs, according to a new U.S. Department of Education report.

In its first comprehensive look in 20 years at gifted and talented education in the country, the federal agency links the problem to Americans' historic "distrust of scholarship and reverence for the average" and to educators' more current fears of damaging the self-esteem of children not chosen for advanced learning opportunities.

"Youngsters with gifts and talents that range from mathematical to musical are not challenged to work to their full potential," Education Secretary Richard Riley states in the report's foreword. "All of our students, including the most able, can learn more than we expect now."

The Office of Educational Research and Improvement prepared "National Excellence: A Case for Developing America's Talent," which will be presented today at the National Association for Gifted Children annual conference in Atlanta.

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The Washington Times

FRIDAY, NOVEMBER 5, 1993 ★

GIFTED

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"The belief espoused in school reform that children from all economic and cultural backgrounds must reach their full potential has not been extended to America's most talented students," the report says. "They are underchallenged and therefore underachieve."

Despite sporadic attention over the years to the needs of bright students, "the nation is squandering a precious resource by ignoring the educational needs of highly gifted and talented students," it says.

The report estimates that state and local expenditures for gifted and talented education amounted in 1990 to $395 million, or 2 cents out of every $100 spent on elementary and secondary education.

"Furthermore, it is likely that this figure was a high point for funding," the report states. "Budget crises and opposition to programs have led recently to program cuts . . . and have tended to fall unevenly on programs for gifted and talented students."

Federal involvement through the Jacob K. Javits Gifted and Talented Students Act of 1988 provides $9.6 million in fiscal 1994 for demonstration grants and other activities aimed primarily at serving gifted students who are also economically disadvantaged, speak limited English or have disabilities.

By comparison, the federal government budgeted $6.3 billion in fiscal '94 for the Chapter I remedial education program for disadvantaged children who have fallen behind in school.

Gifted programs have long been resented as a kind of elitism and challenge to egalitarianism.

The OERI report recommends that schools adopt a broad definition of "gifted" aimed at pulling more disadvantaged and minority children into special programs if they demonstrate high levels of accomplishment compared with others of their age, experience or environment.

New theories of "multiple intelligences" encourage schools to provide special programs for students who demonstrate creative or productive thinking, leadership ability, psychomotor ability or artistic talent.

In practice, most schools continue to restrict participation in programs for the gifted to those with exceptional intellectual ability, and most use IQ and achievement tests and teacher recommendations.

Overall, researchers found that teachers do little to accommodate the learning needs of gifted children and that 84 percent of assignments for gifted students were the same as those made to the whole class.

More than 70 percent of districts with elementary programs for gifted children use the "pull-out" program or resource room approach, where pupils leave their regular classrooms for a few hours a week to work on special projects.

"This has not proved to be an especially successful program for most special populations," the report says.

The report calls on schools to let all children progress through challenging material at their own pace and to group and regroup students based on their interests and needs.

U.S. Investigating Clinton's Links to Arkansas S.& L.

By JEFF GERTH
with STEPHEN ENGELBERG
Special to The New York Times

WASHINGTON, Nov. 1 — Federal investigators are raising questions about ties between President Clinton and an Arkansas businessman — a political patron of Mr. Clinton in the 1980's whose failed savings and loan is now under criminal investigation.

Government officials and lawyers familiar with the case said the President is neither the subject nor a target of the investigation, which is still in its early stages.

But the inquiry focuses on questionable financial dealings involving the savings and loan, called Madison Guaranty, from which Mr. Clinton benefited both personally and politically. The savings and loan's owner, James McDougal, was one of Mr. Clinton's closest associates in Arkansas and was, at various times, his business partner, political fund-raiser, family banker and senior aide when Mr. Clinton was Governor of Arkansas.

Advantageous Relationship

Mr. Clinton's banking commissioner advised him in 1983 that Mr. McDougal was engaged in questionable banking practices. But the two men nevertheless maintained a business and political relationship throughout the 1980's that helped both men. When Mr. Clinton needed someone to raise $35,000 to retire debts from his 1984 re-election campaign, he turned to Mr. McDougal.

Mr. McDougal denies any wrongdoing. His lawyer, Sam Heuer, said his client is under investigation by the United States Attorney in Little Rock, Ark. Last month the Federal agency that disposes of failed savings and loans, the Resolution Trust Corporation, asked the United States Attorney in Little Rock to examine several possible violations of law in the operations of the savings and loan, including transactions that may have helped Mr. Clinton pay his campaign debts.

According to Federal officials, court documents and lawyers familiar with the case, the two Federal agencies have been trying to find out whether more than $250,000 in business loans was improperly diverted from Madison in April 1985 to several sources, including Mr. Clinton's re-election campaign for governor.

The officials said the campaign received $12,000 in cashier's checks from Madison, some of which appeared to

A political patron is at the center of the inquiry.

have been paid for by the business loans. The former Clinton aide who deposited the money said neither she nor Mr. Clinton was aware of any irregularities about its source.

Investigators have asked prosecutors to see whether the campaign contributions were linked to efforts by Madison to win state approval for an unusual plan to raise new capital by issuing stock, the officials said.

Finally, prosecutors are studying a $300,000 loan from a federally sponsored lending company to Mr. McDougal's wife, Susan. The man who made the loan, David Hale, was indicted in September on unrelated charges.

In an effort to win leniency from prosecutors on the eve of his indictment, Mr. Hale offered prosecutors information about Mr. Clinton and other Arkansas politicians. Unable to plea bargain, Mr. Hale asserted in interviews with reporters that Mr. Clinton had personally pressed him to make the $300,000 loan.

A White House spokesman said Mr. Clinton had no recollection of any such conversation. Mr. Hale said Mr. McDougal told him the money would help conceal earlier favors for the Governor.

Newly Appointed Prosecutor

The criminal investigations of Madison and Mr. Hale's lending activities are being directed by the newly appointed United States Attorney in Little Rock, Paula J. Casey. On Sunday, The Washington Post disclosed the Resolution Trust Corporation's request to Ms. Casey, and The Wall Street Journal reported on the inquiry in today's issue.

Mr. Hale's lawyer has questioned Ms. Casey's independence. She was a volunteer in Mr. Clinton's gubernatorial campaigns and was his student at the University of Arkansas law school. Ms. Casey would not discuss the case, but told Mr. Hale's lawyer she was not afraid to prosecute anyone.

Mr. McDougal, who is at the heart of the inquiry into the savings and loan's affairs, continues to blame overzealous

Questions about a flow of money to pay off 1984 campaign debts.

regulators and prosecutors for his downfall. He was acquitted of Federal bank fraud charges involving Madison in 1980.

Mr. McDougal met Mr. Clinton in the late 1960's, when both men worked on the staff of Senator J. William Fulbright, the Arkansas Democrat and longtime chairman of the Senate Foreign Relations Committee.

Ozarks Real Estate Deal

In 1978, the McDougals brought Bill and Hillary Rodham Clinton into a real estate deal, buying 200 acres of the Ozarks in northern Arksansas. Later, the property was transferred to their company, Whitewater Development, with both couples sharing the liabilities and potential profits.

When Mr. Clinton first took office as Governor in 1979, Mr. McDougal joined him as an economic development aide. But he soon returned to business, buying a bank in northern Arkansas and a savings and loan in a small town about 75 miles from Little Rock.

By 1983 Mr. McDougal's bank was in trouble with Arkansas regulators. The state's banking commissioner, Marlin S. Jackson, ordered the bank to stop making imprudent loans. Mr. Jackson, a Clinton appointee, said in an interview last year that he told Mr. Clinton at the time of Mr. McDougal's questionable practices.

Meanwhile, the savings and loan continued to grow, from $6 million in assets to more than $100 million by 1985. It opened a branch in Little Rock near the Statehouse and began making loans to prominent Democrats, including Mr. Fulbright and Jim Guy Tucker, a Little Rock lawyer who is now Governor of Arkansas.

Records also indicate that Madison was helping Whitewater, the real estate business owned by the Clintons and McDougals. In 1984 and 1985, as the company continued to post losses, check ledgers show the company had frequent sizable overdrafts on its account at Madison.

Also in 1985, Madison Marketing, a McDougal family business that derived all of its revenue from the savings and loan, provided the funds for Whitewater to make a $7,322 payment on a loan taken out by Mr. Clinton from another bank, according to bank records.

The Clinton Presidential campaign said last year the McDougals contributed a disproportionate share of Whitewater's money, $92,000 against $68,000 by the Clintons.

In interviews last year, Mr. McDougal seemed to view his relationship with Mr. Clinton as unbalanced. On the one hand, he said, "Bill never turned me down on something I asked for, and I only asked for it occasionally."

But on the other hand, Mr. McDougal contended that he had helped the Clintons in numerous ways, from agreeing to hire Mrs. Clinton to do additional legal work at Madison to paying on Mr. Clinton's behalf portions of the loans on the Ozark property.

Favors on Both Sides

Mr. McDougal said in the same interviews that 1985 was a year of favors on both sides. In early 1985, he said, Mr. Clinton asked him to raise enough money to retire about $35,000 in debts left from his 1984 campaign.

Betsey Wright, who ran the 1984 campaign, confirmed that Mr. Clinton made the request, and said it led Mr. McDougal to be the host for a small fund-raising event in 1985 at the savings and loan. Mr. Clinton attended.

As for the source of the donations, Ms. Wright said: "I'm sure we would have no idea. Any hint of a problem and we would not have accepted."

At least $12,000 worth of cashiers checks issued by Madison wound up in the campaign's coffers in April 1985, Federal officials said. Some came a business loan that Madison made to a McDougal associate, and was never repaid. The rest was from Mr. McDougal's personal and corporate accounts, the officials said.

Days before Mr. McDougal held his fund-raising event for Mr. Clinton, Madison had learned that it faced a serious problem. Federal regulators were concerned by the savings and loan's rapid growth and the failure to have on hand enough capital to meet Federal requirements.

State Approval Needed

Madison's proposal was to raise money to meet the capital requirement by selling a form of stock never issued before in Arkansas by a savings and

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THE WASHINGTON POST TUESDAY, NOVEMBER 2, 1993

Clintons' Former Real Estate Firm Probed

Federal Inquiries Focus on Financial Activities of Other Arkansans

By Michael Isikoff
and Howard Schneider A1
Washington Post Staff Writers

A estate firm that was half-owned by President Clinton and Hillary Rodham Clinton is under scrutiny in two separate federal investigations that focus on the financial activities of prominent Arkansas business and political figures, according to federal officials law enforcement sources.

The company, Whitewater Development Corp., has been a recurring source of controversy for the Clintons. The company was formed to develop vacation and retirement homes on the White River in a remote section of the Ozarks. The Clintons have said repeatedly that Whitewater was a debt-ridden, money-losing venture in which they were passive investors.

