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HEADLINE: Clinton's RTC Pick Angrily Withdraws His Nomination; Tate Blames Riegle, White House, Unnamed Bureaucrats at Agency

SERIES: Occasional

BYLINE: Susan Schmidt, Washington Post Staff Writer

BODY:

An angry Stanley Tate officially withdrew his nomination to head the Resolution Trust Corp. yesterday, blaming his difficulties on opposition from a key senator, rumormongering by worried RTC bureaucrats and lukewarm administration support.

"Washington is a vicious city, with all kinds of hidden agendas," Tate told reporters, reading from a letter he had delivered to President Clinton. "It is a city full of rumors, allegations and accusations," he said, calling the confirmation process "a devastating experience."

Senate Banking Committee Chairman Donald W. Riegle Jr. (D-Mich.) has refused to meet with Tate or schedule a hearing on his confirmation. As RTC chief, Tate, 65, a Republican and a real estate developer from Miami, would have headed government efforts to clean up the remains of the savings and loan debacle. He has been accused by RTC staff of using his influence improperly.

Tate said he was advised by senior Treasury officials in the past few days that "it would be in my best interests" to withdraw quietly. "I was told if I revealed too much, or put people in high places on the defensive, I had better be prepared for a barrage of new allegations and accusations about me and even about my family. I was further advised that these accusations would be made up, even outright lies," said Tate.

A spokeswoman at the Treasury Department said that Tate had a private meeting with Deputy Treasury Secretary Roger C. Altman Wednesday to discuss whether he should withdraw, but that "no one in the Treasury or the administration threatened Mr. Tate."

Tate, who had been a paid adviser to the RTC oversight board since his July nomination while awaiting Senate confirmation, said he had compiled a report for Treasury on mismanagement, waste and possible fraud at the RTC, but said it would be up to administration officials to release it. Treasury officials said they had not yet seen the report.

"There are employees of the RTC who are afraid of me and obviously afraid of what changes to 'the system' I might bring about. These people are really concerned that some of their actions and activities would be revealed," he said.

Some of Tate's activities at the RTC have drawn criticism from agency employees and have been the subject of news reports.

He was criticized for attempting to intervene on behalf of friends who were trying to buy property from an RTC contractor, but said yesterday he wanted the property "sold to the highest bidder."

Tate also asked to see the case files on longtime acquaintance David Paul, head of a failed Florida S&L who was convicted on criminal fraud charges last week. Tate said he returned the file unopened when he saw it was marked confidential.

Tate also sat in on an ethics panel reviewing its decision to ban the former law firm of Rep. William J. Jefferson (D-La.) from doing business with the RTC. Tate said he did not know Jefferson and offered to leave the meeting if anyone present objected to his being there.

A spokeswoman for Riegle said yesterday that the committee staff had not scheduled a hearing because it has been reviewing "several serious questions" raised in the press about Tate's background.

"The committee has been gathering the relevant facts on these and other matters of concern related to his nomination as is its normal practice," she said.

With Tate's withdrawal, the Clinton administration will have to begin a search for a new nominee.

GRAPHIC: PHOTO, STANLEY TATE

LANGUAGE: ENGLISH

LOAD-DATE-MDC: December 1, 1993

^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.

S&L scandal shadows Foster's last days

By Jerry Seper
THE WASHINGTON TIMES

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Several of the coincidences in the Arkansas savings and loan scandal that has embroiled President Clinton and his wife lead to the suicide of Vincent W. Foster Jr., the White House deputy counsel who fatally shot himself July 20.

Like most suicides, Mr. Foster's took his ultimate secrets to the grave.

No one in an official capacity says his death was directly connected to the allegations of fraud and illegal campaign payoffs by officers of Madison Guaranty Savings and Loan of Little Rock. Nor will anyone connect it to his participation as the Clintons' personal laywer in the first family's financial dealings, which puts him at several of the points now under federal investigation.

But the timing of certain events continues to tantalize friends and associates, both here and in Little Rock.

Fueling the speculation are two telephone calls made to Mr. Foster at the White House on the morning of the day he killed himself. Also drawing scrutiny is the timing of a search warrant served that day on another former associate of President Clinton's.

The telephone calls were received between 11 a.m. and noon. This was just after Mr. Foster attended a ceremony in the Rose Garden where Mr. Clinton and Attorney General Janet Reno announced the nomination of Louis J. Freeh to be the director of the FBI, and just before Mr. Foster left the White House for the last time.

One call was from James M. Lyons, a Denver lawyer assigned by the Clinton campaign to investigate the connection between the Clintons and James B. McDougal, the owner of Madison S&L, in a land-development venture in the Arkansas Ozarks. This association had become an issue in the presidential campaign.

The other call was made from the Rose Law Firm in Little Rock, where Mr. Foster and Hillary Rodham Clinton were once senior partners. Just who made this call is not yet clear.

The search warrant, signed several hours before Mr. Foster put a gun to his head, authorized the search of the offices of a lending company in Little Rock that had granted a $300,000 loan to Mr. McDougal's wife, Susan.

Some of this money ended up in the accounts of Whitewater Development Corp., a land venture owned jointly by the Clintons and the McDougals. As the Clintons' personal lawyer, Mr. Foster handled the sale of their half-ownership of Whitewater and filed the necessary tax forms when it was discovered Whitewater had failed to file corporate tax returns for a three-year period when the Clintons were still half-owners.

The significance of this is not clear, either, but a note left by Mr. Foster found by White House officials after his death, lamented, "The public will never believe the innocence of the Clintons and their loyal staff."

The rambling note continued: "I made mistakes from ignorance, inexperience and overwork. I did not knowingly violate any law or standard of conduct."

Citing executive privilege, White House Counsel Bernard Nussbaum prevented U.S. Park Police and the FBI from searching Mr. Foster's office or looking through his personal papers or personal belongings immediately after his death.

The agents were ordered to sit in chairs in a hallway while staff officials went through the documents. An FBI agent was reprimanded when he stood up to peer into the

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room. Investigators who went to Mr. Foster's house also were turned away.

The unsigned and undated Foster note, which contained no fingerprints and from which one section is missing, was discovered six days after his death. Torn into 27 pieces, it was withheld from investigators by White House officials for 30 hours. They said they waited to turn it over until after Mrs. Foster had read it.

It appears, however, that the delay also was related to efforts by White House aides to bring the note to Mr. Clinton's attention. Although Mark Gearan, the director of communications at the White House, said at the time that Mr. Clinton had not seen the note, FBI agent Robert Bryant, who headed the bureau's Washington field office, disputed that in a public statement.

At an Aug. 10 news conference, Mr. Bryant, who since has been named to head the FBI's intelligence division, said: "There was concern by White House staff about executive privilege and about family interests. The note was subsequently reviewed by [Mr. Foster's] wife and her attorney . . . and was then reviewed by the president for executive privilege issues."

There also were contradictions in comments by White House officials, including Mr. Clinton, about Mr. Foster's growing depression. Initially, Mr. Foster was painted as a "Rock of Gibraltar in times of difficulty" whose death came as a "shock" to the president.

Mr. Clinton told reporters he had no idea that his boyhood friend had any personal problems, saying Mr. Foster's "closest friends sat around discussing" the suicide and that "none of us" knew he had any concerns about his job or about other difficulties in his life.

Mr. Gearan said Mr. Foster "never said anything to his colleagues here in the White House or his friends here in Washington that would indicate that anything was out of the ordinary."

The known facts belie this assertion. Mr. Foster's friends, concerned that he was troubled, had urged him to seek psychiatric help. Mr. Clinton called him at home the night before his death, speaking to him for about 20 minutes.

Investigators looking into the Foster death also say they were concerned that White House officials did not seal his office, preventing anyone from entering it, after his body was discovered and identified. White House Chief of Staff Thomas F. "Mack" McLarty told officers he ordered the office sealed to ensure that no papers were removed, but it nevertheless remained unlocked overnight.

Law enforcement sources say at least three persons entered the office before guards were posted on the door at 11 the following morning. The three persons were not identified.

Mr. Foster's death is a closed case, ruled a suicide by U.S. Park Police. His body was found about 6 p.m. on July 20 in an isolated Northern Virginia park slumped against a Civil War cannon, with his 1913 Army Colt revolver still in his hand. He had fired a single shot into his mouth.

The two telephone calls to the White House were identified by Park Police and the FBI from documents submitted by the White House. The documents included notations of telephone calls to and from Mr. Foster's office telephone, made between July 6 and July 20.

Mr. Lyons, the Denver lawyer, has not returned telephone calls to his office seeking comment and explanations about his July 20 call to Mr. Foster.

Last month, however, he told the Chicago Tribune that he had talked to Mr. Foster several times "shortly" before his death, but he would not discuss matters they had talked about since these were conversations between himself and the Clintons covered by attorney-client privilege. Since then, in October, Mr. Clinton named Mr. Lyons to a government advisory panel seeking peace in Ireland.

The Rose Law Firm also has not returned calls seeking comment on who may have called Mr. Foster on July 20 and why.

The search warrant was signed on July 20 at 1:35 p.m., but its existence was known to prosecutors, investigators and others early that morning, law enforcement sources said. It was used to search the offices of Capital-Management Services Inc., a Small Business Administration-approved lending agency operated by David L. Hale, a Little Rock municipal judge until he resigned in anticipation of indictment.

Mr. Hale, who was active in Arkansas Democratic Party politics for more than 20 years, has said he was pressured in February 1986 by Mr. Clinton and Mr. McDougal to approve a loan to Mrs. McDougal to clear up financial problems. The $300,000 SBA-guaranteed loan was approved in March 1986 and some of the money, according to records, was diverted to Whitewater to fund property purchases.

Mr. Gearan, the White House communications director, has said that Mr. Clinton has "no recollection" of any such conversation with Mr. Hale and does not believe such a conversation took place.

Mr. Hale resigned in September after his indictment on charges resulting from other fraudulent SBA loans. He pleaded not guilty to the charges and faces trial Feb. 28. During the FBI's search of Capital-Management, records on the loan to Mrs. McDougal were included in those taken by agents.

Mr. McDougal, who served as a financial adviser to Gov. Clinton in 1979, is the focus of an investigation into allegations he manipulated fraudulent loans through Madison and illegally authorized payments to several powerful Arkansas politicians, including Mr. Clinton.

The Resolution Trust Corp. (RTC), which disposes of failed savings and loans, had asked the Justice Department to investigate questions of irregularities involving Madison. RTC investigators questioned whether campaign contributions were linked to efforts by Madison to win state approval for a financing plan — offered by Mrs. Clinton — to help the S&L stay in business.

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

The president has said that while he received money from Mr. McDougal — including lump sums that were used to clear up debts from his gubernatorial campaigns — he had no knowledge where his business partner and longtime friend had obtained the cash.

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Riegle seeks probe of S&L bai out uni

By Ruth Larson
THE WASHINGTON TIMES

The chairman of the Senate Banking Committee has called for an investigation into charges of racial discrimination, favoritism and other management abuses at the Resolution Trust Corp.

Sen. Donald W. Riegle Jr., Michigan Democrat, sent a letter, dated Oct. 25, to RTC acting Chief Executive Officer Roger C. Altman, asking him to investigate "serious allegations" in RTC's Office of Contractor Oversight and Surveillance (OCOS), the office responsible for auditing the performance of its thrift bailout contractors.

Senate Banking Committee staff members said Mr. Riegle would not comment on the matter until the RTC completes its investigation.

The charges are contained in a Sept. 30 memo from an RTC contractor oversight employee that was obtained by The Washington Times. The memo was signed "a black OCOS employee."

Word of the investigation comes to light two weeks after Stanley G. Tate withdrew his name as the nominee to manage RTC's savings and loan cleanup, saying he was denied the chance to address serious waste and mismanagement in the agency. He also protested the Treasury Department's confiscation of 200 pages documenting management at the agency.

In a telephone interview last week, Mr. Tate said that while he was a nominee he had received several unsigned employee memos charging minority abuses at the agency.

"The RTC has lots of employee problems," Mr. Tate said. "It's worse there than I've ever seen in my life."

The OCOS memo alleges a pattern of systematic discrimination against black employees in the contractor oversight office, including:

• Manipulation of promotion scores. Numerical rating standards were juggled to fill a senior procurement specialist position in the Competition Advocate program. An inexperienced white candidate's low score was later ranked above the higher score of an experienced black candidate.

• Retaliation against supporters of blacks. Offices that attempted to promote black employees were denied approval to fill remaining vacancies.

• Disciplinary double standards. A black employee who worked on his income taxes on RTC time was disciplined and threatened with firing. In contrast, a white employee who operated an interstate sports and entertainment ticket sales business during work hours, using government phones and travel, was promoted.

• Favoritism toward white employees. Positions occupied by white employees are graded higher than similar positions occupied by black employees within the Competition Advocate branch.

• Travel abuses. A female investigator routinely accompanied the head of the contractor oversight branch to conferences and events unrelated to her position.

The memo originally was sent to Lorraine A. Green, deputy director of the Office of Personnel Management.

"I am asking for an OPM investigation because it is not possible to obtain a fair and impartial review from anyone inside RTC, including the RTC Inspector General," the employee wrote.

The employee implored: "Please don't give us up by forwarding this letter to anyone in RTC. Please investigate these issues independently and objectively. If you do, many other instances of favoritism, discrimination and abuse will surface."

Previous complaints to the RTC Office of Inspector General have been unproductive, the memo charged, often because individuals responsible for the abuses were allowed to manage the investigations.

OPM officials did not pursue the matter, however, after they learned it was being investigated by RTC's inspector general. "This is an internal matter, being handled at the RTC," an OPM spokesman said.

The RTC inspector general's office would neither confirm nor deny that the matter was under investigation.

RTC spokesman Stephen Katsanos confirmed the agency's Equal Employment Opportunity Office is conducting a review of the charges. While he could not comment on the specifics of the case, Mr. Katsanos said an outside law firm had hired — a common procedure in such cases — and several employees had given sworn statements.

RTC's newly created ombudsman's office, which reports directly to Mr. Altman, was designed to address similar employee concerns, Mr. Katsanos said.

Freeh suspends FBI's NYC bureau chief

Director's action angers field agents

By Jerry Seper
THE WASHINGTON TIMES

The suspension of James Fox, the veteran agent in charge of the FBI field office in New York, for talking about the World Trade Center bombing trial during a television interview has been greeted with anger from many of the bureau's rank and file.

Several agents at the New York field office and at the bureau's Washington headquarters questioned the decision by FBI Director Louis J. Freeh, announced yesterday, to place Mr. Fox on administrative leave pending his scheduled retirement Jan. 3.

"This is not playing well with the people I know," said a New York FBI agent who asked not to be identified. "They obviously were trying to set an example. I guess the director was telling everyone that there's a new regime and that he's in charge."

Mr. Fox, a 31-year bureau veteran, was suspended because of his efforts in a brief TV interview Dec. 4 to defend the actions of his agents during the World Trade Center bombing investigation. Mr. Fox denied allegations that the FBI's informant in the case, Emad Salem, had given agents information before the Feb. 26 blast that the building was going to be bombed.

"He gave us nothing. No one gave us anything," Mr. Fox was quoted by Newsday as saying. "If we had information, we would have prevented the bombing."

Unlike most field supervisors, Mr. Fox held the title of assistant director because of his command of the New York office.

Mr. Freeh, a former federal judge in New York, suspended Mr. Fox with pay for the comments. The suspension was ordered Dec. 10 and is to remain in place until Mr. Fox's scheduled Jan. 3 retirement.

Mr. Fox has led the New York office for six years. During that time, his 2,200-member staff has been involved in dozens of high-profile cases, including the successful prosecution of mob boss John Gotti. It was Mr. Fox who called Gotti the "Teflon Don," a nickname that stuck.

"Director Freeh made the decision to place Assistant Director Fox on administrative leave with pay until his retirement in January," FBI spokesman John Collingwood said in a statement. "He did so after carefully reviewing inappropriate public comments Fox made about pending prosecution.

"Our policy is not to talk about pending cases, particularly when it's still at trial."

Mr. Collingwood told the Associated Press he was "not at liberty to say" how Mr. Freeh became aware of Mr. Fox's television comments.

Federal law enforcement sources told The Washington Times that U.S. District Judge Kevin T. Duffy, who is hearing the World Trade Center trial, called Mr. Freeh to complain about Mr. Fox's comments. The suspension came after the call.

It was Judge Duffy who signed a gag order in the case. He said at the time that he wanted to limit leaks to the public about pending evidence and testimony.

FBI officials yesterday declined comment on what role, if any, Judge Duffy played in the decision to suspend the veteran agent.

The judge did not return calls for comment yesterday.

Mr. Fox will join the Mutual of America insurance company when he retires.

Spy sting gets Chinese man deported

By Bill Gertz
THE WASHINGTON TIMES

After a six-year FBI counterspy investigation of Chinese intelligence service efforts to acquire U.S. weapons and technology, immigration officials deported a Chinese business- r i Saturday for committing espionage.