In recent interviews and public statements, David Hale, a former municipal judge in Little Rock under indictment on charges of defrauding the federal Small Business Administration, has contended that during the mid-1980s Bill Clinton and others pressured him to make SBA-backed loans to help get bad loans off the books of a failing S&L, Madison Guaranty Savings and Loan. The White House has repeatedly denied that any such conversations took place.

During an FBI raid last July on the offices of Hale's SBA investment firm, agents seized documents that included records of a $300,000 loan to a public relations company headed by Susan McDougal, a partner in Whitewater. Some of the proceeds of the loan—intended to aid "socially or

See WHITEWATER, A7, Col. 4

economically disadvantaged" borrowers—were used to finance a large purchase of rural property from the International Paper Co. by Whitewater in October 1986, according to a participant.

As The Washington Post reported Sunday, the federal Resolution Trust Corp. has been scrutinizing Whitewater's land purchases as part of a separate probe into the use of depositor funds from Madison, which Susan McDougal's husband, James McDougal, controlled. The RTC has asked U.S. Attorney Paula Casey in Little Rock to open a broad probe into whether Madison's depositor funds were improperly used to benefit local politicians. Madison failed in 1989 at an estimated $47 million cost to taxpayers.

Sources familiar with the probe also say that RTC investigators have examined Whitewater's purchase of the International Paper Co. land and forwarded questions to Casey. Shares of Whitewater were equally owned by the Clintons and McDougals.

The White House has said that Clinton, who was then serving his third term as Arkansas governor, and his wife were not aware of the loan to Susan McDougal or of Whitewater's purchase of the International Paper Co. land. The purchase, by far the corporation's largest transaction, was not disclosed in documents released by the Clintons last year to explain Whitewater, which became an issue during the presidential campaign.

"There's no way in the world that the Clintons would know about something like that," said senior White House aide Bruce Lindsey when asked about the International Paper Co. purchase. "It's not as though they were sitting in a corporate office somewhere passing corporate documents around."

Justice Department officials have said in recent interviews that last summer's FBI raid was related to an investigation of Hale's activities as head of Capital Management Services Inc., the SBA-backed investment firm. The investigation is not focusing on the president or his wife, officials said.

Martin Teckler, deputy general counsel to the SBA, would not comment on Capital Management, which is now in receivership. The loan to Susan McDougal's firm is in default and the SBA is seeking to recover the funds. As a general matter, Teckler said, "The agency is definitely interested in seeing to it that any misrepresentations to obtain funds from the agency are pursued."

Questions about the Susan McDougal loan were raised publicly last September by Hale after he unsuccessfully sought to have the fraud charges dropped in exchange for his information about the financial dealings of other Arkansas political figures. Justice Department officials said he had "no tangible information" that would justify dropping felony charges against him.

Hale, who first aired his charges in the Arkansas Democrat-Gazette, said in an interview that Bill Clinton and James McDougal repeatedly pressed him to make the loan to Susan McDougal's firm, Master Marketing. Hale said he was told by James McDougal the loan could help with "cleaning up" problems at Madison Guaranty, which was then under pressure from federal regulators.

"Bill Clinton and I never discussed any loan with David Hale any time," said McDougal, who was acquitted of federal bank fraud charges involving Madison in 1990. He added that he was willing "to take a lie-detector test on national television absolving the president of this ridiculous accusation."

Hale said in a recent interview that McDougal first told him in the fall of 1985 that there were "some members of the political family [in Arkansas] that had some loans that might be in question at Madison."

Susan McDougal said in an interview she did not remember the Master Marketing loan. James McDougal said the loan proceeds were deposited at Madison and that he used part of the money to purchase the property for Whitewater from International Paper.

He said the Clintons were not informed of the purchase. "The Clintons never knew it took place, were never consulted on it. . . . If you knew the Clintons, they were the last goddamn people on Earth you'd consult on a business deal."

Land records in Pulaski County, Ark., show that Whitewater bought 810 acres from International Paper in October 1986 for $550,000. Whitewater made a $100,000 down payment and International Paper agreed to finance the balance, records show. International Paper spokeswoman Kathleen Willemin declined to comment specifically on the sale, but said the company makes several hundred such sales a year and often finances them.

The transaction was potentially sensitive for Clinton. A year earlier, he had negotiated major tax concessions for International Paper to keep it from moving two of its plants out of the state.

Two months after the purchase, James McDougal transferred title to the property from Whitewater to a company owned by him and his wife. Whitewater remained obligated, along with the new company, for the mortgage loan and was later named in a lawsuit International Paper filed to reclaim the property after a default in mortgage payments.

Whitewater was formed initially to develop 200 acres of land in the Ozarks. At the time, James McDougal was serving in Clinton's first gubernatorial administration as an economic development aide.

Several years after Whitewater was started, Hillary Clinton and her law firm, the Rose firm, represented Madison before state regulators while Clinton was governor. Questions about possible conflicts became an issue in Clinton's 1992 campaign.

Clinton campaign officials hired James Lyons, a Denver attorney, to issue an accounting of Whitewater's finances. While reporting that the Clintons had invested $70,000 of their own funds in the company, Lyons's report depicted Whitewater as a debt-ridden company that had done virtually no business for years. Clinton aides said then that remaining questions about Whitewater could not be addressed because many of its records were missing.

Records show that Whitewater failed to file corporate tax returns during a three-year period in which the Clintons remained half owners of the firm. This omission was discovered last December when the late Vincent Foster, the Clintons' personal attorney and later deputy White House counsel, met McDougal to execute the sale of the Clintons' interest in Whitewater to McDougal.

Foster took responsibility for filing the returns and later hired a Little Rock accountant who brought the returns to the offices of McDougal's lawyer on June 21, 1993. The copies show that Whitewater realized no income during that period.

When copies of Whitewater's tax returns were requested last year, Clinton campaign officials directed reporters to McDougal.

But McDougal said in a recent interview he delivered his copies of Whitewater's financial records to the governor's mansion in 1987.

"They assumed the responsibility for filing the tax returns up until now," he said.

Staff writer Susan Schmidt contributed to this report.

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companies then improperly used it to help balance the books at his S&L, according to the published reports.

McDougal could not be reached for comment Tuesday.

Former Pulaski County, Ark., municipal judge David Hale alleges Clinton pressed him in late 1985 and 1986 to loan the SBA money to McDougal so that McDougal could ``straighten out the books'' before federal auditors arrived at a thrift he ran.

At the time, Hale ran a lending company authorized to make loans on behalf of the SBA.

In September, Hale was indicted on charges that he and two colleagues defrauded the SBA by funneling $800,000 in and out of Capital Management illegally to secure a $900,000 SBA loan.

Hale offered the information about Clinton in an attempt to strike a deal with prosecutors and went public with the information after prosecutors rejected his offer. Hale acknowledged in an interview Tuesday he had no documents to corroborate his allegations.

Hale said that in early January 1986, after McDougal had already inquired about obtaining a $150,000 loan, he ``bumped into'' Clinton in the Arkansas State House.

``He just asked me if I was going to be able to help him and Jim out,'' Hale said. ``I told him we were working it out.''

At the time, Hale said, McDougal had told him he needed a loan of $150,000 to solve problems in Madison Guaranty S&L. Hale said McDougal told him the funds were needed to cover irregularities that would show up in an audit expected by mid-1986.

In mid-February, 1986, Hale said, he received a call from McDougal asking whether he would meet with him and Clinton. Hale said he met with Clinton and McDougal, and that Clinton urged him to help McDougal out by making the loan.

In mid-March, Hale said, McDougal asked that the loan be increased from $150,000 to $300,000, and a check in that amount was made out to Master Marketing, a company controlled by McDougal's wife, Susan.

At the White House, Myers said Tuesday that Clinton did not remember any such meetings with Hale.

``He has no recollection about any conversation (about the loan) with him (Hale) and doesn't believe it happened,'' Myers said.

She also questioned the purpose behind Hale's allegations, which first surfaced immediately prior to Hale's indictment in September.

``He tried to make a deal on the eve of his indictment to save his butt,'' Myers said. ``I think you have to question the motives of some people.''

Texas senator and now, as Treasury secretary, one of Clinton's chief NAFTA advisers.

AM-Clinton-S&L,770
White House Seeks to Dissociate Clinton from Probes
By RICHARD KEIL= Associated Press Writer=

WASHINGTON (AP) The White House took the offensive Tuesday in an effort to dissociate President Clinton from two federal investigations involving an Arkansas businessman with longtime ties to the first family.

``We did nothing improper,'' Clinton told reporters after the disclosure that federal investigators, among other things, are examining a real estate venture the president and first lady Hillary Rodham Clinton once partially owned.

The White House emphasized the allegations dated to 1992 and that both criminal investigations were focused on political supporters or former business associates and not the Clintons.

``The president is not a subject or target of an investigation. That is clear. It is something that was well reported during the campaign,'' White House Press Secretary Dee Dee Myers said.

A former Arkansas judge under indictment in one of the investigations alleged Tuesday that Clinton was involved personally in persuading him to loan money improperly to James McDougal, a political ally, fund-raiser and friend of the first family.

The investigations are focusing on Whitewater Development Corp. and Madison Guaranty Savings and Loan, both of which are connected to McDougal, according to Resolution Trust Corp. officials who spoke on condition they not be identified by name.

The Clintons once owned a partial stake in Whitewater, a venture to develop property in the Ozarks. The Clintons have said they lost money in the arrangement.

According to reports in The Washington Post and The New York Times, one of the investigations is focusing on whether overdrafts at McDougal's S&L were used to help retire Clinton campaign debts when he was Arkansas governor.

The second probe is focusing on whether the Whitewater real estate venture ever repaid overdrafts on the thrift's ledgers in 1984 and 1985, the newspapers said.

Both newspapers reported the Clintons were not targets of either investigation.

Also at issue in the investigations is whether McDougal obtained
a Small Business Administration loan for one of his wife's

refused for months to release the figures. Even on Monday, the list's accuracy was confirmed by an official who spoke only on condition of anonymity.

Few employees spoke for the record, but many said privately they were hurt to see colleagues making more.

One aide spit out a colleague's name and sneered, ``I've got to meet with Mr. $118,000.''

Jeff Eller, who heads the press division that caters to local media, makes as much as Myers, and his workers generally earn more than Myers' staff, which works with Washington-based reporters. Both points caused some ill feelings in the communications offices.

Myers refused to comment on her salary, but two sympathetic insiders sniffed that Myers' pay might be higher if she were a man. They hoped Myers might be able to use the publication of the list as leverage to get a raise.

Of the 17 people listed with salaries of $125,000, four are women. Of the 26 listed who make at least $100,000 but less than $125,000, 13 are women.

The highest salary $125,000 is going to at least 17 people. Dozens of White House employees make $25,000 or less.

PM-Packwood, 2nd Ld, a0519,180

URGENT

Packwood Pushes Compromise as Senate Debates Demands for Diaries

EDs: LEADS with today's debate

By SCOTT SONNER= Associated Press Writer=

WASHINGTON (AP) Sen. Bob Packwood, accused of sexual harassment, struggled to sell senators a compromise today that would avert a showdown on a subpoena for thousands of pages of his personal diaries.

As senators sat grim-faced through a second morning of debate, Packwood offered to give the ethics committee diary portions he deemed relevant to the sexual harassment charges. In a concession, he also offered to turn over diary portions relevant to questions of whether lobbyists once offered his former wife a job in exchange for some senatorial ``quid pro quo.''

In addition, Packwood said he would turn his entire diaries over to a neutral third party, who would then determine whether all relevant material had been provided to the committee.

It was not clear whether the Senate would be asked to vote on Packwood's proposal. But Sen. Richard Bryan, the panel's chairman, said the committee should not have to rely on Packwood to determine what diary entries were relevant the committee itself should.

MORE

allegations concerning illegal campaign contributions by the company, Whitewater Development Corp., and a failed S&L had been forwarded to the U.S. attorney in Little Rock to investigate.

The federal Resolution Trust Corp. also has been scrutinizing Whitewater's land purchases as part of a separate probe into the use of depositor funds from the Madison Guaranty Savings and Loan, which failed in 1989 at an estimated $47 million cost to taxpayers.

PM-White House Pay,480
White House Staff Turns Green Over Salaries With Envy
By RON FOURNIER= Associated Press Writer=

WASHINGTON (AP) It's an honor to work in the White House. Many of the best people who work there would do so for free.

But apparently only if everybody else got paid the same.

President Clinton's staff likes to consider itself high-minded, dedicated and selfless. The publication of staff salaries in The Washington Post on Monday brought out another trait: envy.

``It's going to be nasty,'' one middle-level aide said grimly after the morning staff meetings.

In a wry understatement, White House Press Secretary Dee Dee Myers said the list ``has created a little curiosity.'' Her salary: $100,000.

``I think it would cause discussion in any organization to have the salaries of everybody publicized,'' Myers said. ``We've tried as best we can to see to it that everybody's salaries match their responsibilities. Nothing can be done perfectly.''

Some of the comparisons causing tongues to wag at the White House:

Myers makes $19,500 less than Marla Romash did as spokeswoman for Vice President Al Gore, and $18,000 less than Rahm Emanuel, an aide in the communications operation.

Clinton's economic policy director, Wall Street millionaire Robert E. Rubin, makes $100,000, which is $5,000 less than his aide, Gene Sperling. Rubin, who originally was going to work for free, set his own salary and spread the extra salary dollars among his staff.

Sperling and W. Bowman ``Bo'' Cutter have the same title. Cutter makes $5,000 more.

Sandy Berger, the No. 2 man in the National Security Council, earns $110,000 and Gore's national security chief, Leon Fuerth, makes $119,500.

Knowing the list would enrage workers, the White House

^bc-clinton-firm
^(wap) (ATTN: National editors)
^Dealings of Clinton Partners Were Referred to Justice Dept. in 1992
^(Washn)
^By Susan Schmidt and Michael Isikoff= ^(c) 1993, The Washington Post=

WASHINGTON Resolution Trust Corp. investigators examining the mid-1980s affairs of a failed Arkansas savings and loan found a series of irregular transactions involving Whitewater Development Corp., a company then half-owned by President Clinton and his wife, that suggested it was used by the Clintons' business partners in a check-kiting scheme to drain funds from the thrift.

The RTC, according to documents and interviews with sources familiar with the probe, told federal prosecutors more than a year ago that Bill and Hillary Clinton and other principals in a dozen corporations doing business with Madison Guaranty Savings & Loan during the mid-1980s could possibly have benefited from the alleged scheme, though there is no evidence they had direct knowledge of it.

But the agency, which named the Clintons' business partners as targets in the October 1992 referral to the Justice Department, said further investigation was needed to find out where money ended up after passing through a Whitewater account at Madison.

The Justice Department did not notify the RTC of its disposition of that referral until last month, when federal prosecutors declined to open a criminal inquiry. But federal prosecutors have decided to act on a second, more detailed request from the RTC to investigate similar allegations regarding Madison and its owner, James McDougal.

The Clintons repeatedly have denied doing anything improper in connection with Whitewater and have said that it was a money-losing investment run by McDougal and his wife, Susan.

The RTC's first criminal referral last year, filling more than 15 pages, outlined dozens of instances of questionable loan transactions between several Arkansas banks and 12 corporations affiliated or doing business with Madison, sources said. They said principals of the corporations included the Clintons, the McDougals and Arkansas Gov. Jim Guy Tucker (D).

During the first half of 1985, the sample time period examined in detail by the RTC, Whitewater issued 10 checks for more than $70,000. Several were written to the Bank of Cherry Valley, where Clinton had a campaign account. Unable to obtain the bank's records, the RTC could not determine if the checks were deposited in the account.

Five of the checks issued by Whitewater and totaling more than $60,000 were overdrafts that eventually were covered by funds from other alleged shell corporations, or from Madison Financial Corp., the S&L's wholly owned real estate subsidiary.

One $30,000 check was issued on Whitewater's account to McDougal with the notation ''loan repayment,'' though sources said the RTC found no records of any loan from McDougal.

That check resulted in an overdraft that was covered by a deposit of $30,000 from Madison Financial Corp. (MFC). In April 1985, according to S&L documents, MFC deposited $30,000 directly into Whitewater's account as a ''prepayment'' on a 1985 bonus to McDougal, MFC's president.

Some of the money that went through the alleged shell corporations to Whitewater came from bank loans, according to sources familiar with the RTC referral. Those corporations were created legally but appeared to have no business purpose, said a source familiar with the probe.

Among the ''shell'' companies cited in the first referral were ventures named ''Tucker-Smith-McDougal,'' ''Smith-Tucker-McDougal'' and a third named ''Smith-McDougal.'' Also cited were two Madison real estate ventures.

The RTC's initial request for criminal investigation of the S&L's affairs came after a long-running politically sensitive probe of Madison and McDougal, a longtime friend of the Clintons who, with his wife, jointly owned the small real estate venture that has been a continuing source of controversy for the president.

The first RTC referral was reviewed by career Justice Department officials earlier this year, who concluded there was insufficient evidence to warrant further investigation. The RTC says it was never informed.

Two weeks ago, U.S. Attorney Paula Casey told the RTC in a letter that her office ''concurs'' with the earlier Justice Department conclusion that there was ''insufficient information'' in the first referral to warrant a law enforcement probe, said sources familiar with the contents of the letter.

''This was not a review conducted by Paula Casey,'' said Carl Stern, the Justice Department's chief public affairs spokesman. ''The information should have been communicated to the RTC months earlier. ... As far as I know, Paula Casey didn't participate in any decision-making.''

The second RTC referral forwarded early last month included questions about the possible diversion of Madison depositor funds into accounts at other institutions maintained by Clinton's 1984 campaign for reelection as Arkansas governor.

Casey last week recused herself from the continuing investigation of Madison. A Clinton appointee and volunteer in some of Clinton's gubernatorial campaigns, she said she stepped aside because of her ''familiarity with some of the parties.'' She declined to comment Wednesday on why she had not recused herself two weeks ago on the first referral.

The Washington Post

November 2, 1993, Tuesday, Final Edition

SECTION: FIRST SECTION; PAGE A1

LENGTH: 1389 words

HEADLINE: Clintons' Former Real Estate Firm Probed; Federal Inquiries Focus on Financial Activities of Other Arkansans

SERIES: Occasional

BYLINE: Michael Isikoff, Howard Schneider, Washington Post Staff Writers

BODY:

A real estate firm that was half-owned by President Clinton and Hillary Rodham Clinton is under scrutiny in two separate federal investigations that focus on the financial activities of prominent Arkansas business and political figures, according to federal officials and law enforcement sources.

The company, Whitewater Development Corp., has been a recurring source of controversy for the Clintons. The company was formed to develop vacation and retirement homes on the White River in a remote section of the Ozarks. The Clintons have said repeatedly that Whitewater was a debt-ridden, money-losing venture in which they were passive investors.

In recent interviews and public statements, David Hale, a former municipal judge in Little Rock under indictment on charges of defrauding the federal Small Business Administration, has contended that during the mid-1980s Bill Clinton and others pressured him to make SBA-backed loans to help get bad loans off the books of a failing S&L, Madison Guaranty Savings and Loan. The White House has repeatedly denied that any such conversations took place.

During an FBI raid last July on the offices of Hale's SBA investment firm, agents seized documents that included records of a $ 300,000 loan to a public relations company headed by Susan McDougal, a partner in Whitewater. Some of the proceeds of the loan -- intended to aid "socially or economically disadvantaged" borrowers -- were used to finance a large purchase of rural property from the International Paper Co. by Whitewater in October 1986, according to a participant.

As The Washington Post reported Sunday, the federal Resolution Trust Corp. has been scrutinizing Whitewater's land purchases as part of a separate probe into the use of depositor funds from Madison, which Susan McDougal's husband, James McDougal, controlled. The RTC has asked U.S. Attorney Paula Casey in Little Rock to open a broad probe into whether Madison's depositor funds were improperly used to benefit local politicians. Madison failed in 1989 at an estimated $ 47 million cost to taxpayers.

Sources familiar with the probe also say that RTC investigators have examined Whitewater's purchase of the International Paper Co. land and forwarded questions to Casey. Shares of Whitewater were equally owned by the Clintons and McDougals.

The White House has said that Clinton, who was then serving his third term as Arkansas governor, and his wife were not aware of the loan to Susan McDougal or of Whitewater's purchase of the International Paper Co. land. The purchase, by far the corporation's largest transaction, was not disclosed in documents released by the Clintons last year to explain Whitewater, which became an issue during the presidential campaign.

"There's no way in the world that the Clintons would know about something like that," said senior White House aide Bruce Lindsey when asked about the International Paper Co. purchase. "It's not as though they were sitting in a corporate office somewhere passing corporate documents around."

Justice Department officials have said in recent interviews that last summer's FBI raid was related to an investigation of Hale's activities as head of Capital Management Services Inc., the SBA-backed investment firm. The investigation is not focusing on the president or his wife, officials said.

Martin Teckler, deputy general counsel to the SBA, would not comment on Capital Management, which is now in receivership. The loan to Susan McDougal's firm is in default and the SBA is seeking to recover the funds. As a general matter, Teckler said, "The agency is definitely interested in seeing to it that any misrepresentations to obtain funds from the agency are pursued."

Questions about the Susan McDougal loan were raised publicly last September by Hale after he unsuccessfully sought to have the fraud charges dropped in exchange for his information about the financial dealings of other Arkansas political figures. Justice Department officials said he had "no tangible information" that would justify dropping felony charges against him.