Yen Men Kao, a Chinese national who lived in Charlotte, N.C., left Atlanta International Airport aboard a United Airlines flight to Hong Kong, said Thomas P. Fischer, director of the Immigration and Naturalization Service (INS) in Atlanta.

An immigration judge ordered Kao deported last week for overstaying a visa and for "committing acts of espionage against the United States," an INS spokesman said.

Clinton administration officials said a decision was made not to prosecute Kao to avoid offending the Chi- r government. The administration is working with Beijing to resolve problems with North Korea on nuclear weapons.

FBI officials said Kao, who owned two Chi fast-food restaurants in Charlotte, was under FBI surveillance for six years. He met in China with Chinese intelligence service officials, who promised him $2 million to buy weapons covertly.

Kao and other Chinese nationals not identified by the FBI "conspired to steal and illegally export" a Mark 48 Advanced Capability (ADCAP) torpedo, two F-404-400 General Electric jet engines used in the F/A-18 Hornet and fire-control radar for the F-16 Falcon jet, FBI and INS officials said.

"Procuring those three items were his primary concern," said an FBI agent close to the case. Kao also sought data on the Cobra helicopter, the agent said.

The weapons systems were not delivered to China, but oscillators used in satellites were transferred to China as part of a sting operation during the investigation, officials said.

Kao paid an informant $24,000 from Chinese intelligence service funds for the oscillators, which are embargoed for export and are used to regulate radio-wave frequencies.

The sale took place in the United States through an FBI informant and was approved by the U.S. government as part of the probe, officials said.

One federal law enforcement official, speaking on the condition of anonymity, said Kao "had a gambling problem" and lost some of the money supplied by Chinese intelligence through his gambling. "He got a lot of people in China [angry] at him," the official said.

At a hearing in Atlanta on Dec. 15, Kao waived appeals and requested deportation to Hong Kong, rather than China, because he feared reprisals by the Chinese spy service, the official said.

A senior FBI official in Charlotte, who asked not to be identified by name, said the investigation of the technology acquisition scheme is ongoing and that more arrests may be made.

"We're still tying up some loose ends in confirming the identities of other agents and intelligence officers working with [Kao]," the agent said.

"But I believe we have unequivocally neutralized his activities."

The case began in 1987, when the FBI learned that Kao was trying to illegally acquire a Mark 48 ADCAP torpedo for the Chinese government, the official said.

The Mark 48 ADCAP is a modernized version of the Mark 48 and is deployed on attack submarines. The torpedo, built by Hughes, is designed to sink fast, deep-diving submarines or fast-moving surface ships.

Kao was unable to come up with the money — some $2 million — to purchase the three U.S. weapons systems. "He was unable to persuade the Chinese to put up the great sums needed to procure these weapons," the official said.

The FBI decided to close the case, and Kao was arrested Dec. 3, the official said.

The FBI agreed to deportation rather than prosecution partly to protect sources and methods of counterspying, the official said.

Kao, 54, left behind his wife, a naturalized U.S. citizen, and two children, who were born in the United States.

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SECTION: FIRST SECTION; PAGE A1

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HEADLINE: Arkansas Probe Sensitive From Start;
Investigation of Collapsed S&L Affected by Links With the Clintons

SERIES: Occasional

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

BODY:

Last September, as officials of the Resolution Trust Corp. were preparing to ask the Justice Department to open a criminal investigation into a failed Arkansas savings and loan, they faced an unusually sensitive problem: Should they mention that the case involved President Clinton and his wife?

There was no conclusive evidence that the Clintons had done anything illegal. But RTC investigators had turned up evidence that depositor funds from the thrift, Madison Guaranty Savings & Loan, may have been diverted improperly to Clinton's 1984 gubernatorial campaign account and to Whitewater Development Co., a real estate venture jointly owned by the Clintons and James McDougal, Madison's owner.

Some RTC officials believed questions about the Clintons and their dealings with Madison had to be laid out in RTC's written request for further federal investigation. But others thought that would be a strategic error: A detailed description of activities involving the Clintons had been presented to the Justice Department in September 1992 and had been languishing for a year, prompting fears among RTC staff that the department was intent on scuttling the politically sensitive case.

The RTC finally did ask federal prosecutors in Little Rock, Ark., last fall to investigate nine suspected criminal matters arising out of Madison's 1989 failure, naming the Clintons, along with other Arkansas politicians who had dealings with McDougal.

Among other things, prosecutors were asked to examine whether Hillary Rodham Clinton's representation of the S&L before a state regulator appointed by her husband resulted in lenient treatment that allowed Madison to stay open long after it was on a clear path to insolvency.

Today, those issues are the focus of a Justice Department investigation that has become a growing headache for the Clinton White House. While the Clintons have repeatedly said they were aware of no wrongdoing at Madison, the White House, under heavy congressional and media criticism and possibly facing a subpoena, agreed late last month to turn over documents about Whitewater that were found in the office of deputy White House counsel Vincent Foster after his suicide on July 20.

The Washington Post, January 5, 1994

At the same time, the handling of the Madison and Whitewater issues by the RTC and the Justice Department has underscored the politically charged nature of the probe. Although the RTC has succeeded in sparking a federal inquiry, the matter of Madison S&L has frustrated some RTC officials who have said they worried about "packaging" the case and "selling" Justice on opening an investigation that should have begun much earlier.

Republicans, saying the situation is rife with conflicts of interest, have bombarded Attorney General Janet Reno in recent weeks with calls for the appointment of an independent counsel.

"As attorney general, you have been placed in an uncomfortable, if not untenable, position of being both the chief law enforcement official of the United States and the chief legal advisor to the president," Rep. Jim Leach (R-Iowa), ranking minority member of the House Banking Committee, told Reno in a letter calling for the naming of a special counsel.

Reno has resisted those calls, saying anybody she would appoint would ultimately report to her and would not be seen as truly independent. "I have directed the career prosecutors to pursue it [the Madison probe] in the most appropriate and vigorous manner possible," Reno said at a recent news conference.

The history of the Madison investigation, pieced together from interviews with Justice Department and RTC officials along with documents from the case, suggests that the involvement of the Clintons has repeatedly affected its

progress, as investigators debated how to proceed in a probe that has such potentially large political consequences.

The inquiry began in 1989 as one of hundreds of investigations of failed savings and loans throughout the country that led to the creation of the Resolution Trust Corp. itself. The RTC charter was to close down the thrifts, to dispose of S&L assets and to try to recover through the courts federally insured funds that had been lost through poor management or possible criminality.

The transformation of a relatively routine RTC inquiry into a political hot potato began in March 1992 when news accounts detailed Clinton's longtime relationship with McDougal and their investment together in Whitewater. Those accounts suggested that McDougal had made the Clintons partners in a sweetheart real estate deal in return for lenient state treatment of Madison.

The RTC quickly sent a new team of investigators to Arkansas to aid in the Madison probe, looking at, among other things, the business relationships among McDougal and local politicians.

At the same time, investigators began to explore the role of Hillary Clinton and her law firm in representing the thrift during a 1985 encounter with state banking authorities.

The Rose law firm had represented Madison before the Arkansas securities commission when the thrift, judged critically short of capital by federal examiners, sought approval for a new stock plan to stay afloat. Hillary Clinton was one of two Rose lawyers in that effort, earning a combined $ 2,000 monthly retainer for the firm. The plan was approved by Beverly Bassett Schaffer, Clinton's newly appointed state securities commissioner, whose law firm also had represented Madison. The plan was never implemented.

Another Rose partner, Clinton confidant Webster L. Hubbell -- now associate attorney general under Reno -- had his own ties to Madison through his father-in-law, Seth Ward. Ward was an executive with Madison's real estate subsidiary and had extensive financial dealings with the S&L.

But despite these potential conflicts, the Federal Deposit Insurance Corp. -- the federal agency that insures savings and loan deposits -- in 1989 hired the Rose firm to represent the government in a lawsuit against Madison's accounting firm. The suit, handled by Hubbell, contended that the accounting firm had failed to alert Madison's board to reckless lending and management practices that led to insolvency. It was settled for $ 1 million in 1990.

How much the FDIC knew when it hired Rose about the relationships among Madison and the firm and its partners is unclear. Hubbell has contended that his dealings with Madison were fully disclosed. A series of internal FDIC memos at the time warned against hiring Hubbell due to conflicts involving his father-in-law, and FDIC and RTC lawyers have been conducting an inquiry in recent weeks into whether the potential conflicts were properly reported.

In addition to these efforts through civil suits to recover funds used to compensate Madison depositors, the RTC by fall 1992 had prepared a 21-page document targeting McDougal and his ex-wife Susan McDougal for criminal investigation by the federal prosecutor in Little Rock.

The referral named then-presidential nominee Clinton and his wife, as well as current Arkansas Gov. Jim Guy Tucker (D), as principals in "shell corporations" created by McDougal. It said that while there was insufficient evidence at that point to prove that the Clintons and Tucker knew about suspected check-kiting and account overdrafts authorized by McDougal, they had stood to benefit from such activities.

The referral was sent to Charles Banks, the Republican U.S. attorney in Little Rock, during the waning days of the Bush administration in the fall 1992. Banks already had been stung once in his dealings with McDougal, having failed to win a conviction of him in a 1990 bank fraud case and prompting critics to accuse Banks of mounting a politically motivated prosecution. Hoping to wash his hands of Madison and McDougal, Banks asked that he be recused from the case and that the referral go directly to the Justice Department in Washington, current and former federal officials familiar with the matter said.

In an "urgent report" memo to top Justice lawyers on Oct. 7, 1992, Banks's chief assistant, Mac Dotson, noted that the Clintons were named as potential witnesses in the referral. Dotson wrote that he believed, based on the facts outlined by the RTC, that further investigation "is warranted."

With less than a month to go before the presidential election, aides to then-Attorney General William P. Barr were concerned that any special interest shown in the case could backfire politically, sources said. An investigation involving Clinton was sure to look as though President George Bush were using the Justice Department for partisan purposes. That point was all the more forcefully made, the sources said, by those who noted the RTC had made no specific allegation of wrongdoing by the Clintons.

In light of Banks's recusal, the case was assigned to career lawyers in the fraud section in the criminal division of the Justice Department, but senior Bush administration Justice officials ordered that it get no special treatment.

Many RTC referrals are never pursued, either because the Justice Department does not believe they will result in a prosecutable case or because of limited resources. A March 19, 1993, memo by criminal division attorneys working on the case concluded that the RTC referral did not "appear to warrant initiation of a criminal investigation" of Madison. But the memo, signed by John C. Keeney, then acting chief of the division, left the final decision to federal prosecutors in Little Rock. He "would not question a decision by the U.S. attorney to decline further action on the referral," Keeney wrote, according to sources familiar with the memo.

However, the results of the Justice review were not communicated to the RTC for months, sources said. In the meantime, the RTC renewed its own inquiry into Madison, sending a four-member team of agency investigators back to Arkansas in January 1993.

By September, having gathered much more information and still having received no official decision on the first referral, the RTC drafted a new request for the Justice Department. This expanded referral recommended investigation of nine separate matters of possible criminal behavior, adding details of new transactions and conflicts of interest, and naming a number of new players, sources said.

Those who believed that naming the Clintons in the first referral led to official inaction argued the president and his wife should not be named in the new, expanded request. Additional questions about whether bringing more bank fraud charges against McDougal would constitute double jeopardy helped spark a fierce debate among investigators and RTC professional liability attorneys in Kansas City, Mo., agency sources said.

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The new referrals were sent in October to the new U.S. attorney in Little Rock, Paula Casey, a Clinton appointee and former campaign volunteer who was once a student of the president's at University of Arkansas law school. The requests also sought further investigation of current Democratic Gov. Tucker's dealings with Madison, as well as numerous other big borrowers and Madison officials -- many of them prominent in Arkansas political and civic circles.

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GRAPHIC: PHOTO, REP. JIM LEACH

LANGUAGE: ENGLISH

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bc-whitewater
(wap) (ATTN: National editors)
Whitewater Probe Was Sensitive From the Start (Washn)
By Susan Schmidt and Michael Isikoff= (c) 1994, The Washington Post=

WASHINGTON Last September, as officials of the Resolution Trust Corporation were preparing to ask the Justice Department to open a criminal investigation into a failed Arkansas savings and loan, they faced an unusually sensitive problem: Should they mention that the case involved President Clinton and his wife?

There was no conclusive evidence the Clintons had done anything illegal. But RTC investigators had turned up evidence that depositor funds from the thrift, Madison Guaranty Savings & Loan, may have been diverted improperly to Clinton's 1984 gubernatorial campaign account and to Whitewater Development Co., a real estate venture jointly owned by the Clintons and James McDougal, Madison's owner.

Some RTC officials believed questions about the Clintons and their dealings with Madison had to be laid out in RTC's written request for further federal investigation. But others thought that would be a strategic error: A detailed description of activities involving the Clintons had been presented to the Justice Department in September 1992 and had been languishing for a year, prompting fears among RTC staff that the department was intent on scuttling the politically sensitive case.

The RTC finally did ask federal prosecutors in Little Rock, Ark., last fall to investigate nine suspected criminal matters arising out of Madison's 1989 failure, naming the Clintons, along with other Arkansas politicians who had dealings with McDougal. Among other things, prosecutors were asked to examine was whether Hillary Rodham Clinton's representation of the S&L before a state regulator appointed by her husband resulted in lenient treatment that allowed Madison to stay open long after it was on a clear path to insolvency.

Today, those issues are the focus of a Justice Department investigation that has become a growing headache for the Clinton White House. While the Clintons have repeatedly said they were aware of no wrongdoing at Madison, the White House, under heavy congressional and media criticism and possibly facing a subpoena, agreed late last month to turn over documents about Whitewater that were found in the office of deputy White House counsel Vincent Foster following his suicide on July 20.

At the same time, the handling of the Madison and Whitewater issues by the RTC and the Justice Department has underscored the politically charged nature of the probe. Although the RTC has succeeded in sparking a federal inquiry, the matter of Madison S&L has frustrated some RTC officials who have said they worried about ``packaging'' the case and ``selling'' Justice on opening an investigation that should have begun much earlier.

Republicans, saying the situation is rife with conflicts of interest, have bombarded Attorney General Janet Reno in recent weeks with calls for the appointment of an independent counsel.

``As attorney general, you have been placed in an uncomfortable, if not untenable, position of being both the chief law enforcement official of the United States and the chief legal advisor to the president,'' Rep. Jim Leach, R-Iowa, ranking minority member of the House Banking Committee, told Reno in a letter calling for the naming a special counsel.

Reno has resisted those calls, saying anybody she would appoint would ultimately report to her and would not be seen as truly independent. ``I have directed the career prosecutors to pursue it (the Madison probe) in the most appropriate and vigorous manner possible,'' Reno said at a recent news conference.

The history of the Madison investigation, pieced together from interviews with Justice Department and RTC officials along with documents from the case, suggests that the involvement of the Clintons has repeatedly affected its progress, as investigators debated how to proceed in a probe that has such potentially large political consequences.

The inquiry began in 1989 as one of hundreds of investigations of failed savings and loans throughout the country that led to the creation of the Resolution Trust Corporation itself. The RTC charter was to close down the thrifts, to dispose of S&L assets and to try to recover through the courts federally insured funds that had been lost through poor management or possible criminality.

The transformation of a relatively routine RTC inquiry into a political hot potato began in March 1992 when news accounts detailed Clinton's longtime relationship with McDougal and their investment together in Whitewater. Those accounts suggested that McDougal had made the Clintons partners in a sweetheart real estate deal in return for lenient state treatment of Madison.

The RTC quickly sent a new team of investigators to Arkansas to aid in the Madison probe, looking at, among other things, the business relationships among McDougal and local politicians.

At the same time, investigators began to explore the role of Hillary Clinton and her law firm in representing the thrift during a 1985 encounter with federal banking authorities.

The Rose law firm had represented Madison before the Arkansas securities commission when the thrift, judged critically short of capital by federal examiners, sought approval for a new stock plan to stay afloat. Hillary Clinton was one of two Rose lawyers in that effort, earning a combined $2,000 monthly retainer for the firm. The plan was approved by Beverly Bassett Schaffer, Clinton's newly appointed state securities commissioner, whose law firm also had represented Madison. The plan was never implemented.

Another Rose partner, Clinton confidant Webster L. Hubbell now associate attorney general under Reno had his own ties to Madison through his father-in-law, Seth Ward. Ward was an executive with Madison's real estate subsidiary and had extensive financial dealings with the S&L.

But despite these potential conflicts, the Federal Deposit Insurance Corp.-the federal agency that insures savings and loan deposits-in 1989 hired the Rose firm to represent the government in a lawsuit against Madison's accounting firm. The suit, handled by Hubbell, contended that the accounting firm had failed to alert Madison's board to reckless lending and management practices that led to insolvency. It was settled for $1 million in 1990.