Hale, who first aired his charges in the Arkansas Democrat-Gazette, said in an interview that Bill Clinton and James McDougal repeatedly pressed him to make the loan to Susan McDougal's firm, Master Marketing. Hale said he was told by James McDougal the loan could help with "cleaning up" problems at Madison Guaranty, which was then under pressure from federal regulators.

"Bill Clinton and I never discussed any loan with David Hale any time," said McDougal, who was acquitted of federal bank fraud charges involving Madison in 1990. He added that he was willing "to take a lie-detector test on national television absolving the president of this ridiculous accusation."

Hale said in a recent interview that McDougal first told him in the fall of 1985 that there were "some members of the political family [in Arkansas] that had some loans that might be in question at Madison."

Susan McDougal said in an interview she did not remember the Master Marketing loan. James McDougal said the loan proceeds were deposited at Madison and that he used part of the money to purchase the property for Whitewater from International Paper.

He said the Clintons were not informed of the purchase. "The Clintons never knew it took place, were never consulted on it. . . . If you knew the Clintons, they were the last goddamn people on Earth you'd consult on a business deal."

Land records in Pulaski County, Ark., show that Whitewater bought 810 acres from International Paper in October 1986 for $ 550,000. Whitewater made a $ 100,000 down payment and International Paper agreed to finance the balance, records show. International Paper spokeswoman Kathleen Willemin declined to comment specifically on the sale, but said the company makes several hundred such sales a year and often finances them.

The transaction was potentially sensitive for Clinton. A year earlier, he had negotiated major tax concessions for International Paper to keep it from moving two of its plants out of the state.

Two months after the purchase, James McDougal transferred title to the property from Whitewater to a company owned by him and his wife. Whitewater remained obligated, along with the new company, for the mortgage loan and was later named in a lawsuit International Paper filed to reclaim the property after a default in mortgage payments.

Whitewater was formed initially to develop 200 acres of land in the Ozarks. At the time, James McDougal was serving in Clinton's first gubernatorial administration as an economic development aide.

Several years after Whitewater was started, Hillary Clinton and her law firm, the Rose firm, represented Madison before state regulators while Clinton was governor. Questions about possible conflicts became an issue in Clinton's 1992 campaign.

Clinton campaign officials hired James Lyons, a Denver attorney, to issue an accounting of Whitewater's finances. While reporting that the Clintons had invested $ 70,000 of their own funds in the company, Lyons's report depicted Whitewater as a debt-ridden company that had done virtually no business for years. Clinton aides said then that remaining questions about Whitewater could not be addressed because many of its records were missing.

Records show that Whitewater failed to file corporate tax returns during a three-year period in which the Clintons remained half owners of the firm. This omission was discovered last December when the late Vincent Foster, the Clintons' personal attorney and later deputy White House counsel, met McDougal to execute the sale of the Clintons' interest in Whitewater to McDougal.

Foster took responsibility for filing the returns and later hired a Little Rock accountant who brought the returns to the offices of McDougal's lawyer on June 21, 1993. The copies show that Whitewater realized no income during that period.

When copies of Whitewater's tax returns were requested last year, Clinton campaign officials directed reporters to McDougal.

But McDougal said in a recent interview he delivered his copies of Whitewater's financial records to the governor's mansion in 1987.

"They assumed the responsibility for filing the tax returns up until now," he said.

Staff writer Susan Schmidt contributed to this report.

LANGUAGE: ENGLISH

LOAD-DATE-MDC: November 1, 1993

THE WHITE HOUSE WIRE REPORT
12:30 p.m. edition
Tuesday, Nov. 2, 1993
Compiled by the Office of News Analysis (x7151)

Index of wire stories:

Clinton denies wrongdoing in S&L investigation

WASHINGTON (UPI) President Clinton said Tuesday he did nothing improper in a real estate venture in Arkansas that is now reportedly embroiled in two federal investigations.

Clinton told reporters he and his wife, Hillary Rodham Clinton, were passive investors and involved in no wrongdoing in the investment venture to develop vacation and retirement homes in the Ozarks.

``We did nothing improper and I have nothing to say about it old story,'' the president insisted.

The rebuttal, echoed by top aides Bruce Lindsay and spokeswoman Dee Myers, came amid reports of renewed

The Washington Times THURSDAY, NOVEMBER 4, 1993 *

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CLIN' 'ONS

From page A1

McDougal to several politicians, including Mr. Clinton.

One of those campaign contributions included a $35,000 loan to Mr. Clinton to help settle 1984 campaign debts, the sources said.

Records obtained by The Times here and at the Marion County Courthouse in Yellville, Ark., also show that:

• Personal loans taken by Mr. Clinton were paid by Whitewater, including a Nov. 7, 1985 check for $7,322 drawn on the Whitewater account and used to pay the principal and interest on a Clinton loan from Security Bank of Paragould, Ark. The payment, on an account described as "#957-585, Bill Clinton," was signed by Mr. McDougal.

It is not clear why Mr. McDougal would pay off a loan owed by Mr. Clinton that, according to the records, had nothing to do with Whitewater.

• Mrs. Clinton received $2,000 a month in legal fees from Mr. McDougal to represent Madison Guaranty Savings and Loan, a defunct S&L he owned that later was taken over by federal banking regulators. Funds from Madison were used to subsidize the Whitewater partnership.

The monthly retainer, first reported by The Washington Times on March 20, 1992, was said to have been arranged by Mr. Clinton during a summer 1984 meeting with Mr. McDougal. Federal investigators are looking into the retainer agreement.

It is not clear what Mrs. Clinton did for the money.

• Mrs. Clinton, using one of 42 lots in the Whitewater development, along the White River deep in the Ozarks, as collateral, got a $30,000 loan on Dec. 16, 1980, according to a mortgage agreement she signed. The loan — made out to "Hillary Rodham" — went through the Bank of Kingston, an Arkansas institution was owned at the time by Mr. McDougal.

Ten days later, a $30,000 deposit made in the Whitewater account at the Kingston bank, which showed a balance of $456.

It is not clear whether the money came from the Rodham loan and, if it did, whether federal banking laws were violated. Records show the Clintons took tax deductions for interest on the loan, but Whitewater made the payments.

• Mr. and Mrs. Clinton later sold the same lot for $18,666. An Oct. 31, 1988, warranty deed transferring the 2.66-acre parcel to John and Marilyn Lauramoore was signed only by the Clintons.

The sale was recorded at the courthouse in Yellville on Nov. 28, 1988, three weeks after Mrs. Clinton sought power of attorney over the Whitewater project.

• The Clintons, as 50 percent shareholders, invested, lent or otherwise advanced to Whitewater and the McDougals nearly $70,000. They also signed two loan agreements, one for $182,611, to finance the initial purchase of the Whitewater property.

Available records show that many of the Whitewater loans, advancements and investments were signed by both the Clintons and the McDougals.

In his only comment about the latest allegations, the president made a terse statement to reporters two days ago: "We did nothing improper, and I have nothing to say about it."

Whitewater, formed in 1978, became a campaign issue last year. In an effort to answer concerns, James M. Lyons, a Denver lawyer who represented the Clinton campaign to review the partnership. He said in a March 23, 1992, report that the Clintons were "passive shareholders" with the McDougals "exercising total control."

The White House conceded this week that Mr. Clinton accepted campaign funds from Mr. McDougal but said he did not know the original source of the funds.

The Resolution Trust Corp. (RTC), the federal agency that oversees liquidation of failed S&Ls, is looking into allegations that Mr. McDougal diverted depositor funds from Madison S&L to Mr. Clinton, using overdrawn accounts and Madison-approved loans.

Lacking authority to bring charges in a criminal case, the RTC last month asked U.S. Attorney Paula J. Casey in Little Rock to review the allegations. The RTC involvement was reported Sunday in The Washington Post.

Mrs. Casey declined comment.

Several law enforcement officers and others in Little Rock say they are concerned that her credentials to conduct an unbiased investigation have been compromised by her work in several Clinton gubernatorial campaigns and the fact that her husband, Gil Glover, is chief counsel to the Arkansas Public Service Commission, a position he was named to by Mr. Clinton when he was governor of Arkansas.

One focus of the federal inquiries is reliably said to be a $300,000 Small Business Administration loan arranged for Mrs. McDougal through Capital-Management Services, Inc., an SBA-approved lending agency here owned by David L. Hale.

Mr. Hale, formerly a lower-court judge in Pulaski County (which includes Little Rock) and president of Capital-Management, said in an interview that the April 3, 1986, loan to Mrs. McDougal, sole proprietor of a Little Rock advertising firm known as Master Marketing, was not repaid and was posted to a Madison account.

He retired after 14 years on the bench following his indictment two months ago on federal charges of defrauding SBA in other loans. His trial is pending.

Mr. Hale said he was never told how the $300,000 lent to Mrs. McDougal was to be used, although records show $110,000 of it went to Whitewater for a down payment on property purchased from International Paper Co. After the purchase, Master Marketing changed its company description to a real estate venture, the records show.

The loan to Mrs. McDougal is in default. SBA officials declined comment, but the agency is believed to be trying to collect the money. It is not clear who has been targeted in that effort.

Documents outlining the Capital-Management loan to Mrs. McDougal were included in those seized during a July raid by the FBI on Mr. Hale's Little Rock office.

Mr. Hale, an intimate of several powerful Arkansas politicians, said he lent the money without speaking

> ***The documents show that both Mr. and Mrs. Clinton took an aggressive part in the management of Whitewater's affairs and that, at one point, Mrs. Clinton sought power of attorney from partners James B. McDougal and his wife, Susan H. McDougal.***

to Mrs. McDougal after two meetings with Mr. Clinton, including a February 1986 encounter at the State Capitol. He said the governor asked him on that occasion: "David, are you going to be able to help Jim and me out?"

He said he met a second time, in March 1986, with Mr. Clinton and Mr. McDougal at Mr. McDougal's office to discuss how the loan was to be structured. Mr. Hale said the two men told him they needed to "clean up" financial problems at Madison and the loan to Mrs. McDougal would help them do that.

Mr. Hale said the three men agreed to the amount of the loan, and the terms of the agreement. The first figure asked was $150,000, and they decided the check would be made out to Mrs. McDougal to make sure a woman's name would appear on the SBA loan application.

They all knew Mrs. McDougal did not legally qualify for the SBA loan, Mr. Hale said, and at this second meeting Mr. Clinton told him that the Clinton name could not be associated with the deal, "anywhere in this, anywhere at all."

"I knew what was going on, as we all did," Mr. Hale says. "But we were friends, and that's just the way business is done in Arkansas."

Though the McDougals filed a joint financial statement showing assets in excess of $3 million, including a $400,000 "personal residence" three months before the application was made, SBA loans are meant to be made to applicants who are disadvantaged or unable to obtain financial assistance elsewhere.

White House spokesman Dee Dee Myers said Mr. Clinton did not recall any meetings with Mr. Hale and had "no recollection" about efforts by him to pressure the former judge for an SBA loan."

She suggested that Mr. Hale lied to reporters. "He tried to make a deal on the eve of his indictment to save his butt," Ms. Myers said. "I think you have to question the motives of some people."

Mr. McDougal, who was once indicted on federal fraud charges, says he never discussed a loan with Mr. Hale, terming the allegation "ridiculous." He also denied wrongdoing in connection with the use of Madison funds or loans, although he declined to elaborate.

Mrs. McDougal was not available for comment, but she told The Washington Post this week that she did not remember the Master Marketing loan.

Madison was closed by federal regulators in 1989 at a loss to the government of about $50 million. Mr. McDougal later was indicted by a federal grand jury on charges he arranged sham deals to generate bonuses for himself totaling $75,000.

The indictment also said Mr. McDougal set up a company, Master Developers, to buy land using Madison funds. He was acquitted in 1990.

The ... Developers and Master Marke[...] not clear, although both co[...] tions were closely held b[...] McDougals.

Mr. Clinton's role in securi[...] $300,000 loan was described i[...] tember by Mr. Hale to prosecut[...] Mrs. Casey's office a day befo[...] indictment. Mr. Hale said he o[...] to testify against others invol[...] SBA schemes, including Mr. Cl[...] but was turned down.

Mr. Hale's attorney, Randy [...] man, said he talked with prose[...] about a deal but was rejected [...] sistant U.S. Attorney Fletche[...] son, who oversaw the Hale [...] ment. Mr. Coleman said Mr. J[...] told him he was aware of M[...] ton's involvement, but he had [...] years to retirement and w[...] looking to do anything to jeop[...] it."

Mr. Jackson confirmed t[...] Times that he told attorneys [...] Hale he had eight years bef[...] tirement and would not jeopa[...] with a deal, but he said he wa[...] ring only to efforts by Mr. Hal[...] the charges against him redu[...] dropped.

"They were talking about [...] diversion and my response w[...] I was not going to do anyt[...] jeopardize my retirement by [...] Hale a free pass," he said. H[...] not discuss it further.

Mr. Coleman said he also [...] concerns directly to the Cli[...] ministration, telling a lo[...] friend, White House Associat[...] sel William H. Kennedy III, [...] partner in the Rose Law Fi[...] telephone conversation th[...] had clients — Mr. Clinton [...] Hale — with "a mutual prob[...]

He described the convers[...] "lawyer to lawyer," but said K[...] nedy showed no interes[...] wanted to know who was [...] and where it was headed," [...] Coleman. "He said he may [...] not get back to me, and he h[...]

Mr. Kennedy did not ret[...] phone calls to his office f[...] ment.

The Justice Department [...] part, said there was "no tan[...] formation" to justify offe[...] Hale a deal.

``There should be no problem of this going into effect because of what has been happening in the streets with violent crime. Everyone is fed up and something has to happen. We have to do something about those criminals who are destroying the security of our families.''

Ironically, Bentley, who has announced her candidacy for the GOP nomination for governor of Maryland, said that a ``computer glitch'' misread her vote during Wednesday's roll call on the Brady bill. She said she had voted ``yes'' but was recorded as voting ``no.''

AM-Health Reform-Survey,250

Survey Finds Slim Majority For Health Care Plan

WASHINGTON (AP) About half of adults support President Clinton's health reform plan, although most people think it will raise the costs of their care, a survey indicated Thursday.

The poll commissioned by the American Association of Retired Persons found 51 percent of adults of all ages in favor of Clinton's proposals and 36 percent opposed.

Fifty-five percent said they expected their insurance premiums and out-of-pocket costs to go up under Clinton's plan; 10 percent thought they would go down, and 29 percent felt they would stay the same.

Forty-eight percent said they expected no change in the quality of their health care under the president's proposal; 31 percent felt it would get worse, and 13 percent anticipated improved care.

Thirty-eight percent said they understood Clinton's plan well; 47 percent said they understood it only a little and 15 percent not at all.

``Americans do support comprehensive reform of our health care system. But they are still skeptical whether health care reform will improve their own situation,'' Lovola Burgess, the president of AARP, said in a statement.

The poll of 1,217 adults was conducted by telephone Oct. 28-Nov.
7 by ICR Survey Research Group. It had a three-point margin of error.

Earlier this week, the Wirthlin Group reported that its latest poll found the public evenly divided on the Clinton plan, 42 percent in favor, 42 percent opposed and 16 percent undecided. It was conducted Nov. 1-3.

UPI Update= Quayle comments on health care reform

By AMY WATROUS=

CHICAGO (UPI) Former Vice President Dan Quayle says he

Arkansas, including Whitewater Development Corp., the venture owned by the Clintons and their friends, James and Susan McDougal.

In addition to the development company, McDougal also owned the S&L.

The referrals touching on friends and associates of the Clintons were prepared by regulators investigating civil claims involving Madison, whose 1989 failure cost taxpayers about $47 million. Lacking the authority to pursue criminal probes, Resolution Trust Corp. officials instead forwarded the reports to federal prosecutors for their consideration.

The first was written in October 1992. But the Justice Department concluded last month it could not be pursued because of ``a lack of specific evidence,'' according to one official familiar with the matter, who spoke on condition of anonymity.

Despite the rejection of that referral, officials said some aspects related to the alleged check-kiting scheme remain under review.

Details on the referrals were first disclosed by The Washington Post on Thursday.

U.S. Attorney Paula Casey last week removed herself from the case in Little Rock, Ark., citing past ties to Clinton that included working on his campaign and taking a law school class he taught.

The Justice Department sent a veteran fraud prosecutor to Little Rock to take over the case. Department officials, speaking on condition of anonymity, said Thursday the rejected referral will not be re-examined.

Federal officials familiar with the referrals said none mentions the Clintons as targets. The president has said he and his wife did ``nothing improper'' in their business dealings.

The key period of the investigation is the mid-1980s when the Clintons had several different connections to McDougal.

In 1984, McDougal has said, then-Gov. Clinton asked him to find his wife Hillary legal work at the S&L, and Mrs. Clinton soon was placed on a $2,000-per-month retainer at Madison through the Rose law firm where she worked.

In 1985, she helped persuade state banking regulators to approve
a recapitalization plan for the ailing thrift that relied on a stock sale that had never before been used in Arkansas.

During that same time frame, Clinton turned to McDougal for help in retiring a campaign debt incurred during his successful 1984 re-election run.

Investigators are trying to learn how $12,000 in overdrafts from Madison ended up in the campaign's coffers. Aides to Clinton have said they had no way of knowing where the money came from.

J.S. probes Hillary's former firm for conflict of interest

By Jerry Seper
THE WASHINGTON TIMES

LITTLE ROCK, Ark. — Federal authorities are looking into a possible conflict of interest involving the Rose Law Firm, which was paid more than $400,000 to defend, and later attack, the business practices of a failed savings and loan here that is now under a fraud investigation by the Justice Department.

The firm, with senior partners Hillary Rodham Clinton, Webster L. Hubbell and the late Vincent W. Foster Jr., initially helped Madison Guaranty Savings and Loan stay in business with arguments before state banking regulators, then sued the S&L on behalf of the U.S. government when it failed.

The failure cost taxpayers about $50 million.

Madison was owned by a longtime friend and business partner of President Clinton's and the first lady's.

The conflict-of-interest inquiry has included interviews with several lawyers and accountants involved in the case as well as a painstaking review of court documents.

Law enforcement sources say investigators are concerned about the propriety, ethics and legality of the Rose firm's 1985 defense of Madison before the Arkansas Securities Department and its 1989 handling of a Federal Deposit Insurance Corp. lawsuit against the S&L.

Madison was owned by James B. McDougal, with whom the Clintons were partners in a failed land development scheme in the Ozarks.

A person who asked not to be identified says Justice Department and Resolution Trust Corp. investigators have focused on both the FDIC suit and Mrs. Clinton's receipt of a $2,000-a-month retainer to represent Madison before the state while Mr. Clinton was the governor of Arkansas.

It is not clear whether the federal inquiry will lead to the filing of charges.

Justice Department officials from Washington came here last week to manage the investigation after U.S. Attorney Paula J. Casey, who was appointed by Mr. Clinton and worked in several of his campaigns, recused herself. They decline comment.

Mr. Hubbell — now the associate attorney general, the No. 3 lawyer at the Justice Department — was managing partner at the Rose firm at the time of the FDIC suit. He personally handled the case against Madison, although his firm had defended Madison four years earlier.

Mr. Foster, who killed himself July 20, had actively sought the FDIC's legal business for the Rose firm.

FDIC officials say they were not aware that the firm had represented Madison. Mr. Foster signed a letter seeking the account for Rose that said Rose did not represent any S&Ls.

The FDIC suit charges that Madi-

see FIRM, page A14

FIRM

From page A1

son and a Little Rock accounting firm, Frost & Co., submitted a faulty audit in support of arguments that would enable Madison to remain in business. This was the same audit that the Rose firm had filed four years earlier in its defense of Madison before state regulators.

Raising further conflict concerns are court records showing that Mr. Hubbell's father-in-law, Seth Ward, was an officer of a Madison real estate subsidiary at the time Mr. Hubbell agreed to handle the FDIC case. Mr. Ward's involvement with Madison, sources say, was well known at the time.

Mr. Ward defaulted on more than $587,000 in Madison loans and, according to records, was considered by the government to be a prime offender in the abuse of Madison.

Mr. Hubbell has recused himself from the current case and declines comment.

Justice Department officials say Mr. Hubbell notified the FDIC that he had represented Madison, although he submitted no documents to corroborate that notification claim. In a questionnaire submitted to the Senate Judiciary Committee during his confirmation as associate attorney general, Mr. Hubbell described the FDIC suit as a "malpractice action" against Frost.

Mr. Ward did not return telephone messages left on an answering machine.

A call to the Rose Law Firm for comment was not returned.

White House Communications Director Mark Gearan has confirmed that Mrs. Clinton represented Madison, but he would not provide further details. The $2,000-a-month fee to Mrs. Clinton was said to have been paid over 15 months and assigned to a Little Rock bank. It is not clear why the money would not have gone directly to the Rose firm.

When allegations of the retainer agreement were first reported by The Washington Times in March 1992, Clinton campaign spokesman Jeff Eller, now White House director of media affairs, denied its existence.

Records reveal, however, that Mrs. Clinton was aggressively involved in the legal representation of Madison. Correspondence between the Rose firm and the state Securities Department directs that documents in the matter be sent to her.