How much the FDIC knew when it hired Rose about the relationships among Madison and the firm and its partners is unclear. Hubbell has contended that his dealings with Madison were fully disclosed. A series of internal FDIC memos at the time warned against hiring Hubbell due to conflicts involving his father-in-law, and FDIC and RTC lawyers have been conducting an inquiry in recent weeks into whether the potential conflicts were properly reported.

In addition to these efforts through civil suits to recover funds used to compensate Madison depositors, the RTC by fall 1992 had prepared a 21-page document targeting McDougal and his ex-wife Susan McDougal for criminal investigation by the federal prosecutor in Little Rock.

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Arkansas Probe Sensitive From Start

Calls for Special Counsel Focus Again on S&L's Links With Clintons

By Susan Schmidt and Michael Isikoff
Washington Post Staff Writers

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REP. JIM LEACH
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Moderate Rep. Leach Steps Out of Character √ To Lead Republican Attack on Clinton's Ethics

By KENNETH H. BACON
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON – Add this one to the list of baffling questions about Bill Clinton's dealings with Whitewater Development Co.: Just what in the world has gotten into Jim Leach?

The scholarly, soft-spoken Iowa Republican has for years been considered one of the least partisan members of the House, a vestigial moderate in a party that has moved steadily rightward. Yet in the controversy over Mr. Clinton's ties with the real-estate development and a failed Arkansas thrift, the 51-year-old congressman has suddenly turned into his party's pit bull, snapping at the president's ethics with a ferocity that would do Newt Gingrich proud.

Jim Leach

Mr. Leach has been at the forefront of GOP calls for an independent counsel and a thorough congressional investigation into the allegations about Mr. Clinton. Last week, he suggested the president might be guilty of criminal violations while he was governor of Arkansas for going easy on the failed thrift, Madison Guaranty Savings & Loan, in return for favors.

His GOP colleagues are clearly thrilled to have him, rather than some more sharp-edged and ideological figure, leading the charge. "We in the Republican Party have looking for a long time to find a partisan bone in his body. We haven't found one," says conservative Rep. Richard Armey of Texas, the chairman of the House Republican Conference. If Mr. Leach, who is "respected by everybody for his intellect and professional work, has said there are some serious problems here, we need to have an investigation."

Fought GOP's Drift

All this is pretty heady stuff for a man who has spent much of his political career at odds with his party's leadership. As the GOP became more and more conservative after his 1976 election to Congress, Mr. Leach found himself increasingly isolated. A former chairman of the Ripon Society, a Republican progressive group, he infuriated the Reagan team a decade ago by creating an organization called Republican Mainstream Committee to combat the party's rightward drift.

So how did gentleman Jim Leach become the GOP's chief bomb-thrower on Whitewater? As the top Republican on the banking panel, he says, he's fighting to protect the right of the minority party to carry out investigations of possible wrongdoing by the majority: "It's important to set a precedent that says when the majority party in Congress is of the same party of the White House, that the minority should be empowered when it comes to information-gathering."

Democrats, though, say it's all politics. "There has been no specific allegation of criminal wrongdoing; what there has been is a series of political attacks," Vice President Al Gore said on the CBS News program "Face the Nation" last weekend. "The extremist wing of the Republican Party has pushed pretty hard" to force Mr. Leach to attack the president, charges House Banking Committee Chairman Henry Gonzalez of Texas, who has refused the GOP's demand for hearings into Madison Guaranty on grounds that the case presents no new legislative issues.

Mr. Leach's "excessive partisanship" is easy to explain, adds Democratic Rep. Barney Frank of Massachusetts. "He's had a change of life situation," Mr. Frank says. "He's now the ranking Republican on the House Banking Committee, elected by the caucus. If he hadn't done this, they would have been after him," and he might have risked losing his post to a more conservative colleague.

'Happenstance of Position'

Mr. Leach admits that the "happenstance of position" has put him into the fray. But he says he is bothered by charges that he's conducting a political attack, as if there's something dirty about partisanship. "I feel quite sensitive on this subject," he says.

Whitewater, it appears, offends his squeaky-clean, good-government sensibilities. This, after all, is a man who doesn't accept campaign contributions from political-action committees or non-Iowans, and only accepts individual contributions up to $500, half the legal limit. Mr. Leach seems genuinely angry over the possibility that Mr. Clinton may have violated what he calls one of the moral laws of high office, "that you don't seek to achieve private gain through public service."

There are perhaps personal considerations as well. One is Mr. Leach's closeness to former President George Bush. The two met more than two decades ago when Mr. Leach, then a young foreign service officer, was assigned to work for United Nations Ambassador Bush.

With bitterness, Mr. Leach notes that the same lawmakers who won't investigate Bill Clinton now had no reservations about going after Neil Bush, the former president's son, in the failure of a Denver thrift. "There is a sense of inequitable application of the rules of Congress when it comes to oversight," he says.

As Mr. Leach sees it, the charges against Mr. Clinton are potentially far more serious than those against Neil Bush. In Arkansas, "it appears that conflicts of interest were developed with the governor with novel techniques not only of contributing to a campaign, but for rewarding the governor through a real estate venture called Whitewater," he charged in an interview on National Public Radio last week. "The impropriety is extraordinary. Whether it goes beyond the kind of civil-remedy to the criminal dimension is one of the great questions."

Mr. Leach says that his reference to possible criminal activity stems from a referral that the Resolution Trust Corp., the agency that cleans up failed S&Ls, made to the Justice Department. In seeking a criminal probe of activities by Madison Guaranty, the RTC mentioned dealings between the thrift and Bill and Hillary Rodham Clinton, according to reports.

Mr. Leach calls the mention of a president in a criminal referral "close to unprecedented." But immediately after raising the possibility of criminality by the president, he retreats behind a curtain of respect. "Even if there is a breach in the law, civil remedies should be pursued," he says. "This is an issue that could embarrass a significant political player, but the presidency itself isn't in jeopardy."

Warned of Thrift Debacle

The last time Mr. Leach achieved such national prominence was in the late 1980s, when he warned of the pending collapse of the savings-and-loan industry, a debacle he blames partly on the political control of the regulatory system. Now, he worries that a Clinton administration proposal to consolidate bank regulators would allow the White House to control bank supervision. Thus, it's appropriate to look at how Gov. Clinton dealt with bank regulators in Arkansas, he says.

The president has steadfastly maintained his innocence of any wrongdoing, and James McDougal, the former owner of Madison Guaranty and the Clintons' partner in Whitewater, was acquitted in 1990 of federal charges of violating banking law.

"There has been no evidence of criminality, and if there were any criminal acts committed, they were committed during the presidencies of Ronald Reagan and George Bush" and left unprosecuted, says Rep. Frank. He predicts that the Madison Guaranty affair will fade away shortly after Congress re-enacts an expired law allowing the courts to appoint special prosecutors; he expresses confidence that an investigation by a court-appointed official would quickly exonerate Mr. and Mrs. Clinton of any charges.

Mr. Leach, though, insists there's no way of knowing that now. "We have an informational gap here," he says. "If the other side wants to say that any suggestion of impropriety is unfair, all it has to do is make all records available to disprove the charge, and they're refusing to do this. If there is nothing wrong, why are they hiding?"

Chronology of Whitewa er a d Interlocking Eve its ✓

Special to The New York Times

WASHINGTON, Jan. 12 — The events that prompted President Clinton to call today for the appointment of a special counsel have their roots in the political and business relationships Mr. Clinton forged more than a decade ago as a young Arkansas politician.

What follows is a chronology of how his investments and those relationships were a counterpoint to Mr. Clinton's rise as a star on the national political scene.

1978-79 The Whitewater Development Corporation is founded and buys 200 acres of land in the Ozarks with $200,000 borrowed from banks. Partners are Bill Clinton, who is at that time Arkansas Attorney General; Hillary Rodham Clinton; James B. McDougal, a friend of Mr. Clinton from their days as aides to Senator J. William Fulbright of Arkansas, and Susan McDougal, a real estate broker who is Mr. McDougal's wife. The McDougals are corporate officers, and the Clintons are shareholders, entitled to an equal split on any profits though they wound up contributing significantly less to the venture than the McDougals. The plan is to subdivide the land and sell lots for vacation homes.

1980 Mr. Clinton is Governor, having been elected in November 1978. Mr. McDougal, an aide to him, leaves state government and buys Madison Bank and Trust in Kingston, Ark. The bank lends Mrs. Clinton $30,000 for Whitewater business. The money is borrowed by her, not Whitewater, because banking rules make it difficult for owners of banks to lend money to themselves or their business ventures.

1982 Mr. McDougal buys Madison Guaranty Savings and Loan Association, a small institution with assets of $3 million.

Whitewater tries to sell land but finds few takers.

1984 Federal regulators demand special review of Madison Guaranty, Federal bank records show, after learning that Mr. McDougal had shifted five bad loans from his bank to his savings and loan on the eve of an audit. Federal Home Loan Bank of Dallas, which regulates savings and loans in the southwest region, issues a confidential report that criticizes Madison Guaranty for lack of capital and for loans to insiders; Madison Guaranty promises to comply with the law and regulations in the future.

Whitewater is permitted overdrafts on its checking account at Madison Guaranty. In 1984-85, Whitewater makes payments on a $20,000 loan that Bill Clinton had taken at another Arkansas bank, yet the Clintons erroneously claim the payments as an interest deduction on their tax returns. They later blame their accountants for the mistake.

FALL 1984 The Clintons borrow $50,000 from another bank, owned by an aide, to help finance Mr. Clinton's campaign for re-election as governor. They are personally liable for repayment of the loan, which is the sole debt of the 1984 campaign.

SPRING 1985 Mr. McDougal sponsors a fund-raising event to help retire the $50,000 loan and deposits about $35,000 in the Clintons' campaign account. Investigators now suspect that some of this money was diverted from Madison Guaranty and have formally asked the Justice Department to look further into the matter. Soon after the fund-raising event, Mrs. Clinton, acting as the lawyer for Madison Guaranty, urges state regulators to approve a novel plan for selling preferred stock. State officials approve the plan, but it is never carried out.

Sales of Whitewater lots proceed slowly, and the company trades its remaining land for an airplane valued at about $30,000. Mr. McDougal, in turn, sells the airplane to Seth Ward, father-in-law of Webster L. Hubbell, a partner with Mrs. Clinton in the Rose law firm and now Associate Attorney General.

EARLY 1986 Federal examiners are again reviewing records at Madison Guaranty. According to David Hale, a former municipal judge in Little Rock, Ark., Mr. McDougal and Mr. Clinton press him to lend them money from his federally backed company, Capital-Management Services Inc., to "clean up" Madison Guaranty's books. Although Capital-Management's money was supposed to be for disadvantaged entrepreneurs, Mr. Hale approves a $300,000 loan to Mrs. McDougal. Mr. Clinton and Mr. McDougal deny pressing Mr. Hale to proceed with the loan, which was never repaid.

SUMMER-FALL 1986 Federal regulators remove Mr. McDougal from control of Madison Guaranty and issue a confidential report detailing numerous possible violations of the law by the savings and loan. Whitewater bought a $550,000 parcel of land from the International Paper Company with a downpayment of $110,000, apparently using some of the $300,000 that had been lent Mrs. McDougal. Two months later, the land was transferred to another McDougal-related entity. That company failed to make the payments, and International Paper eventually foreclosed on the property.

1987 Mr. McDougal says that at Mrs. Clinton's request all records on Whitewater were delivered to the Governor's Mansion in Little Rock; the Clintons say they do not have the files.

1989 Federal regulators take control of Madison Guaranty, and Mr. McDougal is indicted for bank fraud. In trying to recover money lost in the collapse of the federally insured association, the regulators hire the Rose law firm, which had earlier represented Madison Guaranty.

1990 Mr. McDougal is acquitted on charges of bank fraud.

MARCH 1992 Mr. Clinton is running for President, and the first news account about Whitewater appears. The Clinton campaign denies that Mr. McDougal subsidized Whitewater with money from his savings and loan. A Denver lawyer and friend of the Clintons, James Lyons, is hired by the campaign to prepare a summary of Whitewater's finances. It concludes that the Clintons put in $68,800 and the McDougals put in $92,200. Mr. McDougal has since asserted that the Clintons lost much less than the amount report.

FALL 1992 The Resolution Trust Corporation, the Federal agency charged with disposing of the assets of failed savings institutions, asks the Justice Department to take another look at Madison Guaranty, particularly at the overdrafts it allowed Whitewater and other McDougal-related ventures. But the department is reluctant to begin an investigation that could be seen as a political attack by the Bush Administration on Mr. Clinton.

In December, Mr. McDougal buys out the Clintons' remaining interest in Whitewater. Their lawyer is Vincent W. Foster Jr., another partner in the Rose firm.

JULY 20, 1993 Federal investigators search the Little Rock offices of David Hale in an unrelated inquiry into misuse of his lending company. The same day, Mr. Foster, now deputy White House counsel, commits suicide. White House aides remove Whitewater files from Mr. Foster's desk, a fact that did not become known until late 1993.

Mr. McDougal has said that in the weeks before Mr. Foster killed himself he telephoned Mr. Foster's office to ask for additional Whitewater documents and tax records. Some records were subsequently provided to Mr. McDougal.

FALL 1993 The Resolution Trust Corporation prepares a broader request for possible criminal inquiry into Madison Guaranty. It mentions Bill and Hillary Clinton and traces the flow of money in 1985 from Madison Guaranty to Mr. Clinton's re-election campaign account. The report is sent to the United States Attorney in Little Rock, a Clinton appointee named Paula J. Casey. Ms. Casey, a former law student of both Mr. and Mrs. Clinton, soon recuses herself from the case. She is replaced by a team of Justice Department prosecutors from Washington.

DECEMBER 1993 The Justice Department investigation into Mr. Foster's death seeks the Whitewater file that was taken from his offices. The White House publicly acknowledges for first time that documents were removed. It says they will be turned over to investigators but asks for a subpoena, which subjects anyone who discloses them to the press to possible prosecution. The White House resists calls to make Whitewater documents available to the press and the public.

JAN. 12, 1994 President Clinton asks Attorney General Janet Reno to name a special counsel to investigate Whitewater.

THE NEW YORK TIMES, THURSDAY, JANUARY 13, 1994

Papers from Foster's office draw missing media into Whitewater

By Joyce Price
THE WASHINGTON TIMES

The Whitewater-Madison controversy, ignored by most of the media until recently, has become the hottest story around.

It's on the front pages of daily newspapers, a staple on the nightly network news shows, and the subject of lengthy articles in this week's issues of Time and Newsweek.

But a month ago, a person would have been hard pressed to find any reports about the Whitewater Development Corp., a failed Arkansas land deal in which the Clintons invested, or Madison Guaranty Savings and Loan Association, a failed thrift owned by Whitewater partner James B. McDougal.

Before last month, only The Washington Times and The Washington Post had reported regularly on the growing controversy.

The Washington newspapers exposed details in the matter after the disclosure in October that the Resolution Trust Corp., the federal agency that disposes of failed S&Ls, had asked the Justice Department to investigate Madison Guaranty.

As Time writer George Church says this week in "Searching for the Missing Pieces," the magazine's four-page report: "The press and television paid almost no attention until recently and then largely because it developed that a file relating to Whitewater had been removed from the office of White House counsel Vincent Foster after he committed suicide last July."

The Washington Times' Jerry Seper broke the story Dec. 20 about the removal of the Whitewater files from Mr. Foster's office. Media scrutiny of Whitewater and Madison has since intensified.

"A story isn't really big until television picks it up, and television discovered this story around Christmastime," said Robert Lichter, founder and co-director of the Center for Media and Public Affairs.

He said most news organizations ignored the story because "it's complicated and esoteric and it didn't seem to lead anywhere."

"What killed the story for many news organizations was that they [the Clintons] said they lost money and nobody gained," he said.

"So if nobody gained, why don't they want to talk about it? A cover-up of higher-ups is suggested.... When it became a White House cover-up story, television latched onto it."

Like Time's Mr. Church, Mr. Lichter said the report that files were removed from Mr. Foster's office was the catalyst for wide coverage of Whitewater and Madison.

Tim Graham, the associate editor of MediaWatch, a conservative media watchdog newsletter, said the Clintons can thank the "Troopergate" scandal for "getting Whitewater on television."

Network reporters played down two Arkansas state troopers' accusations of womanizing by President Clinton and pointed to the Whitewater-Madison controversy as an issue that warranted closer scrutiny, he said.

Mr. Graham dismissed arguments that the controversy's complexity was a major reason the media ignored it. "Iran-Contra was complicated, but that didn't stop anybody," he said.

Katherine McQuay, spokeswoman for NBC-TV, said her network aired reports on Whitewater and Madison "going back to September... but nobody was paying attention."

But Mr. Graham said he has tracked media coverage of Whitewater and Madison and that NBC "did its first story on Whitewater November 11. That was 12 days after The Washington Post" reported the RTC request for a probe of Madison.

It was also seven days after The Times reported that the Clintons were active partners in Whitewater's management and that Hillary Rodham Clinton had sought power of attorney over the venture. The Clintons had said they were only passive partners in the deal.

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How Bad Is It?

Whitewater: Clinton denies any impropriety in his land deal—but the investigation is only beginning, and there are many unanswered questions

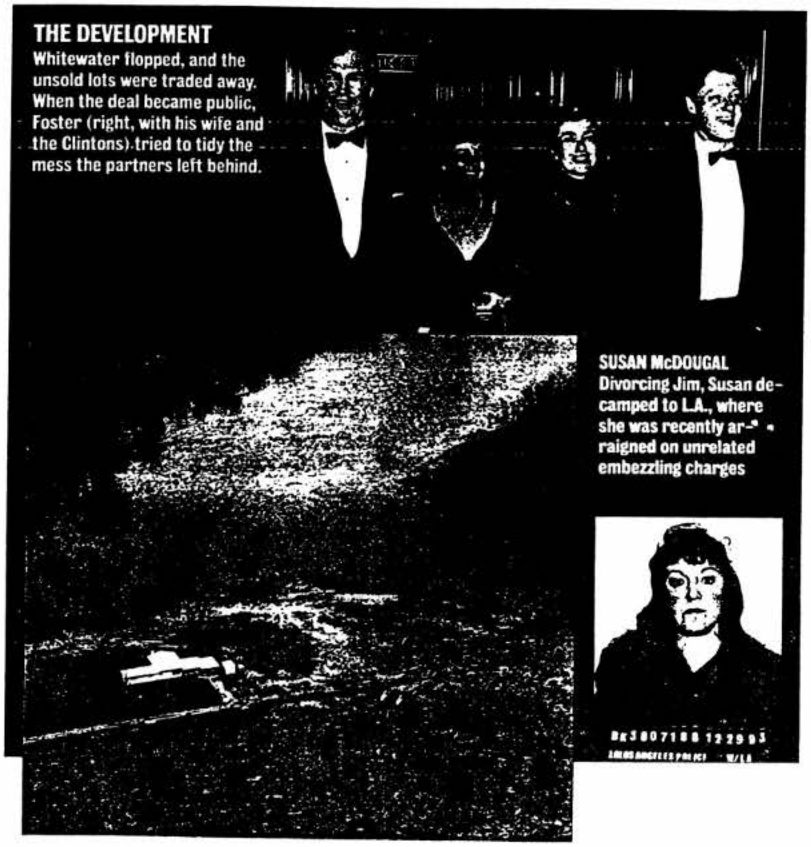
HERE WE GO AGAIN, IN YET ANOTHer example of the Beltway's taste for murky melodrama, a sitting president is being drawn into what would seem to be a major scandal. Remember Watergate, Iran-contra and BCCI? Anyone for another October Surprise? Round up the witnesses, cue the special prosecutor.

It is probably inevitable that the word "Whitewater," which refers to a picayune and almost comically unsuccessful Ozarks real-estate development that involved Bill and Hillary Clinton, is now being transformed into "Whitewatergate." This is something to set the journalistic pack howling and, probably, generate gobs of legal fees. It is also a moment of gleeful opportunity for the Other Party, and some Republicans have actually started muttering about impeachment. What did he know and when did he know it—and what, by the way, about *her*? Specifically, did the president of the United States or his wife engage in any kind of criminal behavior? Did they profit by others' losses, act improperly, abuse the public trust, cross some ethical line? Broadly (and resentfully) the Clintons say no, and the press and public cannot know otherwise now. But the devil is always in the details, and Whitewatergate has lots of them—furry, complicated, nutball details that imply wrongdoing by *somebody*. And there's tragedy—the unexplained suicide of White House Deputy Counsel Vincent Foster last July. If Foster, who among other duties had handled the Clintons' file on Whitewater, killed himself because of some connection to the investigation, Whitewatergate must be serious indeed. But there is no evidence so far that Whitewater precipitated Foster's suicide—and none whatever that the Clintons did anything seriously wrong.

Who is James McDougal?

YOU CAN'T UNDERSTAND WHITEWATER without understanding Little Rock in the roaring '80s. These were good times in this clubby, tightly wired political town. The deregulation of the U.S. savings and loan industry, combined with a local boom in the bond-peddling business, kept the banks and lawyers jumping. Some people got very rich very quickly—and one of those who did, and did it with brio, was James McDougal, a smart, politically connected guy who had early on befriended William Jefferson Clinton and his lawyer wife, Hillary. McDougal had briefly served on Clinton's staff when Bill was first elected governor of Arkansas, and then left state government to pursue a fortune in banking when Bill lost the election of 1980.

During Clinton's first term as governor, McDougal acquired a small bank in northeastern Arkansas and in 1982 bought controlling interest in a mom-and-pop savings and loan called Madison Guaranty. Over the next three years, Madison Guaranty became the springboard to financial success for McDougal and his wife, Susan; in 1986, due to intensifying pressure from federal regulators, it also became his downfall. In 1989 Madison Guaranty did a $47 million belly-flop into the arms of the Resolution Trust Corp., the federal agency created to manage the S&L crisis, and McDougal was prosecuted in federal court



THE DEVELOPMENT
Whitewater flopped, and the unsold lots were traded away. When the deal became public, Foster (right, with his wife and the Clintons) tried to tidy the mess the partners left behind.

SUSAN McDOUGAL
Divorcing Jim, Susan decamped to L.A., where she was recently arraigned on unrelated embezzling charges

CLOCKWISE FROM TOP: [illegible] ARKANSAS DEMOCRAT-GAZETTE [illegible] LAPD [illegible]

WEBSTER HUBBELL
Despite connections to Madison, Hubbell (above) ran Justice during a critical phase of the inquiry

THE BANK
Madison went from sleepy savings and loan to overheated financial engine to shuttered failure, despite regulators' repeated warnings; owner McDougal (right)

for his part in the debacle. He was acquitted in 1990, but by then he and Susan had separated. He went back to southern Arkansas, and she moved on to the West Coast and a financial dispute with Zubin Mehta, the distinguished classical conductor. McDougal, who suffers from manic episodes, is in tough shape psychologically and nearly broke today. Susan McDougal is now being sued by Mehta and his wife for allegedly embezzling $188,000, a charge which she has denied.

What's Whitewater?

BILL AND HILLARY BECAME EQUAL partners with James McDougal and his wife, Susan, in Whitewater Development Corp. in 1978—though the Clintons never invested as much as the McDougals did. Whitewater was an attempt to build down-market retirement and vacation homes on 230 acres of land along the White River in northern Arkansas. Shakily financed and indifferently managed, the venture never really clicked, and the Clintons say they lost $68,900 before they sold their stake back to McDougal (for a lousy $1,000) in 1992. But it was hard to tell where Whitewater ended and Madison Guaranty began, and investigators are still trying to determine whether the partnership played any significant role in the collapse of the S&L. The answer, on the basis of thousands of pages of regulatory records released by Arkansas officials last week, is no. Whitewater was never more than a small part of McDougal's wobbly empire, and the bank regulators rarely if ever mentioned it in their reports on Madison Guaranty. By 1985, when the Whitewater venture had played out, McDougal apparently traded the remaining land for part-time use of a two-engine Piper Seminole. Like many of McDougal's affairs, this deal was weirdly complicated—but he seems to have traded away the Clintons' interest along with his own.

What was the Clintons' role?

LET'S MOVE ON. ONE OF THE QUESTIONS that concerns investigators and editorial writers now is whether Clinton or his wife, during their years in the governor's mansion, did anything to help their old friend McDougal keep Madison Guaranty afloat. After all, Bill as governor was in a perfect position to keep state regulators off McDougal's back, and Hillary as a partner in the Rose Law Firm, that bastion of the Arkansas legal establishment, was in a great position to help. Although the Clintons again say no, the answers are less certain here. It is a fact that Hillary in 1985 represented Madison Guaranty in a successful attempt to persuade state officials to let the thrift raise cash by selling preferred stock. This was at a time when McDougal was trying to keep state and federal regulators at bay. It is also a fact that Madison Guaranty paid the Rose Law Firm a $2,000-a-month advance against services to be performed, and that McDougal has told reporters he hired the firm after Bill complained about the state of the Clintons' finances. McDougal said last week he regarded the bank's relationship with the Rose firm as "giving a friend's wife some work." Asked whether the arrangement might not have been inappropriate, he said, "I'm not teaching ethics this semester."

Worse yet, Beverly Bassett, a protégé of Bill's who was then serving as the Arkansas commissioner of securities, approved the concept of the stock plan in a "Dear Hillary" letter that suggests cozy familiarity. Here is a state regulator—an appointee of the governor—telling the governor's wife that their friend McDougal could use a novel approach to raise cash for his troubled thrift. State records include a handwritten note to Bassett from a subordinate questioning whether Arkansas law allowed thrifts to sell preferred stock to the public. Bassett overrode the question, but in an interview with NEWSWEEK she said the staff finally concurred in her decision to permit the stock offering.

The stock sale never happened, and Bassett claimed she did not know at the time that the Clintons and the McDougals were partners in Whitewater. More broadly, says Bruce Lindsey, one of Clinton's senior advisers, "there is no evidence that [Bassett] did anything that could be considered going easy on Madison."

Did other regulators—state or federal—go easy on Madison Guaranty? The emerging record of state and federal regulators' attempts to crack down on Madison Guaranty is replete with critical findings on insider loans and underestimated liabilities, and it will take months to sort out all the allegations. But since there were hundreds of troubled S&Ls all across the country at that time, and since it took three years for Madison Guaranty to fail, the questions about the regulators' conduct at this point

CLOCKWISE FROM TOP LEFT:

seem to involve issues of judgment, timing and tactics, rather than favoritism or impropriety. This is Lindsey's argument. Bassett, he says, was seriously concerned about Madison Guaranty in 1986 and was working to arrange a takeover by FSLIC, the Federal Savings and Loan Insurance Corporation. That way, he says, customers could more quickly recoup their losses from federal deposit insurance than if the regulators simply waited for the bank to collapse. "She was just trying to protect depositors," Lindsey said.

The stickier issue is whether Hillary, by agreeing to represent Madison Guaranty, was implicitly trading on her relationship with Bill. How could Bassett not be influenced by the intervention of her boss's wife? Lindsey says "Hillary's involvement was not significant" and says he does not think "there was any conflict or anything improper" in her conduct. Besides, Lindsey says, nothing ever happened with the stock plan. The bottom line here, it would seem, is an issue of legal ethics rather than some violation of law—and Little Rock, with its tightly interconnected legal and political elites, looks at ethics somewhat differently from the way it's taught in law school.

Were funds diverted?

BUT THE INFERNAL DETAILS KEEP ON coming. One involves a 1985 political fund raiser at Madison Guaranty's office in Little Rock. McDougal staged the party as a favor to Bill Clinton, who was trying to pay down debts from his 1984 gubernatorial campaign. It netted $30,000, including $12,000 in checks from Madison Guaranty. According to news accounts, investigators are still trying to determine whether any of that money came from an estimated $250,000 in business loans that regulators suspected were improperly diverted from the bank. McDougal has denied wrongdoing, and Lindsey said that Clinton could not know where the money came from.

Then there's the case of David Hale, a former municipal judge in Little Rock who started an investment firm of his own. Hale's company specialized in writing loans for the disadvantaged that were guaranteed by the Small Business Administration, and he was indicted by a federal grand jury in Little Rock last year for allegedly defrauding the SBA. In 1986 Hale's company loaned $300,000 to a company called Master Marketing, whose president was Susan McDougal. Jim McDougal admits some of the money went to a land deal involving Whitewater, but the Clintons say they never knew about it. Hale, who is awaiting trial on the unrelated SBA case, has tried to negotiate a plea with federal prosecutors by offering testimony on McDougal's financial machinations. He says he loaned the money to Susan McDougal after Bill Clinton personally asked him to help. Clinton denies this—and it is only fair to point out that Hale has an ax to grind.

What did Foster know?

McDOUGAL WAS FORCED OUT OF MADison Guaranty in 1986, and RTC took over the bank three years later. The Feds had another failed thrift with a portfolio of overvalued assets and the taxpayers, as usual, were left holding the bag. Another strange wrinkle appeared during the mopping-up, and it involved two more FOBs—Vincent Foster and Webster Hubbell, both partners in the Rose Law Firm. This episode began when the Federal Deposit Insurance Corporation decided to sue an accounting firm, Frost & Co., which had audited Madison Guaranty. Foster wrote FDIC to solicit business, and Rose wound up representing FDIC in the suit against Frost & Co. Webb Hubbell, who migrated to Washington with his friend Bill and is now the number-three man at Justice under Attorney General Janet Reno, handled t case for the FDIC—despite the fact tl Hubbell's father-in-law had been an exe tive with a Madison Guaranty subsidia and had extensive dealings with the banl

Hubbell says he informed FDIC of t potential conflict of interest. The suit w settled for $1 million, far less than the $ million the FDIC hoped to collect fr Frost. Hubbell has disqualified hims from the Justice Department's ongoing vestigation of the Madis Guaranty scandal. So has t U.S. attorney in Little Roc Paula Casey, who is a form law-school student of Clinton'

Which brings us to tl saddest and most mystifying e ement in the Whitewater imbr glio—Vince Foster's suicid Foster shot himself on July 2 in a deserted park across th Potomac River from Washing ton: no one really knows wh But he was the keeper c the Clintons' Whitewater fil and he probably knew that th Madison Guaranty investiga tion was gathering momentum In fact, RTC examiners wer pushing the Justice Departmen to open a criminal investigatio of the bank's collapse, and th FBI obtained a warrant t search David Hale's Little Roc office for evidence on the da Foster killed himself. Ther may be no connection: Whit House officials say that Foster didn't know about the FBI's planned raid.

White House Counsel Bernie Nussbaum found the Whitewater file in Foster's office two days later and sent it to Williams and Connolly, the law firm that represents the Clinton family. On Christmas Eve the file was subpoenaed by a federal grand jury. Does it contain a smoking gun? Probably not. Lindsey and other White House aides maintain that Bill and Hillary never had much documentation for their disappointing joint venture with McDougal, and McDougal says the records of his dealings with the Clintons exist entirely in his head. Still, the wheels of justice have begun to turn and may lead to the appointment of a special prosecutor in the months to come. For better or worse, the Whitewater story is only beginning—and how it is handled could be just as dangerous to Clinton as the facts of the tangled case.

—MARK HOSENBALL in Little Rock, [illegible] in Washington and TOM MORGANTHAU in New York

FOLLOW THE FILES

Deep Throat's dictum was, "Follow the money." But with Whitewater, it's the documents:

1987: The McDougals say they sent all the Whitewater files to the Clintons, who don't recall asking for or receiving them. A year later, Hillary asks for power of attorney to manage Whitewater.

Fall 1991: Betsey Wright stores many Clinton business papers in vault at campaign headquarters.

July 22, 1993: Two days after the suicide of Foster (above), Bernard Nussbaum ships Whitewater files from Foster's office to Clinton lawyers.

December 1993: Clinton agrees to turn over Foster's files "voluntarily," even as a subpoena is being prepared.

Jan. 2-3, 1994: White House aides say they've turned over the files. The next day, they confess it will be a "couple of weeks."

Jan. 5, 1994: The files, it is revealed, have been subpoenaed—and therefore are sealed.

MARK WILSON [illegible]

With Political Connections, Arkansas S&L Lived and Died

By Susan Schmidt
and Marilyn W. Thompson A1
Washington Post Staff Writers

With flamboyant investments and risky lending, Madison Guaranty had transformed itself by 1985 into one of Arkansas' largest and most politically connected savings and loans.

Madison's owner, James McDougal, had attracted as customers the cream of the state's Democratic establishment. McDougal, along with his then-wife Susan, also was in a business venture with then-Gov. Bill Clinton and his wife, Hillary, whose land development corporation, known as Whitewater, kept a checking account at Madison.

But as 1985 began, a roadblock stood in Madison's path. Federal examiners scrutinizing Madison's books had discovered poorly kept records, loans made without proper documentation and real estate investments of questionable value involving its own officers, investors and their friends. Madison was perilously overextended by financing projects like a seashore development on Canada's rocky coast without first receiving the required approval of state regulators for a foreign investment.

Among Madison's many large loans during that period were several to finance an ambitious trailer home and industrial park project 10 miles south of Little Rock. Borrowers included McDougal's onetime boss, the venerable former Democratic senator J. William Fulbright, and McDougal's friend, Jim Guy Tucker, then a lawyer for Madison who now serves as Arkansas governor.

Federal examiners concluded in a 1984 confidential report sent to Arkansas regulators that, while the institution was still solvent, its "viability" was threatened by its "unsafe and unsound" business practices. And they warned McDougal and his board that unless Madison's weak management was strengthened and $3 million in new capital was raised by 1986, when examiners would return, the federal government would begin action to close it down.

So began a period of scrambling by

MADISON, From A1

McDougal to save an S&L that under his ownership had applied the neighborly ways of Arkansas life to the principles of high finance. A banker who lent millions with little more than a handshake and kept details of intricate deals mostly in his head, McDougal first hired as a Madison vice president the federal examiner, Sarah Worsham Hawkins, who had prepared the critical report. Then he turned to the state of Arkansas for help.