The commissioner of the state agency also wrote directly to "Dear Hillary," saying proposals by the Rose firm to allow Madison to sell preferred stock and form a brokerage subsidiary to keep it operational were acceptable and in accordance with state law.

Ten months after Mrs. Clinton and the Rose firm argued that Madison was solvent and should be allowed to stay in business, the Federal Home Loan Bank Board completed an inquiry questioning the S&L's stability. The bank board said in a March 4, 1986, report that:

- Profits from Madison projects were converted directly into cash, an accounting technique described in the report as "improper." The report says the profits should have been deferred and that if they had been properly booked, Madison would have been insolvent.

It is not clear whether the inquiry will lead to the filing of charges.

- "Substantial" sums of money were diverted by Madison officials to themselves and others, and land developments in which the S&L was involved were of "questionable economic worth." The report says Madison's operation would continue to result in "significant losses."
- Madison paid its real estate subsidiary substantial commissions for land sales, including payments of more than $712,000 during a three-year period to Mr. McDougal's wife, Susan H. McDougal, and two of her brothers, James and William Henley.
- Fees paid through the real estate subsidiary were used as loan down payments in what the report says were "straw land purchases." The report says Madison disguised the funding source of various purchases.

The FHLBB report also questions the Frost & Co. audit, the one used by the Rose firm to argue Madison's case before the state. The report says Frost auditor James Alford, who concluded in a report that Madison was in compliance with federal regulations, had two outstanding loans at Madison at the time of the audit.

Mr. Alford no longer works at Frost and was not available for comment.

Steve Humphries, managing director of the firm, says he sees "no ethical conflict" with the Alford loans or with the Rose firm's representation of Madison and its later suit against the S&L.

"It's you guys in the media getting worked up about all this," he says. "The loans were certainly within ethical guidelines under the law, and our attorneys had no problem with the Rose Law Firm's involvement in the suit."

The FHLBB report makes no mention of the Rose firm or any money it was paid, nor does it comment on the firm's representation of Madison. But it says legal documents maintained by the S&L were "so poor" that in many cases examiners could not determine the "real nature" of transactions.

The report says there was a "reluctance" on the part of Madison officials to turn over records and that other documents were backdated or otherwise altered.

The FDIC suit, which initially sought to recover $60 million in damages, was settled out of court in 1991 for $1 million — less than the insurance coverage held by Frost at the time. The Rose firm, according to records, was paid $400,000. Records are not available to determine how much the firm made from its representation of Madison.

The conflict-of-interest inquiry coincides with an ongoing federal investigation of Mr. McDougal involving fraudulent Madison loans and the diversion of money from the S&L to the campaigns of several powerful Arkansas politicians, including Mr. Clinton. That investigation was requested by the RTC, which disposes of failed S&Ls, and referred to the Justice Department.

Prosecutions possible in failed Ark. S&L

Federal regulators have prepared nine reports recommending possible criminal prosecutions in the failure of an Arkansas savings and loan with ties to the first family, The Associated Press reported Thursday.

The Justice Department, citing a lack of evidence, has rejected one of the reports, which alleged a real estate venture once partly owned by President Clinton and his wife was used in a check-kiting scheme, the AP said, quoting unnamed government officials. That report stated there was no evidence the Clintons were aware of the transactions.

But it detailed dozens of examples of check-kiting that allowed money from the failed Madison Guaranty S&L to be diverted to various entities in Arkansas, including Whitewater Development Corp., the venture owned by the Clintons and their friends, James and Susan McDougal. McDougal also owned the S&L.

The reports touching on friends and associates of the Clintons were prepared by regulators investigating civil claims involving Madison, whose 1989 failure cost taxpayers about $47 million. Lacking the authority to pursue criminal investigations, Resolution Trust Corp. officials forwarded the reports to federal prosecutors.

PORN LAW: In a slap at the Justice Department, President Clinton ordered Attorney General Janet Reno to tighten federal laws against child pornography. "I find all forms of child pornography offensive and harmful, as I know you do, and I want the federal government to lead aggressively in the attack against the scourge of child pornography," Clinton wrote. He issued his instructions after the Justice Department seemed to relax its interpretation of hard-core pornography in a Supreme Court case involving videos of young girls who posed seductively while wearing clothes. The Senate, in a non-binding resolution, charged that the Justice Department's ruling would allow child pornographers to go free.

By Mike Groll, AP

RENO: Must tighten child porn laws

OPENING SECRETS: The Energy Department will declassify secret materials, including data on health questions about its nuclear weapons program, said spokesman Joey Lucas. Documents include material on health, safety, environmental and weapons-production issues that Energy Secretary Hazel O'Leary's staff determined were not sensitive enough to remain classified. The department had invoked national-security protection to classify reams of material.

Hale, owner of Capital-Management Investment. He controlled a venture capital investment fund subsidized by the Small Business Administration that was created to make loans to disadvantaged and minority borrowers.

Bill Clinton also urged him to help, Hale said.

Hale said he subsequently made a series of loans, totaling $700,000, to Tucker, to McDougal's wife and to Stephen Smith, a former Clinton aide and political consultant.

Hale, who is now under federal indictment on loan fraud charges, said a $150,000 loan to McDougal's wife was structured at an evening meeting at the Castle Grande sales office with McDougal and Clinton. Clinton at one point offered to provide collateral but did not want his name linked to the transaction, Hale said.

Hale said he declined the collateral but did make a loan to Susan McDougal for $300,000. He said it was increased at McDougal's request and without discussion with Clinton. That loan was not repaid, and what happened to most of the money is a mystery.

The White House said last week that Clinton had no recollection of any meeting with Hale about a loan. McDougal said the meeting described by Hale never occurred.

McDougal said $110,000 of the loan was used as down payment on land for Whitewater Development Co., a 50-50 partnership between the McDougals and the Clintons. That money was lost, and a lawyer for the Clintons says they never knew of the deal.

McDougal's efforts to save the thrift finally collapsed under the weight of the findings of the examiners.

According to previously undisclosed examination reports, Madison had a portfolio of loans secured by property that was worth less than the loans. The examiners said profits had been inflated and hundreds of thousands of dollars paid in commissions and fees to McDougal's wife and other relatives. The losses on three projects alone would make the institution insolvent.

One of those three projects was Castle Grande, where examiners said the land was "low and swampy and cannot be developed without considerable cost . . . . There is no evidence that there is a viable market for this land."

Among the big borrowers on Castle Grande were Tucker, whose law firm represented Madison at the time, and Seth Ward, Hubbell's father-in-law. According to the examination reports, each of the two men had borrowed in excess of $1 million to develop portions of the project.

Both defaulted on the payments.

Regulators forced McDougal out of Madison's management later in 1986. Attempts by new management to resuscitate the thrift failed, and it was taken over by the government in 1989. Losses will cost taxpayers $47.6 million.

The Resolution Trust Corp., which oversees the nation's thrift cleanup, referred several matters involving Madison to the U.S. attorney's office in Little Rock in October, renewing the criminal investigation.

Earlier this month, Hubbell asked that he and his entire staff be excused from involvement in the investigation. His memo to Atty. Gen. Janet Reno did not specify a reason.

Hubbell and Hillary Clinton were senior partners at Little Rock's Rose Law Firm, which was hired by the government in 1989 to try to recover some of the lost $47.6 million. Hubbell became the government's lead lawyer.

Government conflict-of-interest rules generally prohibit lawyers from representing the government against a savings and loan for which they or their firms have done significant work.

Hubbell said through a spokesman that he told the regulators in 1989 that Mrs. Clinton had represented Madison Guaranty, but regulators reportedly have no record of any such disclosure by Hubbell or others at the law firm.

In addition, Hillary Clinton's representation of Madison was not disclosed to thrift examiners in 1986, according to records. Bank regulators require such disclosure to identify key insiders at the institution.

Regulators say, however, that records show that Hubbell did disclose that his father-in-law was among those with loans in default at Madison.

Earlier this week, the Justice Department announced that it was taking over the investigation of Madison Guaranty and Hale. U.S. Atty. Paula Casey of Little Rock—a Clinton appointee and political supporter—had agreed to withdraw from the matter to avoid any appearance of favoritism. Casey's husband also holds a state job under Tucker.

The investigation is now headed by Donald B. Mackay, 55, a senior attorney in the fraud section at the Justice Department. Mackay is a longtime prosecutor who served as U.S. attorney in Springfield, Ill., under former Presidents Richard Nixon and Gerald R. Ford.

Justice Department sources said they expect Mackay and two assistants from Washington to spend several weeks re-examining a series of transactions at Madison Guaranty and Hale's investment firm. In the meantime, a report is due next week to the House Small Business Committee on Hale's transactions. The House Banking, Finance and Urban Affairs Committee already has opened a preliminary inquiry in response to a Republican request.

Defunct S&L's Ties to Arkansas'

Political Elite Vexing for Clinton

■ **Inquiry:** Regulators find a trail of shell companies, false transactions and questionable payments. The President has not been linked to wrongdoing.

By WILLIAM C. REMPEL
and DOUGLAS FRANTZ
TIMES STAFF WRITERS

LITTLE ROCK, Ark.—When federal examiners entered the offices of a small savings and loan here in 1986, among the many troubling loans they discovered on the books was a series of transactions financing a 1,100-acre real estate development on the outskirts of town known as Castle Grande.

It was intended to be a low-cost residential and commercial development for families seeking an escape from the city. But in 1986 it was also an investment venture plagued by questionable agreements involving prominent Arkansas political figures.

Almost immediately the bank regulators found a trail of shell companies, fictitious transactions, inflated profit statements and questionable payments to insiders. Eventually Castle Grande would be included in a list of projects involving possible criminal conduct that federal regulators referred to prosecutors for further investigation.

But it was the political connections, not only in the Castle Grande project but also in others financed by the savings and loan, that finally led the Justice Department this week to take control of what had been treated previously as a routine local investigation. Two congressional inquiries also have begun.

For President Clinton, who has not been linked to any wrongdoing, the probes are nettlesome developments. The controversy centers on Madison Guaranty Savings & Loan, a defunct thrift run by a former Clinton aide and business partner. Madison Guaranty is depicted in interviews and internal regulatory documents obtained by The Times as a bank favored by the state's political elite.

Jim Guy Tucker, who succeeded Bill Clinton as governor, received more than $1 million in loans from the institution at the same time that his law firm represented the thrift. He later negotiated a 50% reduction of his debt. That reduction is reportedly one of the subjects of investigation.

Former Sen. J. William Fulbright, a patron of Arkansas Democrats, also had loans from the S&L. The father-in-law of Associate Atty. Gen. Webster Hubbell, the third-ranking official of the Clinton Justice Department, invested in the Castle Grande project and defaulted on $587,793 in Madison Guaranty loans.