Rose Law Firm Is Hired

He hired Hillary Rodham Clinton and her influential law firm to push a series of proposals before Clinton administration regulators. Madison won state approval to sell preferred stock and to market limited partnerships in its shaky real estate projects, plans that eventually fell through.

McDougal's appeals for state regulatory exceptions helped him stay in control of Madison for another year, while excessive lending and insider transactions continued. He was removed by Madison's board in mid-1986 under pressure from federal regulators. During McDougal's three years as owner, the institution with $6 million in deposits and a tiny loan portfolio had mushroomed in size, to deposits of $123 million. Loans to officers, directors and related parties had swelled from $500,000 to $17 million. Most of that money was never repaid.

The confluence of events in 1985, when McDougal strengthened his already close business and political ties to the Clintons, drew the attention of investigators from the Resolution Trust Corp. when they began untangling the affairs of Madison, which failed in 1989 at an estimated taxpayer cost of up to $60 million. Whether Madison received favorable treatment from regulators—adding substantially to the costs of its eventual shutdown—is among the questions that will be examined by newly appointed special counsel Robert B. Fiske Jr.

Fiske's Investigation

Fiske plans to begin work in Little Rock today on a broad investigation of Madison, the Whitewater real estate venture and a federally backed loan that was partly used by Whitewater to purchase land. The White House has said Clinton was not involved in discussions about the loan. A former municipal judge indicted in connection with that loan has charged that his small business investment company made a $300,000 loan to McDougal's wife under pressure from McDougal and the governor. Fiske also intends to examine whether the July suicide of deputy White House counsel Vincent Foster, who handled the Clintons' personal legal affairs, had any connection to these events.

In April 1985, as he began preparing plans to raise money by selling Madison stock, McDougal began paying Hillary Clinton's law firm $2,000 a month for its services representing the S&L in negotiations with the state Securities Commission. Citing an independent audit that later proved to be filled with misrepresentations, the firm won quick approval for a preferred stock plan never before tried by an Arkansas S&L.

McDougal said later he decided to hire Hillary Clinton and the Rose Law Firm of Little Rock after then-Gov. Bill Clinton jogged by Madison's office one day and dropped in to complain about money, asking if the banker could drum up some business for his wife. The Clintons that year earned $102,492, with Hillary Clinton's Rose firm salary accounting for $55,382, tax returns show.

Hillary Clinton, in an interview last year, described her legal work for Madison in 1985 as limited and said she almost never did work before state officials appointed by her husband.

"I have tried to avoid such involvement and cannot recall any instance other than the Madison Guaranty matter in which I had any involvement, and my involvement there was minimal," she said.

Securities Commissioner

However, McDougal's stock plan required the approval of state Securities Commissioner Beverly Bassett Schaffer, a longtime friend of the Clintons and a political supporter. Clinton had named her to the job, which carried responsibility for overseeing S&Ls and answered to the six-person state S&L board, on Jan. 16, 1985.

Schaffer also was intimately familiar with some of Madison's troubles. As a private lawyer, she had worked for Madison's principal law firm along with Jim Guy Tucker. She wrote a lengthy memo to McDougal's attention warning Madison that its installment real estate sale at the seashore development in Canada was operating in violation of the Interstate Sales Act. Schaffer, whose brother was a key Clinton campaign backer, has said she has never met McDougal and her appointment to the state job had nothing to do with Madison.

Primarily in charge of pushing the S&L's case were young R Law Firm associate Richard Massey and his college friend John Latham, the chief executive officer of Madison. Latham attended a series of meetings with regulators on Madison's behalf to negotiate details of the stock proposal. Weeks earlier, in March 1985, Gov. Clinton had given Latham influence over S&L regulation with an appointment to the state S&L board. As one of five Clinton appointees, Latham helped oversee the state S&L agency and ruled on contested regulatory issues.

Clinton appointed Latham, who eventually became chairman of the state board, although federal regulators had criticized him and other inexperienced Madison managers in the 1984 report. Latham pleaded guilty in 1989 to falsifying Madison records and turned government witness in a federal bank fraud case brought against McDougal for some of his real estate dealings. McDougal was acquitted in the case.

A Precedent-Setting Plan

The stock proposal submitted by the Rose firm was precedent-setting. Though federally chartered institutions were permitted to sell preferred stock, Arkansas S&Ls had never tried such a plan, and there was some question initially about whether state S&L laws would allow it.

Presented on April 30, 1985, the stock plan met with immediate skepticism among some regulators who were familiar with Madison's

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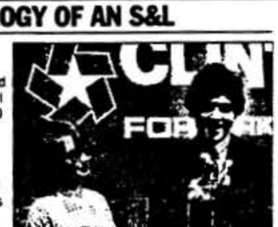
CHRONOLOGY OF AN S&L

1978
Arkansas Attorney General Bill Clinton, Hillary Rodham Clinton and friends James and Susan McDougal borrow $203,000 to purchase 230 acres for development called Whitewater Estates.



The Clintons in 1978

1982
McDougal buys a rural savings and loan that has $6 million in deposits and renames it Madison Guaranty. Within three years deposits grow to $123 million.

1984
A federal examination warns Madison to strengthen management and raise $3 million in new capital by 1986 or face federal action to close the savings and loan. McDougal then hires the federal examiner as a Madison vice president.

1985
Jan. 16: Gov. Clinton appoints longtime friend and political supporter Beverly Bassett Schaffer state securities commissioner. Schaffer reports to Arkansas' six-person Savings & Loan board.

March: Clinton appoints John Latham, Madison Guaranty's chief executive officer, to the state S&L board

April: McDougal and Hillary Clinton formalize the Rose law firm's representation of Madison proposals before the state Securities Commission.

April 3: Calling it a "loan repayment," McDougal withdraws about $30,000 from the Whitewater account at Madison, creating an overdraft in that amount.

April 4: McDougal raises $30,000 to retire Clinton's gubernatorial campaign debt at a fund-raiser held in Madison Guaranty's main lobby.

April 17: Madison's real estate subsidiary deposits a $30,000 yearly "bonus" to McDougal in the Whitewater account, bringing the account into balance.

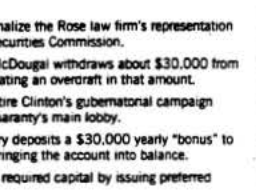
April 30: Madison submits plan to raise required capital by issuing preferred stock. Regulators are skeptical.

May 6: A state regulator assigned to monitor Madison asks Commissioner Schaffer to seek a legal opinion before acting on Madison's proposal.

May 14: Schaffer informs Hillary Clinton that Madison's plan was approved, accepting the Rose firm's legal analysis that the stock issuance will solve Madison's problems.

1986
Federal officials issue another scathing report on Madison and, later in year, McDougal is removed by the thrift's board under federal pressure.

1989
Madison Guaranty fails, costing taxpayers up to $60 million.


McDougal in 1982

THE WASHINGTON POST

shaky financial condition.

"The question was: Can they and how could they sell stock in a failing institution? Who would want to buy it?" recalled Charles Handley, a state regulator assigned to monitor Madison. Concerned about the stock sale's far-reaching legal implications, Handley alerted Schaffer on May 6 and recommended they seek a legal opinion before acting on the proposal. No independent legal opinion was sought, however.

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MONDAY, JANUARY 24, 1994 THE WASHINGTON POST

'Dear Hillary'

Eight days later, in a brief letter that began "Dear Hillary," Schaffer wrote that she accepted the Rose firm's legal analysis and would allow the stock plan to go through.

Handley says now he does not believe that Hillary Clinton exerted political influence in the matter. He said he did not know until late in the process that the governor's wife was involved and "if we had it to do over again, everyone should have known that going in."

He said Schaffer addressed her approval letter to Hillary Clinton because they were close friends. But he said she felt strongly that the Rose firm made a convincing legal case. "Beverly is a lawyer," he said, "and she was also the boss."

Despite winning permission to sell stock, the S&L was unable to generate sufficient interest among investors to sell any, state officials say. Other plans pushed by the Rose firm to market Madison securities and sell limited real estate partnerships also fell through.

During the same period Madison was seeking help from regulators appointed by the governor, McDougal agreed to a request from Clinton that he help retire a 1984 campaign debt. Sources said federal investigators have been examining a series of Madison cashier's checks made out to Clinton or his gubernatorial campaign that were generated at an April 4, 1985, McDougal-sponsored fund-raiser for Clinton in Madison's lobby. Clinton used the $30,000 in proceeds to help repay a personal loan from the Bank of Cherry Valley that he took out in the final days of the 1984 campaign.

Clinton Records Sought

A Madison director's son whose name is on one of the cashier's checks said recently he never made any such donation. Justice Department investigators have begun subpoenaing records from Clinton's gubernatorial campaigns as well as records from the Cherry Valley bank. They are looking into whether some of the money was illegally diverted from Madison accounts controlled by McDougal.

McDougal has said he has no knowledge of improper contributions and former Clinton aide Betsey Wright, who picked up the money raised at the Madison fund-raiser, says the governor did not attend the event and would have no knowledge of irregular contributions.

FBI Is Alerted

The RTC has also alerted the FBI to the activities of the Whitewater checking account at Madison, which fluctuated wildly during the mid-1980s and showed numerous transactions that have no apparent relation to the Ozarks real estate venture, sources say. Whitewater maintained its principal business account at another bank.

The Clintons have said they were only passive investors in the land development company, which they formed with McDougal and his wife in 1978 after borrowing more than $200,000 to finance the purchase of Ozarks property. Clinton was Arkansas attorney general at the time.

Though they say the investment was a failure in which they lost $68,900, the Clintons remained as partners in the corporation throughout McDougal's legal troubles in the late 1980s and the failure of his banking and business enterprises. Clinton's state banking commissioner has said he warned the governor in 1983 that McDougal's activities at another bank he owned, the Bank of Kingston, could run afoul of the law. Hillary Clinton was a Bank of Kingston borrower whose loan was refinanced at another state bank soon after Clinton received the warning.

Account Often Overdrawn

The Whitewater account at Madison was often overdrawn, then brought back into balance with large deposits from other businesses, many of them believed to be shell corporations controlled by McDougal, sources say.

The day before McDougal held the 1985 Clinton fund-raiser, for example, reco-ds show that h withdrew $30,C90 from White water's checking account at Mad ison, causing an overdraft of abou that amount. Written on the chec was the notation "loan repayment, though sources said there were n records indicating McDougal ha ever made such a loan to White water.

A few weeks later, on April 17 sources said, the Whitewater account was brought back into balance when Madison's real estate subsidiary deposited $30,000 in it. The payment was described in bank records as part of a yearly "bonus" to McDougal, but it is not clear why the money was placed in Whitewater's account.

The FBI also has subpoenaed records of the former Bank of Cherry Valley, where Whitewater had a loan and Clinton also did personal business. Sources familiar with Madison records said that about $15,000 in checks from the Whitewater account were sent to the Bank of Cherry Valley in late 1984 and early 1985, with written notations suggesting that they were used to make payments on two separate loans.

Records Unavailable

Maurice Smith, a finance official for Clinton's gubernatorial campaign who owned the bank, d records on loan accounts during that time period are no longer available.

The Clintons last year ended their Whitewater investment by selling stock back to McDougal for $1,000. Tax records show they have not claimed the $68,900 they say they lost in the venture, which they say was beca they tried to be cautious in filing their returns.

McDougal said recently he does not know how the Clintons could have lost what they say they spent in the venture. He says he c not recall them putting more than $9,000 into the corporation.

The federal government tried to reclaim some of its losses in the Madison affair in 1989 by suing Madison's auditors, Frost & Co., for misrepresenting the S&L's financial condition. The Frost firm worked with the Rose Law Firm in seeking state approval of Madison's stock plan in 1985.

Not realizing the Rose firm did legal work for the thrift in 1985, the Federal Deposit Insurance Corp. hired Rose lawyer Webster Hubbell to represent the government's interest. The case was settled out of court for $1 million; the Rose firm made $400,000 in legal fees.

Hubbell, who followed Clinton to Washington and is now associate attorney general, has recused himself from the criminal investigation of Madison's affairs, which has focused partly on business dealings involving his father-in-law, an employee of Madison's real estate subsidiary. The FDIC is conducting an internal inquiry into how the Rose firm came to be hired.

Nov. 1993

Order by month - then file chron, in press WW files

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.

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 yesterday on why she had not recused herself two weeks ago on the first referral.

The Washington Times MONDAY, NOVEMBER 15, 1993 ★

Records missing in Ark. S&L case

Clintons said to have them last

By Jerry Seper
THE WASHINGTON TIMES

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LITTLE ROCK, Ark. — Federal investigators have turned down a criminal prosecution over the manipulation of funds through a failed savings and loan to a real estate partnership half-owned by President and Mrs. Clinton because documents detailing the venture could not be found.

The Resolution Trust Corp. recommended last month a possible prosecution into reports that funds from Madison Guaranty Savings and Loan Association had been illegally diverted to Whitewater Development Corp. and eventually routed into Mr. Clinton's successful 1984 gubernatorial campaign.

According to federal law enforcement sources, it is not clear where the Madison records — said to include loan applications, account balances, financial statements, cancelled checks and withdrawal ledgers — might have gone.

The Clintons' partners in Whitewater, James B. McDougal and his wife, Susan H. McDougal, have said they turned the records over to the couple in 1987, delivering them in person to the governor's mansion at Mrs. Clinton's request.

The Clintons have said they have been unable to find the records.

A Justice Department decision to reject the RTC request for a possible prosecution in the case means criminal charges are remote.

But federal inquiries continue on nine other RTC requests, known as referrals, including questions surrounding Madison's dealings in other loans and its involvement with Mr. Clinton and his successor here, Gov. Jim Guy Tucker.

The RTC, which has no prosecutorial authority, handed 10 criminal referrals last month to U.S. Attorney Paula J. Casey after an investigation into financial irregularities involving Madison and its owner, Mr. McDougal.

Federal investigators also are looking into a controversial Small Business Administration-approved loan by Capital-Management Services Inc. here to Mrs. McDougal. The $300,000 loan, approved in March 1986 at a time when Mr. and Mrs. McDougal showed assets of $3 million, was deposited in a Madison account and later transferred, in part, to Whitewater.

Documents describing the SBA loan were included in those seized by

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S&L

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the FBI during a July 21 raid on Capital-Management, whose president, David L. Hale, has charged that Mr. Clinton and Mr. McDougal pressured him for the loan.

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

The probe has focused on allegations that Mr. McDougal, who once served as a top financial adviser to Mr. Clinton, approved fraudulent loans of $250,000 and diverted money to the campaigns of several powerful Arkansas politicians, including then-Gov. Clinton.

Mr. Clinton has denied any wrongdoing, saying he and his wife did "nothing improper" with regard to Madison and Whitewater. While the White House has conceded the president accepted campaign funds from Mr. McDougal, spokesmen said he did not know the original source of the funds.

Also under review, the sources said, is a $2,000-a-month fee paid to Mrs. Clinton, then a senior partner at the powerful Rose Law Firm here, to help Madison fight off efforts by the Arkansas Securities Department to close it as insolvent. The payments continued for 15 months while her husband was governor.

The Justice Department, which last week sent a senior staff lawyer here to take charge of the probe after Mrs. Casey recused herself because of a possible conflict, has said Mr. and Mrs. Clinton are not targets of the investigation.

There is no doubt, however, that Mr. Clinton benefited financially from loans and cash contributions given to him through Madison.

Mr. McDougal, who was indicted in 1989 on fraud charges in connection with Madison and later acquitted, also has denied any wrongdoing. Madison was closed in 1989 by federal banking regulators at a cost to taxpayers of about $50 million.

Federal prosecutors, according to the sources, decided last month not to pursue the Madison-Whitewater referral because of a lack of evidence — specifically a dearth of documents detailing what moneys were funneled from, to and between the two corporations.

A confidential report submitted by prosecutors here to the Justice Department's criminal division in Washington said the case was being shelved because of "a lack of specific evidence," said one law enforcement official familar with the referral.

The Clintons and the McDougals bought Whitewater in 1978 and planned to build vacation homes on 42 lots on the 203-acre property located along the White River in the Arkansas Ozarks. The project was never successful.

According to records available at the Marion County courthouse in Yellville, Ark., the development appears to have been structured to enable the Clintons to receive half of the profits with little or no investment.

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

James M. Lyons, a Denver lawyer and longtime Clinton ally, told reporters during the 1992 presidential campaign that the Clintons put $68,900 into Whitewater, without any return, while the McDougals accounted for $92,200.

Assigned by Mr. Clinton to review the deal after Whitewater became a campaign issue, Mr. Lyons described the Clintons as "passive shareholders" and concluded the McDougals "exercised total control" over Whitewater.

Mr. Lyons acknowledged at the time that his report was based on available records and that many documents outlining Whitewater's deals were missing. He also said he never discussed the matter with the McDougals.

It is unclear, however, how "passive" the Clintons may have been. Mrs. Clinton, at one point, sought power-of-attorney from Mr. and Mrs. McDougal to "manage and conduct all matters related to Whitewater Development."

In a Nov. 28, 1988, letter and several pages of attachments, Mrs. Clinton wanted 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."

Whether the request was ever granted is not known. White Ho spokesmen have said they are not sure the document was ever signed.

Federal prosecutors here have declined comment on the probe.

Last week, Acting Assistant Attorney General John C. Keeney said the department's criminal division had taken charge of the investigation after Mrs. Casey told her superiors in Washington she and her aides wanted to recuse themselves from the case "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."

Recently appointed by the president, Mrs. Casey was a campaign volunteer in several Clinton gubernatorial races and a student of Mr. Clinton's when he taught at the University of Arkansas Law School. Mrs. Casey's husband, Gil Glover, once was appointed to a state job by Mr. Clinton when he was governor.

Associate Attorney General Webster L. Hubbell, former managing partner of the Rose Law Firm, also has recused himself from the matter, along with his staff.

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Nafta Jitters in Europe ✓

Somehow it would be fitting if Ross Perot were to join Jerry Lewis in the panoply of France's favorite Americans. Battling the North American Free Trade Agreement, Mr. Perot is serving as water boy for France's protectionists. If Mr. Perot, Pat Buchanan and the rest succeed in killing Nafta, the outlook for the GATT round will be dire.

Since World War II, the U.S. has been the prime sponsor of the free-trade regime that has led to so much stability and prosperity across Europe. If in the post-Cold War world the U.S. were to signal that it opposes free trade, even with its neighbor Mexico, then the globe's prevailing winds would be fundamentally altered. Protectionist forces, lurking in most countries and on the march in France, would be encouraged.

Bill Clinton was absolutely right recently to link Nafta and global trade. "I can't tell you how important I think it will be," Mr. Clinton said of the international implications of Nafta. "If we go out there without this agreement," Mr. Clinton continued, "they may say, 'Well, President Clinton wants to have an open door to Asia, but is he really going to be a tough competitor? They ran away from Latin America, their best friends and best consumers, and can he deliver? Will the Congress run away from it even if he tries to expand trade?' "

Mr. Clinton was talking about imaginary conversations with Asian leaders, with whom he must meet later this week. Nonetheless, the same sort of argument applies to Europe.

It's clear that European countries are aware of the way a Nafta defeat could weaken the U.S. negotiating position on the GATT. In an interview with The Wall Street Journal Europe's Philip Revzin, Stuart Eizenstat, the U.S. representative to the EC, noted, "It's become a common refrain from everyone at the EC to turn Nafta on us." Apparently European nations have been hesitant to put forth any new GATT offers in advance of the Congressional vote on Nafta.

In Nafta and the GATT, politicians have sometimes lost sight of the ideal of open trade in their pedantic struggles for national advantage. This has made it possible for demagogues in both the the U.S. and Europe to fog the air with dubious statistics and overblown rhetoric.

The post-Cold War world is young, but already people have located several "defining moments." It is fair to say that the American Nafta controversy marks an important psychological turn. Throughout all the spats and feuds of the past 50 years, the prevailing wind from the U.S. has favored free trade and the opening up of borders and possibilities. If that prevailing wind changes, then the effects will be global, and the first vessel blown off course could be the GATT.

Asides ✓

Clinton the Tax-Cutter

President Clinton has decided it's a good idea to cut income taxes...in Japan. Earlier this month, he sent a letter to Prime Minister Morihiro Hosakawa urging Japan deepen its proposed income tax cut to $56 billion and delay consumption tax increases for three years. Last week, Treasury Secretary Lloyd Bentsen made his own pitch for tax cuts in Tokyo: "I believe that cutting the income tax, putting money into consumers' pockets where they can buy products and, frankly raise their standard of living (is appropriate)." Too bad the administration can't get interested in giving Americans the same break.

Slow Learners

For the ninth time since 1933, Oregon's voters have overwhelmingly rejected a sales tax. It was 75% to 25% this go-around, despite an attempt to sweeten the pill with a property-tax cut, a corporate-tax increase and a tie to school funding. Don McIntire, the athletic-club owner who guided the state's historic Measure 5 tax reduction to electoral victory in 1990, helped lead the charge again this time, pointing to rapid growth in school salaries and not a revenue pinch as the source of fiscal woes. Oregon's refusal to vote additional costs onto its purchases should caution politicians elsewhere.

BC-CLINTON WHITEWATER

LEACH ASKS SPECIAL COUNSEL IN CLINTON FILES CASE

WASHINGTON, Dec 27 (Reuter) - The senior Republican on the House Banking Committee renewed his request Monday for a special counsel to investigate President Clinton's money-losing investment in a real estate venture.

Representative Jim Leach of Iowa said on NBC's ``Today'' show that Attorney General Janet Reno should ``shine the spotlight of decency'' on the matter and name a special counsel to probe Clinton's dealings with the Whitewater Development Corp and its ties with a failed Arkansas savings institution.

``I would only stress that the only fair and open way is to proceed with the attorney general designating a special counsel at this time. She has the authority to do it. This is what occurred in Watergate,'' Leach said.

But Representative Barney Frank, a Massachusetts Democrat also appearing on ``Today,'' said appointment of a special counsel would be meaningless since the person named would still be subject to Reno's supervision.

Frank said a Republican filibuster in 1992 had prevented Congress from renewing a law providing for independent prosecutors in such cases.

Last week Reno rejected Leach's request for a special counsel, saying anyone she chose as counsel would still be seen as her investigator.

She also told reporters that the White House had done nothing to impede a Justice Department's investigation of the case. Clinton, his wife, Hillary, and Arkansas businessman James McDougal were partners in Whitewater, a real estate investment firm.

The Justice Department is looking at Whitewater as part of a broader civil and criminal probe into Madison Guaranty Savings & Loan, a failed thrift owned by McDougal.

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

Clinton's dealings with McDougal, an old Arkansas friend and political supporter, have been described by the White House as a bad investment and nothing more -- but by others as the core of a scandal that could shake his presidency.

Last week the president ordered his personal lawyer to give federal investigators all relevant papers concerning the Whitewater investment, including a file that had been in the office of a White House aide who committed suicide in July.

Leach said it was unfortunate that the chairman of the House Banking Committee, Texas Democrat Henry Gonzalez, was not interested in opening a probe of Clinton's dealings with Whitewater and McDougal.

Leach said the Republicans on the committee were still pursuing the matter. ``We've gathered quite a bit of information and frankly it is a bit embarrassing to the White House,'' he said.

REUTER

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Riegle seeks probe of S&L bailout unit

By Ruth Larson
THE WASHINGTON TIMES

The chairman of the Senate Banking Committee has called for an investigation into charges of racial discrimination, favoritism and other management abuses at the Resolution Trust Corp.

Sen. Donald W. Riegle Jr., Michigan Democrat, sent a letter, dated Oct. 25, to RTC acting Chief Executive Officer Roger C. Altman, asking him to investigate "serious allegations" in RTC's Office of Contractor Oversight and Surveillance (OCOS), the office responsible for auditing the performance of its thrift bailout contractors.

Senate Banking Committee staff members said Mr. Riegle would not comment on the matter until the RTC completes its investigation.

The charges are contained in a Sept. 30 memo from an RTC contractor oversight employee that was obtained by The Washington Times. The memo was signed "a black OCOS employee."

Word of the investigation comes to light two weeks after Stanley G. Tate withdrew his name as the nominee to manage RTC's savings and loan cleanup, saying he was denied the chance to address serious waste and mismanagement in the agency. He also protested the Treasury Department's confiscation of 200 pages documenting management at the agency.

In a telephone interview last week, Mr. Tate said that while he was a nominee he had received several unsigned employee memos charging minority abuses at the agency.

"The RTC has lots of employee problems," Mr. Tate said. "It's worse there than I've ever seen in my life."

The OCOS memo alleges a pattern of systematic discrimination against black employees in the contractor oversight office, including:

- Manipulation of promotion scores. Numerical rating standards were juggled to fill a senior procurement specialist position in the Competition Advocate program. An inexperienced white candidate's low score was later ranked above the higher score of an experienced black candidate.
- Retaliation against supporters of blacks. Offices that attempted to promote black employees were denied approval to fill remaining vacancies.
- Disciplinary double standards. A black employee who worked on his income taxes on RTC time was disciplined and threatened with firing. In contrast, a white employee who operated an interstate sports and entertainment ticket sales business during work hours, using government phones and travel, was promoted.
- Favoritism toward white employees. Positions occupied by white employees are graded higher than similar positions occupied by black employees within the Competition Advocate branch.
- Travel abuses. A female investigator routinely accompanied the head of the contractor oversight branch to conferences and events unrelated to her position.

The memo originally was sent to Lorraine A. Green, deputy director of the Office of Personnel Management.

"I am asking for an OPM investigation because it is not possible to obtain a fair and impartial review from anyone inside RTC, including the RTC Inspector General," the employee wrote.

The employee implored: "Please don't give us up by forwarding this letter to anyone in RTC. Please investigate these issues independently and objectively. If you do, many other instances of favoritism, discrimination and abuse will surface."

Previous complaints to the RTC Office of Inspector General have been unproductive, the memo charged, often because individuals responsible for the abuses were allowed to manage the investigations.

OPM officials did not pursue the matter, however, after they learned it was being investigated by RTC's inspector general. "This is an internal matter, being handled at the RTC," an OPM spokesman said.

The RTC inspector general's office would neither confirm nor deny that the matter was under investigation.

RTC spokesman Stephen Katsanos confirmed the agency's Equal Employment Opportunity Office is conducting a review of the charges. While he could not comment on the specifics of the case, Mr. Katsanos said an outside law firm had been hired — a common procedure in such cases — and several employees had given sworn statements.

RTC's newly created ombudsman's office, which reports directly to Mr. Altman, was designed to address similar employee concerns, Mr. Katsanos said.

Freeh suspends FBI's NYC bureau chief

Director's action angers field agents

By Jerry Seper
THE WASHINGTON TIMES

The suspension of James Fox, the veteran agent in charge of the FBI field office in New York, for talking about the World Trade Center bombing trial during a television interview has been greeted with anger from many of the bureau's rank and file.

Several agents at the New York field office and at the bureau's Washington headquarters questioned the decision by FBI Director Louis J. Freeh, announced yesterday, to place Mr. Fox on administrative leave pending his scheduled retirement Jan. 3.

"This is not playing well with the people I know," said a New York FBI agent who asked not to be identified. "They obviously were trying to set an example. I guess the director was telling everyone that there's a new regime and that he's in charge."

Mr. Fox, a 31-year bureau veteran, was suspended because of his efforts in a brief TV interview Dec. 4 to defend the actions of his agents during the World Trade Center bombing investigation. Mr. Fox denied allegations that the FBI's informant in the case, Emad Salem, had given agents information before the Feb. 26 blast that the building was going to be bombed.

"He gave us nothing. No one gave us anything," Mr. Fox was quoted by Newsday as saying. "If we had information, we would have prevented the bombing."

Unlike most field supervisors, Mr. Fox held the title of assistant director because of his command of the New York office.

Mr. Freeh, a former federal judge in New York, suspended Mr. Fox with pay for the comments. The suspension was ordered Dec. 10 and is to remain in place until Mr. Fox's scheduled Jan. 3 retirement.

Mr. Fox has led the New York office for six years. During that time, his 2,200-member staff has been involved in dozens of high-profile cases, including the successful prosecution of mob boss John Gotti. It was Mr. Fox who called Gotti the "Teflon Don," a nickname that stuck.

"Director Freeh made the decision to place Assistant Director Fox on administrative leave with pay until his retirement in January," FBI spokesman John Collingwood said in a statement. "He did so after carefully reviewing inappropriate public comments Fox made about pending prosecution.

"Our policy is not to talk about pending cases, particularly when it's still at trial."

Mr. Collingwood told the Associated Press he was "not at liberty to say" how Mr. Freeh became aware of Mr. Fox's television comments.

Federal law enforcement sources told The Washington Times that U.S. District Judge Kevin T. Duffy, who is hearing the World Trade Center trial, called Mr. Freeh to complain about Mr. Fox's comments. The suspension came after the call.

It was Judge Duffy who signed a gag order in the case. He said at the time that he wanted to limit leaks to the public about pending evidence and testimony.

FBI officials yesterday declined comment on what role, if any, Judge Duffy played in the decision to suspend the veteran agent.

The judge did not return calls for comment yesterday.

Mr. Fox will join the Mutual of America insurance company when he retires.

Spy sting gets Chinese man deported

By Bill Gertz
THE WASHINGTON TIMES

After a six-year FBI counterspy investigation of Chinese intelligence service efforts to acquire U.S. weapons and technology, immigration officials deported a Chinese businessman Saturday for committing espionage.

Yen Men Kao, a Chinese national who lived in Charlotte, N.C., left Atlanta International Airport aboard a United Airlines flight to Hong Kong, said Thomas P. Fischer, director of the Immigration and Naturalization Service (INS) in Atlanta.

An immigration judge ordered Kao deported last week for overstaying a visa and for "committing acts of espionage against the United States," an INS spokesman said.

Clinton administration officials said a decision was made not to prosecute Kao to avoid offending the Chinese government. The administration is working with Beijing to resolve problems with North Korea on nuclear weapons.

FBI officials said Kao, who owned two Chinese fast-food restaurants in Charlotte, was under FBI surveillance for six years. He met in China with Chinese intelligence service officials, who promised him $2 million to buy weapons covertly.

Kao and other Chinese nationals not identified by the FBI "conspired to steal and illegally export" a Mark 48 Advanced Capability (ADCAP) torpedo, two F-404-400 General Electric jet engines used in the F/A-18 Hornet and fire-control radar for the F-16 Falcon jet, FBI and INS officials said.

"Procuring those three items were his primary concern," said an FBI agent close to the case. Kao also sought data on the Cobra helicopter, the agent said.

The weapons systems were not delivered to China, but oscillators used in satellites were transferred to China as part of a sting operation during the investigation, officials said.

Kao paid an informant $24,000 from Chinese intelligence service funds for the oscillators, which are embargoed for export and are used to regulate radio-wave frequencies.

The sale took place in the United States through an FBI informant and was approved by the U.S. government as part of the probe, officials said.

One federal law enforcement official, speaking on the condition of anonymity, said Kao "had a gambling problem" and lost some of the money supplied by Chinese intelligence through his gambling. "He got a lot of people in China [angry] at him," the official said.

At a hearing in Atlanta on Dec. 15, Kao waived appeals and requested deportation to Hong Kong, rather than China, because he feared reprisals by the Chinese spy service, the official said.

A senior FBI official in Charlotte, who asked not to be identified by name, said the investigation of the technology acquisition scheme is ongoing and that more arrests may be made.

"We're still tying up some loose ends in confirming the identities of other agents and intelligence officers working with [Kao]," the agent said.

"But I believe we have unequivocally neutralized his activities."

The case began in 1987, when the FBI learned that Kao was trying to illegally acquire a Mark 48 ADCAP torpedo for the Chinese government, the official said.

The Mark 48 ADCAP is a modernized version of the Mark 48 and is deployed on attack submarines. The torpedo, built by Hughes, is designed to sink fast, deep-diving submarines or fast-moving surface ships.

Kao was unable to come up with the money — some $2 million — to purchase the three U.S. weapons systems. "He was unable to persuade the Chinese to put up the great sums needed to procure these weapons," the official said.

The FBI decided to close the case, and Kao was arrested Dec. 3, the official said.

The FBI agreed to deportation rather than prosecution partly to protect sources and methods of counterspying, the official said.

Kao, 54, left behind his wife, a naturalized U.S. citizen, and two children, who were born in the United States.

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bc-clinton whitewater - a1851
(ndy) (ATTN: National editors) (Includes optional trims)
Clintons' Arkansas Land Deal Again in Spotlight (Washn)
By Timothy M. Phelps=

WASHINGTON The mysterious files secretly removed from Vince Foster's office the day after his suicide last summer could hold a key to a door that Bill and Hillary Rodham Clinton would prefer to keep closed.

The files concern an Arkansas development in which Bill Clinton, then running for governor, and his wife invested much of their available cash in the early 1980s. The Clintons went into a partnership with two friends and close associates who subsequently have come under federal investigation for this and other financial deals.

The files to be turned over to the Justice Department were found by White House officials in the office of Foster, a White House lawyer who had been a longtime friend of Bill Clinton and former Little Rock, Ark., law partner of Hillary Clinton. Foster had handled the sale of the Clintons' interest in the investment, Whitewater Development Corp., the year before.

Instead of turning them over to U.S. Park Police, which had jurisdiction to investigate Foster's suicide in a federal park outside Washington, Bernard Nussbaum, the White House counsel and Foster's boss, gave the Whitewater files to a private Washington lawyer representing the Clintons.