And the year before the team of federal examiners arrived, Madison had placed Hillary Rodham Clinton on a $2,000-a-month legal retainer and organized an employee fund-raiser to retire Gov. Bill Clinton's 1984 campaign debt. At the time, the struggling S&L was seeking approval from state authorities for a plan to generate new capital to stay afloat.

James B. McDougal, the owner of the failed thrift, denies any wrongdoing and blames the regulators for Madison's failure. McDougal, a longtime Clinton friend and business partner, was tried and acquitted in 1990 on fraud charges in connection with other Madison loans.

Now bankrupt and living in a mobile home in rural Arkadelphia, Ark., McDougal acknowledged that he is a target of the new investigation.

Questions about Clinton's ties to Madison Guaranty and McDougal first surfaced during the 1992 presidential campaign. But the controversy has gained new momentum in recent days with disclosures that savings and loan funds may have been improperly used to retire Clinton's 1984 campaign debt. The Times also disclosed that McDougal said he hired Hillary Clinton as a lawyer at the urging of her husband.

President Clinton has said neither he nor his wife did anything improper in their dealings with McDougal or Madison. The White House has denied McDougal's claim that Clinton personally sought the legal retainer for his wife.

In many ways, Madison Guaranty was typical of the 1,100 other savings and loans that collapsed in the 1980s. Regulatory records show that the institution grew dramatically, invested heavily in risky real estate deals and paid large sums to its officers. McDougal and his wife drove Jaguars and shared a Bentley for a time.

McDougal had no background in the savings and loan business when he bought the S&L in 1982, when it was a tiny thrift in rural Woodruff County. He called himself a "country road populist" who hated bankers.

But he had big aspirations. He renamed the institution Madison Guaranty, moved the headquarters to Little Rock and embarked on a string of real estate investments, including an island off the coast of New Brunswick, Canada.

The growth was geometric. Riding a wave of real estate loans, assets skyrocketed from $6 million in 1982 to $107.6 million in 1985. At the same time, Madison's capital reserves—the cushion against losses—declined sharply.

"This institution should have been flashing bright red on the regulators' screen at least by 1984," said Bert Ely, a financial consultant who has examined Madison's records.

McDougal had been trying since early 1985 to raise more capital. Among his plans: Issue preferred stock and start a broker-dealer subsidiary. Both were highly unusual for Arkansas thrifts and required approval by the state securities commissioner.

With Hillary Clinton acting as an attorney for Madison, in April, 1985, the S&L appealed to the commissioner, who only weeks earlier had been appointed to the job by Gov. Clinton. Both requests were approved but never implemented because of the precipitous decline of the S&L.

That same month McDougal held a fund-raiser to retire Gov. Clinton's lingering $35,000 campaign debt left over from the previous fall. McDougal told his executives to contribute.

"Bill's in trouble and we're going to have to get together and help him out," one former Madison official recalled McDougal telling him.

The ex-official was one of two former senior executives at Madison who told The Times that McDougal instructed them to contribute to the governor's campaign fund. They agreed to be interviewed only if their names were not used.

Clinton did not show up for the cocktails and canapes served at Madison's offices, but one of the the former S&L officials recalled that the governor's campaign manager made the rounds "collecting the checks."

In January, 1986, examiners from the Federal Home Loan Bank Board walked in the front door at Madison's Main Street offices for the first time.

A thrift executive in the lobby when the examiners arrived recalled overhearing one examiner telling the others, "Look at that Bentley and those Jaguars in the parking lot. Somebody's stealing. We'll shut this thing down."

McDougal said in an interview that he knew that the examiners were coming but expected a good report.

"I'd taken a savings and loan that was going under and turned it around," McDougal said.

But a former executive said McDougal was concerned. A 1984 bank examiner report had warned that the "viability of the institution is jeopardized" by its questionable lending practices.

The owner of an outside investment firm said McDougal came to him, anxious to clear up some transactions involving prominent people before the examiners reviewed the S&L's books.

"McDougal said we need to clean up some problems with our friends in the political family," said former Judge David duty to anyone else.

The 9th U.S. Circuit Court of Appeals reinstated the case last year, saying law firms also must protect their clients from liability for false or misleading offerings to investors.

The appeals court said that when the FDIC takes over a failed financial institution, past wrongdoing by insiders does not bar the government from filing lawsuits in an attempt to recover losses.

In the appeal acted on today, lawyers for O'Melveny & Myers said the 9th Circuit Court's ruling was ``fundamentally misguided'' and a ``transparent attempt to locate an additional `deep pocket''' to cover the federal cost of the S&L bailout.

American Diversified could not have sued the law firm because its own officers were involved in wrongdoing, and the FDIC ``inherits the rights and liabilities of the entity it has taken over,'' O'Melveny's attorneys said.

State law, not a federal rule, should govern the relationship between lawyers and clients, the firm's lawyers said.

Justice Department lawyers said the 9th Circuit court was correct. But they agreed the high court should consider the case to resolve a conflict with another federal appeals court.

The case is O'Melveny & Myers vs. FDIC, 93-489.

PM-Scotus-Death Penalty,330

Court To Review Texas Death Penalty Case

By LAURIE ASSEO= Associated Press Writer=

WASHINGTON (AP) The Supreme Court agreed today to decide whether federal courts may delay a death-row inmate's execution to appoint a lawyer to file a constitutional challenge of the inmate's conviction.

The court said it would hear a Texas death-row inmate's appeal of lower court rulings that refused to delay his execution.

Frank Basil McFarland was convicted in a state court in Tarrant County for the Feb. 1, 1988, stabbing death of Terry Hokanson, who was slain after being introduced to McFarland at the bar where she worked in Arlington.

State court upheld his conviction, and the Supreme Court denied review last June.

A state judge then scheduled McFarland's execution for Sept. 23 and later delayed it until Oct. 27.

McFarland, who is indigent, asked a federal judge in Fort Worth to delay the execution and appoint a lawyer who would file a federal appeal challenging McFarland's conviction on constitutional grounds.

U.S. District Judge John McBryde refused to delay the execution, saying he had no authority to do so because lawyers said the denial of matching funds was based on an objective record of LaRouche's earlier fraudulent activity.

Government agencies have ``inherent authority to protect the integrity of their programs and procedures from abuse and fraudulent manipulation,'' they said.

The lower court ruling ``can only diminish public confidence in the integrity of the program and discourage taxpayers from designating their tax dollars for this purpose,'' government lawyers said.

LaRouche's attorneys said it is up to Congress, not the courts, to decide if the FEC may deny funds as it did in LaRouche's case.

The case is FEC vs. LaRouche, 93-519.

PM-Scotus-S&Ls,450

Court to Decide If Lawyers Must Pay Damages in Some S&L Failures

By LAURIE ASSEO= Associated Press Writer=

WASHINGTON (AP) The Supreme Court today agreed to decide whether the federal government can force lawyers for failed savings and loans to pay damages for not exposing insider wrongdoing.

The court said it will hear a Los Angeles law firm's argument that it should not be held liable for work it performed for a California thrift that later collapsed.

The Federal Deposit Insurance Corp. manages hundreds of failed savings institutions as part of the government's massive bailout of the industry. As part of its effort to recover losses, the FDIC is pursuing $1.5 billion in claims that insider wrongdoing often aided by outside lawyers and accountants contributed to thrifts' collapse.

Federal appeals courts have issued conflicting rulings on the FDIC's power to seek such damages.

The government took over American Diversified Savings Bank in February 1986 and sued the thrift's top officers, contending they concealed the savings bank's precarious financial situation. The thrift, based in Costa Mesa, Calif., was liquidated in 1988.

The prestigious law firm of O'Melveny and Myers prepared documents to promote two real estate syndication deals offered by American Diversified in 1985. After the FDIC took over the thrift and received complaints from investors, it decided those offerings were misleading and the money was refunded.

The government filed a separate lawsuit against O'Melveny & Myers in 1989, accusing the firm of professional negligence and seeking to recover money the thrift lost because of the canceled deal.

A federal judge dismissed the lawsuit, noting that the investors were repaid and saying O'Melveny & Myers owed no

^BC-CLINTON-INVESTIGATION

^RENO PLEDGES TOUGH PROBE INTO FAILED THRIFT

WASHINGTON, Nov 18 (Reuter) - Attorney General Janet Reno Thursday pledged a vigorous Justice Department investigation into a failed Arkansas savings and loan that had ties to prominent political figures in the state, including Bill and Hillary Clinton.

''I will make sure that any investigation conducted by this department is done in the most vigorous, professional and appropriate way possible,'' Reno said at her weekly news conference.

The Justice Department earlier this month took over from the U.S. Attorney in Little Rock the politically sensitive probe into Madison Guaranty Savings and Loan, which failed four years ago at a cost to the taxpayers of $47 million.

The investigation involves allegations the thrift used funds to help Arkansas politicians, including the 1984 re-election campaign for then-Governor Clinton.

Hillary Rodham Clinton and her former law firm in Little Rock had represented Madison in the mid-1980s. The Clintons and the owner of Madison and his wife were partners in a money-losing real estate venture, Whitewater Development Corp.

Asked if she may have to step aside should the probe start to focus on the Clintons, Reno said, ''I don't think I can do anything about myself. I'm the attorney general and the buck is going to have to stop with me.''

Reno affirmed her support for legislation that would allow for independent special prosecutors to handle such cases involving the appearance of a conflict of interest. The law expired in December.

Until the law is re-enacted, Reno said, ''I'm going to try to make sure that it is done the best way possible.''

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ing commissioner Jackson told Clinton he planned to order McDougal's Bank of Kingston to stop making "imprudent loans," informed sources said. Jackson had found that the bank made too many risky loans and too many loans to friends of McDougal—a pattern repeated later at McDougal's Madison S&L.

Within a year, federal regulators also began raising questions that were shared with state regulators in a series of critical reports about Madison.

In early 1984, the Federal Home Loan Bank Board concluded that investments Madison made through a real estate subsidiary were double the level allowed by Arkansas law.

Two years later, federal examiners concluded that the practices of Madison managers were "a significant threat" to the institution.

By 1989, federal officials took over the institution and then closed it. The government quickly brought a narrowly drawn criminal case against McDougal, but it took federal investigators years longer to piece together more complicated Madison transactions, including some involving political figures, and recommend a broader criminal investigation. Last month, investigators forwarded a new set of criminal referrals to the U.S. attorney here.

Today, as a Justice Department team continues to sift through the S&L's wreckage, investigators are trying to determine whether McDougal used up to a dozen shell corporations to funnel depositor funds to various insiders, to Clinton's 1984 gubernatorial campaign, and to the account of the Whitewater project owned by the Clintons and McDougals.

Sources said that Whitewater overdrew its account by checks totaling $60,000 in one six-month period, with part of the money going to McDougal directly and part to make payments on loans at Maurice Smith's bank, where both Whitewater and the Clinton campaign had borrowed money. Investigators are examining whether those overdrafts were ultimately underwritten by depositors.