That fact only came to light this week when it was reported by The Washington Times and confirmed by the White House. The information in those files, and in any additional Whitewater records the Clintons have agreed to make available, could be useful to several different investigations already under way by the Justice DepartmentOne, involving questions about the financing of the land deal, could have serious legal and political ramifications for the Clintons.

The files would be too late to help the Park Police investigation of the suicide and a related FBI inquiry into why Nussbaum blocked the Park Police from looking through Foster's office after his death. Those matters supposedly were resolved in August, when Foster's death was ruled a suicide and the FBI concluded that Nussbaum had not acted improperly.

But for three career Justice Department lawyers including a former U.S. attorney in Illinois who were dispatched last month to Little Rock, the files could be critical. The Clintons assert that they were passive partners in the deal; any new information thatthey were more deeply involved in Whitewater could be damagingThose lawyers were named last month to take over two related investigations after the U.S. attorney in Little Rock, appointed by Clinton, recused herself.

One involved Madison Guaranty Savings and Loan, whose owner, James McDougal, and his wife, Susan, were equal partners with the Clintons in Whitewater, which bought land on a river in the Ozarks and turned it into lots upon which vacation homes could be built. The Clintons contributed less money than the McDougals, even though they stood to reap half of any profits. James McDougal said later he wanted to ``make them some money.''

Madison failed in 1989 and was taken over by the federal government at a cost to taxpayers of $47 million. One of the allegations being investigated is whether money from Madison was improperly diverted to Whitewater. Also alleged is that McDougal may have used Madison funds when he helped to settle some of a $50,000 campaign debt for which the Clintons were personally liable.

(Begin optional trim)

Madison was a state-chartered institution subject to state regulation by officials who worked for then-Gov. Clinton. In 1985, three months before McDougal raised the campaign funds for Clinton, Clinton appointed Beverly Schaffer, who worked for McDougal at Madison, as the state official in charge of regulating savings and loans.

Federal auditors in 1984 accused Madison and McDougal of ``unsafe and unsound lending practices,'' but Schaffer took no action against her former employer until federal authorities stepped in in 1989.

Schaffer, at the request of Hillary Clinton, who was representing Madison, approved an unusual method of raising funds for the institution.

The Clintons said during the presidential campaign, when Whitewater was raised as an issue, that they had lost money on the deal. In fact, they reported a $1,000 profit in their 1991 tax returns and said they could not claim their losses because of incomplete paperwork.

(End optional trim)

The three Justice lawyers are also looking into whether Whitewater improperly received $100,000 of a $300,000 Small Business Administration loan to Susan McDougal in 1986. Such loans are supposed to be given to ``socially or economically disadvantaged'' companies. David Hale, an Arkansas lawyer who owns an investment company and is under indictment for fraud in connection with SBA loans, has charged that he was pressured by Bill Clinton to make the loan to McDougal.

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The Washington Post

December 23, 1993, Thursday, Final Edition

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HEADLINE: Hill Seeks Probe of Land Deal

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BYLINE: Susan Schmidt, Washington Post Staff Writer

BODY:

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Clinton told wire service reporters in an interview yesterday that he did not know what was in the file, but if Justice Department investigators want to see it, "We'll do what we can to cooperate."

The file, Clinton said, "related to work [Foster] had done before he came to work at the White House on our behalf. . . . There was never any indication that anyone wanted to see it. Obviously if anybody wants to -- feels that there's some relevance to any ongoing investigation, we'll do what we can to cooperate."

But, Clinton said in response to a question, "I have no reason to believe at this time that anybody thinks there's anything in there relevant to any ongoing federal matter."

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In his letter to Reno, Leach said he wants to ensure that any documents removed from Foster's office are not destroyed. Leach and other Republicans on the House Banking Committee have begun an investigation of their own and sent staff members to Little Rock this week.

In an interview, Leach said that Reno has been placed in "an uncomfortable, if not untenable, position of being both the chief law enforcement official of the United States and the chief legal adviser to the president."

Justice Department spokesman Carl Stern said that Reno, who has urged the restoration of an independent counsel law, saw no purpose in appointing a special counsel herself.

"Anyone she appoints, the prosecutor is under her supervision and influence," Stern said. "To take the case away from the current career prosecutors. . . . would be to create the very kinds of perceptions that she and Congressman Leach are trying to avoid."

LANGUAGE: ENGLISH

LOAD-DATE-MDC: December 23, 1993

Hill Seeks Probe of Land Deal

By Susan Schmidt A1
Washington Post Staff Writer

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WHITEWATER, From A1

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THE WALL STREET JOURNAL THURSDAY, DECEMBER 23, 1993

Clinton Investment Files Are Sparking Tension Among White House, Justice Officials, Congress

By BRUCE INGERSOLL
And JOE DAVIDSON
Staff Reporters of THE WALL STREET JOURNAL

WASHINGTON — By all accounts, they aren't much to look at — just a few file folders locked away in the offices of a powerhouse law firm here.

But those files, which contain information about Bill Clinton's business dealings when he was governor of Arkansas, are sparking an increasingly bitter confrontation among the White House, the Justice Department and Congress.

The documents pertain to the investment that Mr. Clinton and Hillary Rodham Clinton made in a real-estate venture called Whitewater Development Corp. The White House this week acknowledged that the documents were found in, and removed from, the office of White House deputy counsel and Clinton family lawyer Vincent Foster on July 22, just two days after Mr. Foster killed himself.


Bill Clinton

Unlike Mr. Foster's personal papers, which the White House sent to the Foster family's lawyer, the files relating to the Clintons and Whitewater were forwarded to **Williams & Connolly**, the first family's lawyers. And there the Clintons had hoped they would remain and be forgotten.

But official interest in the files is intensifying. An administration law-enforcement official says Justice Department officials may seek a subpoena to force disclosure of the financial records. The Justice Department is looking at Whitewater as part of a broader criminal and civil probe into Madison Guaranty Savings & Loan, a failed Little Rock thrift owned by James McDougal, who was the Clintons' business partner in Whitewater and a political supporter of Mr. Clinton's when he was governor.

Meanwhile, Republicans on the Senate and House banking committees are expressing interest in what the files may contain. Yesterday, Republican Rep. Jim Leach of Iowa called on Attorney General Janet Reno to appoint a special counsel to investigate the McDougal and Foster matters. Mr. Leach and GOP Rep. Toby Roth of Wisconsin also have called on Henry Gonzalez, the irascible Texas Democrat who chairs the House Banking Committee, to hold hearings into Mr. McDougal's use of his failed savings-and-loan.

In an interview with wire-service reporters yesterday, the president said that "of course we'll do what we can to cooperate" with investigators, and the White House's chief of staff, Thomas McLarty, also told reporters, "We will cooperate with any official review or investigation in any way we can."

But both men stopped short of promising to release the files to investigators. And their comments came only a day after Mrs. Clinton, who represented Mr. McDougal when she was a partner at **Rose Law Firm** in Little Rock, said she sees no reason why the files should be made public.

An Officer's Complaint

Some of the U.S. Park Police detectives who were charged with investigating Mr. Foster's death — he shot himself on federal parkland in Virginia — are now complaining that the White House impeded their probe. "We didn't have access to anything that the chief counsel deemed wasn't pertinent," says one Park Police officer, referring to White House counsel Bernard Nussbaum. "He reviewed everything. . . . Not one representative of government, including the FBI, was allowed to see those things."

Mr. Nussbaum conducted an inventory of papers, documents and other items in Mr. Foster's office on July 22. Among the items were the Whitewater files, but the Park Police and Federal Bureau of Investigation weren't permitted to inspect them. The only documents ever reviewed by the investigators were certain personal papers that James Hamilton, the Foster family attorney, allowed them to peruse in his law office. The Park Police detective calls this lack of access to documents "a joke."

The White House contends that Mr. Nussbaum did nothing improper and that he was merely protecting documents that were subject to the lawyer-client privilege or the executive privilege of the president.

Actions of Other Aides

Questions also surround the actions of several other White House aides. It has been reported that Maggie Williams, Mrs. Clinton's chief of staff, and Patsy Thomasson, an administrative aide, entered Mr. Foster's office, as did Mr. Nussbaum, only hours after Mr. Foster killed himself.

Yesterday, a spokeswoman for Ms. Williams said she wandered briefly into Mr. Foster's office after being alerted to the death by White House aide Mark Gearan. The spokeswoman, Lisa Caputo, said Ms. Williams was attracted by a light still on in Mr. Foster's office, that she entered the office only briefly, was looking for nothing and took nothing with her.

Park Police detectives contend that the White House shouldn't have waited until about 10 a.m. the next morning to post a Secret Service agent at the door to Mr. Foster's office. They also contend that Mr. Nussbaum's secretary shouldn't have been allowed to enter the office early that morning, supposedly to straighten papers. It was Mr. Nussbaum who later sent the Whitewater documents found in the office to Williams & Connolly. The Clintons' lawyer at Williams & Connolly, David Kendall, refused to comment on the battle over the Whitewater documents.

So far, it's unclear how the White House plans to respond if and when there is any formal proceeding to get hold of the documents. "We know of no Justice Department request for any documents," said White House aide Bruce Lindsey, who intends to begin reviewing various business documents of the Clintons and has been fielding questions on the Whitewater controversy. (Deputy White House counsel Joel Klein and Mr. Kendall have also been working on the matter.)

Mr. Lindsey said that "the Clintons lost approximately $70,000" on the Whitewater investment and that "they got no benefit from this corporation." He added: "The Clintons have admitted from the beginning that they have limited documentation. We can't answer all questions about Whitewater, because we don't know the answers. The Clintons did not keep the corporate records and weren't corporate officers. To try to answer questions we don't have answers to would be foolhardy."

Rep. Gonzalez, in an interview, said he so far sees no reason for his committee to hold hearings into the matter. Hearings have been sought not only by House Republicans but also by Senate Republicans such as Minority Leader Robert Dole of Kansas.

Mr. Gonzalez, who spearheaded the investigation into Republican administrations' pre-Gulf War dealings with Iraq, said hearings aren't needed because the McDougal case raises no new legislative issues. He also dismissed GOP Rep. Roth's suggestion that he's bending to pressure from his party to not look into the matter.

'It's So Ridiculous'

"It's so ridiculous," Mr. Gonzalez said from his home in San Antonio. "I have probably less relationship with this administration than I had with President Bush. I haven't heard from this administration." He charged that "the David Duke wing of the Republican Party is trying to make a big do to embarrass the Clintons and trying to exculpate the past president," and that Rep. Leach, a moderate, is being pushed to act by "extremists." Mr. Leach insists that serious issues are at stake and that the Clintons' business and political dealings with Mr. McDougal's thrift deserve full investigation.

As the controversy over the aftermath of Mr. Foster's death and the documents deepens, President Clinton is faced with a set of confounding political and legal questions.

If he determines he wants to keep the documents secret, the White House could attempt to assert that they are covered by executive privilege. But such a move would be legally questionable and politically risky. Already, the White House is confronting allegations of stonewalling. "There's somebody who is going through a lot of changes to keep this from under the microscope," a federal law-enforcement official said yesterday.

Precedent of Watergate

In terms of legal precedent, the most germane case is Watergate, when President Nixon pleaded executive privilege on the White House tapes and the Supreme Court in the summer of 1974 ruled against him. However, the court didn't rule out any successful presidential claim of executive privilege.

But the issue facing President Clinton reaches far beyond legalities. Refusing to turn over the documents only fuels an impression of obfuscating and stonewalling, extending his political troubles. That is the lesson of Watergate, says the University of Wisconsin's Stanley Kutler, a legal historian. "Don't lie, don't stonewall," Mr. Kutler said, pointing out that both Mr. Nussbaum and Mrs. Clinton should know this lesson. They were there, working as lawyers on the House Judiciary Committee's Watergate investigation.

Other presidents, of course, have faced controversies involving past business dealings and personal papers, and in both cases candor won out. Jimmy Carter faced questions about the financing of his family's peanut warehouse in Georgia. A special counsel was appointed, and President Carter agreed to give a deposition. Later, the independent counsel probing the Iran-contra scandal asked to see President Bush's diaries. After Mr. Bush sought outside counsel, the diaries were made available.

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Clinton puts limits on offer to help probe

Business partner owned failed S&L

By Jerry Seper
THE WASHINGTON TIMES

A1

President Clinton offered yesterday to cooperate with the federal investigation into the fraudulent use of bank funds by his Arkansas business partner, but the White House said it reserved the right to exclude some documents from the investigation.

Mr. Clinton said that records involving him, James B. McDougal and their wives in various deals have not been requested by investigators.

"Of course we'll do what we can to cooperate," the president said during an Oval Office interview with reporters.

However, the White House later said that while the president plans to "fully cooperate" with the federal investigation of Mr. McDougal, owner of the failed Madison Guaranty Savings and Loan Association, he reserves the right to withhold any documents he considers "privileged."

White House Chief of Staff Thomas F. "Mack" McLarty said the files taken during two searches of White House Deputy Counsel Vincent W. Foster Jr.'s office after his July 20 suicide would be reviewed "one at a time" if requested by investigators.

Administration officials have said the records are covered by the attorney-client privilege because Mr. Foster was the Clintons' personal attorney.

The Justice Department, which sent investigators to Little Rock, Ark., last month to look into accusations that Mr. McDougal approved fraudulent loans of $250,000 and diverted money to the campaigns of several Arkansas politicians, including Mr. Clinton, has not commented publicly on the probe.

Justice Department spokesman John Russell said yesterday he was precluded from discussing any matters under investigation.

Law enforcement sources said investigators want to see the records, along with other documents and materials removed from Mr. Foster's office, but have not decided how to proceed. The sources said the records may have to be subpoenaed, perhaps setting up a White House-Justice Department confrontation.

In another development, Senate Minority Leader Bob Dole asked for congressional hearings into Mr. Clinton's role with Madison and a northern Arkansas real estate venture known as Whitewater Development Corp., owned by the Clintons and Mr. McDougal and his wife, Susan.

Mr. Dole, Kansas Republican, requested Senate Banking Committee hearings in a letter to the panel's chairman, Sen. Donald W. Riegle Jr., Michigan Democrat. His call echoed one this week by Sen. Alfonse M. D'Amato of New York, the committee's ranking Republican.

"The American people deserve a thorough and independent review of the whole Madison Guaranty-Whitewater affair," Mr. Dole said. "Although the allegations ... are too numerous to list here, they are sufficiently serious to merit a thorough committee investigation."

The Washington Times THURSDAY, DECEMBER 23, 1993

Mr. Dole's call for Senate hearings followed requests last week by Reps. Jim Leach of Iowa and Toby Roth of Wisconsin, both Republicans, who asked House Banking Committee Chairman Henry B. Gonzalez to begin an investigation.

When Mr. Gonzalez, Texas Democrat, declined, Mr. Leach, the panel's ranking GOP member, began his own inquiry.

Mr. Leach yesterday asked Attorney General Janet Reno to appoint a special counsel to investigate the case. In a letter, he said the attorney general was in the position of being both the country's top law enforcement officer and a key administration official.

Mr. Russell said no decision had been made on the Leach request but noted that Miss Reno has not supported other calls for the appointment of special counsels.

The Justice Department has not said how it would handle claims of attorney-client privilege by the White House. It is not clear how valid such claims would be, said Mark Levin, who was chief of staff for Attorney General Edwin Meese III and is director of the Landmark Legal Foundation.

Mr. Levin said that if others, including White House Counsel Bernard Nussbaum and two Clinton aides, were given access to the records during two searches of Mr. Foster's office, the privilege might have been waived.

Mr. Clinton's offer to cooperate conflicted with statements this week by first lady Hillary Rodham Clinton and Press Secretary Dee Dee Myers, who said records taken from Mr. Foster's office, including those involving the Whitewater venture, would not be released.

Mrs. Clinton told reporters during a series of interviews that she saw no reason to release records showing the couple's business dealings with Whitewater or ties to Mr. McDougal and the Madison S&L.

"I am bewildered that a losing investment ... is still a topic of inquiry," she said. "I think we've done what we should have done and don't feel the need to do any more than we've done."

Miss Myers said the Clintons do not intend to release the files. "Being forthcoming, who I think the president and first lady have been, doesn't mean you have to turn over every single file."

It was not clear yesterday which files Mr. Clinton says he is willing to release. White House officials have said records pertaining to Whitewater and Mr. McDougal, along with personal income tax returns, were removed from Mr. Foster's office and taken to their personal attorney, Washington lawyer David Kendall, but have not provided specific descriptions.

During the 1992 presidential campaign, the Clintons said the Whitewater records had disappeared. That statement followed a New York Times report in March 1992 that the couple improperly deducted $5,100 in interest payments on their income tax returns in 1984 and 1985 in a transaction involving the partnership. The deductions saved them about $1,000 in taxes.

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LEVEL 1 - 12 OF 18 STORIES

The Washington Post

December 16, 1993, Thursday, Final Edition

SECTION: FIRST SECTION; PAGE A6

LENGTH: 742 words

HEADLINE: Businessman Denies Giving Donation at '85 Clinton Fund-Raiser

SERIES: Occasional

BYLINE: Susan Schmidt, Charles R. Babcock, Washington Post Staff Writers

BODY:

An Arkansas businessman whose name is on a $ 3,000 cashier's check that was used to help retire Bill Clinton's 1984 gubernatorial campaign debt says he never made such a donation.