Bank examinations indicate that overdrafts were a commmon practice at Madison, with McDougal at times juggling hundreds of thousands of dollars in checks from companies that had insufficient income to cover them.

Often entering deals on the basis of his "intuition," McDougal would wait months before ordering appraisals of property Madison was investing in, and grossly understate development costs in order to record higher profits on paper, examiners found.

One example was a resort planned for a rocky island off the coast of Maine where McDougal's hero Roosevelt spent his summers. Examiners noted the "scenic beauty" of the Campobello project. But as a potential resort, they dismissed it as "damp, cold and foggy," with severe tides that left waterfront lots a mile from the ocean.

Although technically it was to be a joint venture, with risk supposedly spread among the partners, bank examiners concluded that Madison essentially financed the entire $3.7 million deal, and stood to bear virtually the entire loss.

The Castle Grande development, a 1,100-acre proposed trailer park, attracted some of Little Rock's highest-profile political figures. Fulbright and now-Gov. Tucker both acquired land in the project with Madison loans. Tucker was lent $260,000 to purchase a $125,000 piece of property, and used the rest of the money for other projects until he repaid the loan this spring.

The mobile home lots didn't sell, and bank examiners later concluded that Madison had again assumed virtually all the risks of a dubious project.

Strong Personal Bond And Business Ties

In their heyday in Little Rock, it seemed the Clintons and McDougals couldn't get enough of each other.

There was "an unbelievable relationship" between the fast-rising politicians and the fast-rising entrepreneurs, their business ties a mere extension of a strong personal bond, Susan McDougal said in a recent interview.

Today, they have grown about as far apart as any foursome can.

After the thrift failed, McDougal's world unraveled. In 1990, he was tried and acquitted of bank fraud charges. A year later, he was divorced by Susan and declared personal bankruptcy. The formerly freewheeling lender listed assets worth $300.

While the president hosts world leaders at the White House, McDougal splits his time between his late mother's house in Arkadelphia, Ark., and a friend's trailer home. Susan is charged in court papers in Los Angeles with embezzling $188,000 from conductor Zubin Mehta and his wife, Nancy, for whom she worked briefly as a personal bookkeeper. In an interview, Susan McDougal denied the charge.

The paths of the old friends diverged by 1988, as Clinton began building his national reputation.

That summer, he took the stage at the Democratic National Convention to nominate Michael S. Dukakis for president. That November, Hillary Clinton wrote to the McDougals, asking that they give her power of attorney over the Whitewater enterprise so they could sell off the remaining property and "get all that behind us by the end of the year." The White House has not responded to questions about the letter and whether the power of attorney was granted.

McDougal continues to cope with a series of health problems that began in 1986, when he was hospitalized during a "florid manic episode," according to the notes of a psychiatric exam contained in the court file from his earlier case. His behavior was "characterized by increased energy, increased talkativeness, 'felt invincible', used poor judgment with money, and apparently really lost his whole business and savings in unwise real estate and other investment ventures," the notes say.

As McDougal underwent treatment and awaited his fraud trial, the well-connected group of people that hovered around him in the 1980s quickly disappeared.

Asked recently about past dealings with McDougal, Clinton replied curtly, "Old story."

But to the fallen entrepreneur, the past is hard to escape. In a September interview, he denied any wrongdoing and attributed Madison's problems in the 1980s to Republican prosecutors gunning for a prominent Democrat and to employees he trusted to run the thrift's financial affairs.

He holds no grudges, except on one count. During the presidential campaign, McDougal's mother, Lorene, an avid Clinton supporter, constantly asked about "Bill."

According to McDougal, Clinton called the aged woman, and she was left with the impression that her son might join his administration. McDougal was left with the indignity of explaining that he had not talked to Clinton for years.

"He lost all of his contacts," said Susan McDougal, describing her former husband's crash. "He really went from a man who had everything to an invalid."

Staff writer Susan Schmidt contributed to this report.

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HEADLINE: U.S. Is Asked to Probe Failed Arkansas S&L;
RTC Questions Thrift's Mid-'80s Check Flow

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BODY:

The Resolution Trust Corp. has asked federal prosecutors in Little Rock to open a criminal investigation into whether a failed Arkansas savings and loan used depositors' funds during the mid-'80s to benefit local politicians, including a reelection campaign of then-governor Bill Clinton.

About three weeks ago, the RTC forwarded to U.S. Attorney Paula Casey in Little Rock information about 10 matters arising from transactions at the now-defunct Madison Guaranty Savings & Loan that warrant criminal investigation, according to government sources familiar with the probe. A written summary of the referral has been sent to the Justice Department, according to sources.

The package includes questions about whether a series of checks written on Madison accounts ended up in Clinton's campaign fund. The sources said there is no indication Clinton had personal knowledge of or involvement in the transactions, and the White House said yesterday there would be no way Clinton would have known if money from Madison accounts had been improperly used to make campaign contributions.

The RTC request, based on a broad probe of the S&L's financial affairs, also asks for further federal investigation of Madison's dealings with current Arkansas Gov. Jim Guy Tucker (D), the sources said.

Tucker's companies borrowed more than $ 1 million from the S&L for real estate and other ventures during the mid-1980s, when he was at a law firm that represented Madison. Some of the loans were made on what appear to be favorable terms and caused large losses to the S&L. Tucker's office did not respond to requests for an interview.

The RTC, which disposes of S&Ls, took over Madison after its 1989 failure, expected to cost taxpayers an estimated $ 47 million.

In examining the Madison transactions, the RTC has asked Casey to determine whether checks to the Clinton campaign were paid from overdrawn accounts with the authorization of Madison's owner, James B. McDougal, or whether Madison loans intended for other purposes were used for campaign contributions. McDougal is a longtime friend and business partner of Bill and Hillary Rodham Clinton and was an economic development aide during Clinton's first term as governor.

In an interview, McDougal said he had no knowledge of any Madison funds being used improperly. "I never approved an overdraft in the entire time I was down there," he said.

Clinton aide Bruce Lindsey said yesterday that McDougal helped organize an April 1985 fund-raiser to pay off Clinton's 1984 campaign debts. Lindsey said he does not know how much was raised during the fund-raiser and does not have the state campaign records, which are routinely discarded after five years. But he said he had seen a deposit slip noting that McDougal contributed $ 3,000, which was not in excess of campaign limits at the time.

Lindsey said he understands that the RTC is questioning the "source of funds" for that check and perhaps others.

"How in the world would we have any knowledge of that?" Lindsey said. "Where the funds came from for that check -- there's absolutely no way we would know or have questioned that."

RTC investigators have examined irregular Madison transactions that tookplace in April 1985 and have attempted to find out who endorsed and deposited a series of checks made out to Clinton or the gubernatorial campaign, one source familiar with the probe said. Lindsey said it would not be unusual for campaign contributors to make out checks in Clinton's name -- and that was done by some at the 1985 fund-raiser -- but that those checks would be placed in the campaign fund, which was maintained at Arkansas' Bank of Cherry Valley.

RTC investigators have been unable to secure bank records that would showwhere money from the checks went, the sources said.

The RTC takes the step of referring cases to law enforcement agencies when its own investigation of a failed S&L's books and loan files raises "aggravated suspicion" of possible criminal activity. Referrals are often made to the FBI or the Justice Department on limited evidence. The RTC has limited subpoena powers and no authority to bring criminal cases itself.

Sources familiar with the Madison referrals said Casey's office will have to evaluate whether transactions dating back to the mid-'80s warrant criminal investigation. Casey declined to comment.

RTC spokesman Steve Katsanos would neither confirm nor deny whether theagency asked Casey to further investigate Madison. "We have found Madison to be a very interesting institution and we conduct investigations in cases of all failed S&Ls," he said.

Sources said that the RTC also asked Casey to investigate whether McDougal had violated S&L regulations. He was acquitted of bank fraud in 1990 in a case that focused on bonuses and profits he earned for real estate deals involving the development subsidiary, Madison Financial Corp.

The RTC action comes after a long-running probe of Madison that began soon after the S&L was taken over by federal regulators. Before it was taken over, regulators were critical of Madison's management, contending it permitted conflicts of interest, inflated real estate appraisals, and unsupported loan documentation and that it failed to collect debts, state records show.

The RTC probe intensified about a year ago as investigators examined loans and financial transactions involving a small group of borrowers, including some S&L officers and directors and local politicians who were Madison customers.

As part of the investigation, the RTC went to extraordinary lengths to trace real estate transactions involving Whitewater Development Corp., a land company Bill and Hillary Clinton jointly owned with McDougal and his former wife, Susan McDougal, according to government sources. The corporation maintained an account at Madison, and sources said Whitewater's activities are among the matters referred to Casey for further investigation.

Whitewater, which the Clintons have described as a money-losing venture that developed land in the Ozark Mountains, was formed in 1978.

There was protracted debate within the RTC about whether Madison transactions involving the Clintons should be included in documents sent to Casey, because the investigation focuses primarily on the handling of S&L funds by Madison officials, sources said.

The RTC's investigators who are based in Kansas City were prepared to forward the information earlier this fall, but the decision to send the referrals on was not made until early October, the sources said.

Madison, which grew from a tiny Arkansas thrift into a bustling institution during McDougal's years there, has surfaced before as an issue for Clinton. During his presidential campaign last year, he was faced with questions about whether his administration in Arkansas gave favorable treatment to the troubled S&L in the mid-1980s when it was seeking state permission for new ways to raise money.

Hillary Clinton, then a lawyer with the influential Rose law firm of LittleRock, acted as an attorney for Madison when it went before the State Securities Commission in 1985. An issue was raised during Clinton's 1992 presidential campaign about whether her work for the S&L was a conflict of interest. She said her legal work had been minimal.

Controversy also arose during the 1992 campaign over Whitewater's finances. Press investigations of Madison showed that Susan McDougal's advertising firm, which was associated with Madison, deposited money in Whitewater's account at the S&L to cover an overdraft.

Under intense media scrutiny, Denver lawyer James Lyons was retained by the campaign to do a report on Whitewater's business dealings and he found the Clinton's lost money on the investment and had done nothing improper. Officials said they could not locate many of the records that might answer questions about the transactions.

Tucker, a former congressman and state attorney general, was involved in a number of Madison loans, which went to fund small real estate deals, Tucker's cable television company and major industrial projects.

Madison loaned one of Tucker's companies, Castle Water and Sewer, more than $ 1 million. His company was to provide service to the Castle Grande mobile home park, a Madison Financial Corp. development near Little Rock, but the S&L ended up losing $ 861,000 on the loan, the RTC said in an 1990 court document.

Staff writers Michael Isikoff in Washington and Howard Schneider in Little Rock contributed to this report.

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