Ken Peacock, then a 24-year-old college student, said in an interview he was surprised to learn from The Washington Post that his name is on a cashier's check collected at an April 4, 1985, post-election fund-raising event. The reception was sponsored at Clinton's request by James B. McDougal, owner of Madison Guaranty Savings & Loan and former Clinton business partner in an Ozark land venture, the Whitewater Development Corp.

The Peacock check and a handful of others made out to Clinton or his campaign that day are in the possession of Justice Department prosecutors in Little Rock, federal sources said. Questions first arose about McDougal's relationship with Clinton during the 1992 presidential campaign. Prosecutors have now been asked to investigate whether depositor funds at Madison were used to benefit Arkansas politicians, including Clinton.

Peacock, whose father, Charles Peacock, was a major Madison borrower and a member of the thrift's board of directors, said he was baffled by the check to Clinton. "I don't know anything about it," he said.

Betsey Wright, a long-time Clinton aide and his campaign manager in 1984, said yesterday that she had never before heard that Ken Peacock or anyone else disputed having made a contribution. "It makes me sick," she said.

Clinton asked McDougal to put on the cocktail party fund-raiser to help pay off a $ 50,000 personal loan he and Hillary Rodham Clinton took out in the final weeks of his 1984 campaign, according to Wright. The Clintons would have been personally liable for the loan if the campaign hadn't raised the money to pay it back, she said.

"It was taken for the purposes of the campaign, and the intent was to ultimately pay it back through campaign contributions, and it was," Bruce Lindsey, a senior adviser in Clinton's White House, said yesterday. "There was nothing improper about that."

The checks to Clinton or his campaign were first discovered by investigators for the Resolution Trust Corp., which recommended last fall that the Justice

Department open a criminal investigation into irregularities in the use of Madison funds. Among the checks the RTC turned over to the Justice Department were $ 3,000 contributions to the Clinton campaign from the late Dean Landrum, an employee of Charles Peacock, and from Susan McDougal, James McDougal's wife. Another $ 3,000 cashier's check from former senator J. William Fulbright was made out to Clinton personally.

Fulbright is ill and unable to speak with reporters. A former aide who handled some of his financial affairs said he had no specific knowledge of the contribution. James McDougal has denied funneling Madison funds to Clinton or his campaign, and Susan McDougal has said she has no knowledge of Madison funds being improperly used.

The public records still available for Clinton's 1984 campaign include no mention of contributions made at the 1985 fund-raiser. Last month, former Clinton campaign aides said they would not make their own records from the 1984 election available. Yesterday, Wright said she recalled filing post-election contribution reports that included individual contributors for the fund-raiser, as required by state law. But she said she has been unable to locate them.

The fund-raiser, held in Madison's lobby, was attended by 50 to 100 people, most of them Madison stockholders and employees from its branch offices in rural areas northeast of Little Rock. Several who attended said Clinton was not present and McDougal was in his office working for most of the afternoon.

Investigators for the RTC have sent a package of criminal referrals to the Justice Department recommending further investigation into whether some of the Madison checks to Clinton were written on overdrawn accounts with McDougal's authorization. They also asked prosecutors to determine whether some of the money may have come from real estate loans Madison made.

Wright said the fund-raiser brought in about half the $ 50,000 the Clintons borrowed and that she raised the rest from other individuals.

During the 1980s, the Arkansas secretary of state's office routinely discarded campaign records after several election cycles, and Wright said she probably forgot to file them at the county clerk's office.

LANGUAGE: ENGLISH

LOAD-DATE-MDC: December 16, 1993

S&L scandal shadows Foster's last days

By Jerry Seper
THE WASHINGTON TIMES

A1

Several of the coincidences in the Arkansas savings and loan scandal that has embroiled President Clinton and his wife lead to the suicide of Vincent W. Foster Jr., the White House deputy counsel who fatally shot himself July 20.

Like most suicides, Mr. Foster's took his ultimate secrets to the grave.

No one in an official capacity says his death was directly connected to the allegations of fraud and illegal campaign payoffs by officers of Madison Guaranty Savings and Loan of Little Rock. Nor will anyone connect it to his participation as the Clintons' personal laywer in the first family's financial dealings, which puts him at several of the points now under federal investigation.

But the timing of certain events continues to tantalize friends and associates, both here and in Little Rock.

Fueling the speculation are two telephone calls made to Mr. Foster at the White House on the morning of the day he killed himself. Also drawing scrutiny is the timing of a search warrant served that day on another former associate of President Clinton's.

The telephone calls were received between 11 a.m. and noon. This was just after Mr. Foster attended a ceremony in the Rose Garden where Mr. Clinton and Attorney General Janet Reno announced the nomination of Louis J. Freeh to be the director of the FBI, and just before Mr. Foster left the White House for the last time.

One call was from James M. Lyons, a Denver lawyer assigned by the Clinton campaign to investigate the connection between the Clintons and James B. McDougal, the owner of Madison S&L, in a land-development venture in the Arkansas Ozarks. This association had become an issue in the presidential campaign.

The other call was made from the Rose Law Firm in Little Rock, where Mr. Foster and Hillary Rodham Clinton were once senior partners. Just who made this call is not yet clear.

The search warrant, signed several hours before Mr. Foster put a gun to his head, authorized the search of the offices of a lending company in Little Rock that had granted a $300,000 loan to Mr. McDougal's wife, Susan.

Some of this money ended up in the accounts of Whitewater Development Corp., a land venture owned jointly by the Clintons and the McDougals. As the Clintons' personal lawyer, Mr. Foster handled the sale of their half-ownership of Whitewater and filed the necessary tax forms when it was discovered Whitewater had failed to file corporate tax returns for a three-year period when the Clintons were still half-owners.

The significance of this is not clear, either, but a note left by Mr. Foster found by White House officials after his death, lamented, "The public will never believe the innocence of the Clintons and their loyal staff."

The rambling note continued: "I made mistakes from ignorance, inexperience and overwork. I did not knowingly violate any law or standard of conduct."

Citing executive privilege, White House Counsel Bernard Nussbaum prevented U.S. Park Police and the FBI from searching Mr. Foster's office or looking through his personal papers or personal belongings immediately after his death.

The agents were ordered to sit in chairs in a hallway while staff officials went through the documents. An FBI agent was reprimanded when he stood up to peer into the

FOSTER

From page A1

room. Investigators who went to Mr. Foster's house also were turned away.

The unsigned and undated Foster note, which contained no fingerprints and from which one section is missing, was discovered six days after his death. Torn into 27 pieces, it was withheld from investigators by White House officials for 30 hours. They said they waited to turn it over until after Mrs. Foster had read it.

It appears, however, that the delay also was related to efforts by White House aides to bring the note to Mr. Clinton's attention. Although Mark Gearan, the director of communications at the White House, said at the time that Mr. Clinton had not seen the note, FBI agent Robert Bryant, who headed the bureau's Washington field office, disputed that in a public statement.

At an Aug. 10 news conference, Mr. Bryant, who since has been named to head the FBI's intelligence division, said: "There was concern by White House staff about executive privilege and about family interests. The note was subsequently reviewed by [Mr. Foster's] wife and her attorney . . . and was then reviewed by the president for executive privilege issues."

There also were contradictions in comments by White House officials, including Mr. Clinton, about Mr. Foster's growing depression. Initially, Mr. Foster was painted as a "Rock of Gibraltar in times of difficulty" whose death came as a "shock" to the president.

Mr. Clinton told reporters he had no idea that his boyhood friend had any personal problems, saying Mr. Foster's "closest friends sat around discussing" the suicide and that "none of us" knew he had any concerns about his job or about other difficulties in his life.

Mr. Gearan said Mr. Foster "never said anything to his colleagues here in the White House or his friends here in Washington that would indicate that anything was out of the ordinary."

The known facts belie this assertion. Mr. Foster's friends, concerned that he was troubled, had urged him to seek psychiatric help. Mr. Clinton called him at home the night before his death, speaking to him for about 20 minutes.

Investigators looking into the Foster death also say they were concerned that White House officials did not seal his office, preventing anyone from entering it, after his body was discovered and identified. White House Chief of Staff Thomas F. "Mack" McLarty told officers he ordered the office sealed to ensure that no papers were removed, but it nevertheless remained unlocked overnight.

Law enforcement sources say at least three persons entered the office before guards were posted on the door at 11 the following morning. The three persons were not identified.

Mr. Foster's death is a closed case, ruled a suicide by U.S. Park Police. His body was found about 6 p.m. on July 20 in an isolated Northern Virginia park slumped against a Civil War cannon, with his 1913 Army Colt revolver still in his hand. He had fired a single shot into his mouth.

The two telephone calls to the White House were identified by Park Police and the FBI from documents submitted by the White House. The documents included notations of telephone calls to and from Mr. Foster's office telephone, made between July 6 and July 20.

Mr. Lyons, the Denver lawyer, has not returned telephone calls to his office seeking comment and explanations about his July 20 call to Mr. Foster.

Last month, however, he told the Chicago Tribune that he had talked to Mr. Foster several times "shortly" before his death, but he would not discuss matters they had talked about since these were conversations between himself and the Clintons covered by attorney-client privilege. Since then, in October, Mr. Clinton named Mr. Lyons to a government advisory panel seeking peace in Ireland.

The Rose Law Firm also has not returned calls seeking comment on who may have called Mr. Foster on July 20 and why.

The search warrant was signed on July 20 at 1:35 p.m., but its existence was known to prosecutors, investigators and others early that morning, law enforcement sources said. It was used to search the offices of Capital-Management Services Inc., a Small Business Administration-approved lending agency operated by David L. Hale, a Little Rock municipal judge until he resigned in anticipation of indictment.

Mr. Hale, who was active in Arkansas Democratic Party politics for more than 20 years, has said he was pressured in February 1986 by Mr. Clinton and Mr. McDougal to approve a loan to Mrs. McDougal to clear up financial problems. The $300,000 SBA-guaranteed loan was approved in March 1986 and some of the money, according to records, was diverted to Whitewater to fund property purchases.

Mr. Gearan, the White House communications director, has said that Mr. Clinton has "no recollection" of any such conversation with Mr. Hale and does not believe such a conversation took place.

Mr. Hale resigned in September after his indictment on charges resulting from other fraudulent SBA loans. He pleaded not guilty to the charges and faces trial Feb. 28. During the FBI's search of Capital-Management, records on the loan to Mrs. McDougal were included in those taken by agents.

Mr. McDougal, who served as a financial adviser to Gov. Clinton in 1979, is the focus of an investigation into allegations he manipulated fraudulent loans through Madison and illegally authorized payments to several powerful Arkansas politicians, including Mr. Clinton.

The Resolution Trust Corp. (RTC), which disposes of failed savings and loans, had asked the Justice Department to investigate questions of irregularities involving Madison. RTC investigators questioned whether campaign contributions were linked to efforts by Madison to win state approval for a financing plan — offered by Mrs. Clinton — to help the S&L stay in business.

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

The president has said that while he received money from Mr. McDougal — including lump sums that were used to clear up debts from his gubernatorial campaigns — he had no knowledge where his business partner and longtime friend had obtained the cash.

The Washington Times MONDAY, DECEMBER 6, 1993

AM-Clinton-S&L,340
Times: McDougal Helped Relieve Clintons' $50,000 Personal Debt

NEW YORK (AP) The operator of a failed Arkansas savings and loan helped relieve his friends Bill and Hillary Clinton of a $50,000 personal debt that was entwined with Clinton's 1984 campaign for governor, a published report said.

The Clintons borrowed the $50,000 from a small Arkansas bank in the closing week of the 1984 campaign, and the money became part of the campaign debt that Clinton later asked James McDougal to take care of, The New York Times said in Wednesday editions.

The newspaper quoted McDougal as saying Clinton, who left the governorship after winning the presidency last year, ``asked me to knock out the deficit'' from 1984 as Clinton prepared to seek re-election in 1986.

In the spring of 1985, McDougal held an early-evening fund-raising event at the Little Rock office of his S&L, Madison Guaranty Savings and Loan, near the governor's mansion.

There, McDougal told the Times, he delivered about $35,000 in checks to Betsey Wright, who had managed the 1984 campaign.

McDougal's fund-raising efforts to help pay off the '84 campaign debt were known previously. What hadn't been known is that part of that debt entailed a $50,000 personal debt owed by the Clintons to the Bank of Cherry Valley, which was owned and run by a senior aide to the governor.

Federal investigators have said previously that in reviewing Madison's records following its collapse, they found evidence leading them to suspect that some campaign donations assembled by McDougal had been improperly diverted from the S&L.

The Times reported that investigators traced checks totaling $12,000 from Madison to the Clinton campaign's account at the Bank of Cherry Valley. Those checks were issued on April 4, 1985.

Bruce Lindsey, a senior presidential adviser, told the Times the relationship between the Clintons and McDougal had been entirely proper. But he said he was unable to answer specific questions about the $50,000 loan or its repayment.

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HEADLINE: Clinton's RTC Pick Angrily Withdraws His Nomination; Tate Blames Riegle, White House, Unnamed Bureaucrats at Agency

SERIES: Occasional

BYLINE: Susan Schmidt, Washington Post Staff Writer

BODY:

An angry Stanley Tate officially withdrew his nomination to head the Resolution Trust Corp. yesterday, blaming his difficulties on opposition from a key senator, rumormongering by worried RTC bureaucrats and lukewarm administration support.

"Washington is a vicious city, with all kinds of hidden agendas," Tate told reporters, reading from a letter he had delivered to President Clinton. "It is a city full of rumors, allegations and accusations," he said, calling the confirmation process "a devastating experience."

Senate Banking Committee Chairman Donald W. Riegle Jr. (D-Mich.) has refused to meet with Tate or schedule a hearing on his confirmation. As RTC chief, Tate, 65, a Republican and a real estate developer from Miami, would have headed government efforts to clean up the remains of the savings and loan debacle. He has been accused by RTC staff of using his influence improperly.

Tate said he was advised by senior Treasury officials in the past few days that "it would be in my best interests" to withdraw quietly. "I was told if I revealed too much, or put people in high places on the defensive, I had better be prepared for a barrage of new allegations and accusations about me and even about my family. I was further advised that these accusations would be made up, even outright lies," said Tate.

A spokeswoman at the Treasury Department said that Tate had a private meeting with Deputy Treasury Secretary Roger C. Altman Wednesday to discuss whether he should withdraw, but that "no one in the Treasury or the administration threatened Mr. Tate."

Tate, who had been a paid adviser to the RTC oversight board since his July nomination while awaiting Senate confirmation, said he had compiled a report for Treasury on mismanagement, waste and possible fraud at the RTC, but said it would be up to administration officials to release it. Treasury officials said they had not yet seen the report.

"There are employees of the RTC who are afraid of me and obviously afraid of what changes to 'the system' I might bring about. These people are really concerned that some of their actions and activities would be revealed," he said.

The Washington Post, December 1, 1993

Some of Tate's activities at the RTC have drawn criticism from agency employees and have been the subject of news reports.

He was criticized for attempting to intervene on behalf of friends who were trying to buy property from an RTC contractor, but said yesterday he wanted the property "sold to the highest bidder."

Tate also asked to see the case files on longtime acquaintance David Paul, head of a failed Florida S&L who was convicted on criminal fraud charges last week. Tate said he returned the file unopened when he saw it was marked confidential.

Tate also sat in on an ethics panel reviewing its decision to ban the former law firm of Rep. William J. Jefferson (D-La.) from doing business with the RTC. Tate said he did not know Jefferson and offered to leave the meeting if anyone present objected to his being there.

A spokeswoman for Riegle said yesterday that the committee staff had not scheduled a hearing because it has been reviewing "several serious questions" raised in the press about Tate's background.

"The committee has been gathering the relevant facts on these and other matters of concern related to his nomination as is its normal practice," she said.

With Tate's withdrawal, the Clinton administration will have to begin a search for a new nominee.

GRAPHIC: PHOTO, STANLEY TATE

LANGUAGE: ENGLISH

LOAD-DATE-MDC: December 1, 1993

a loan, intended for disadvantaged businesses, that instead was used to indirectly finance a Whitewater Development Corp. land transaction.

Attorney General Janet Reno has rejected a Republican request to appoint an independent counsel to look into Whitewater.

AM-Aspin,380
Aspin Has No Plans To Resign
By SUSANNE M. SCHAFER= AP Military Writer=

WASHINGTON (AP) Defense Secretary Les Aspin has no plans to resign and ``continually gets assurances'' President Clinton is satisfied with his performance, a Pentagon spokeswoman said Tuesday.

``There are no plans for anyone here to resign,'' spokeswoman Kathleen deLaski told reporters at a Pentagon briefing.

Ms. deLaski was asked recent published reports faulting Aspin's performance, such as one published in Sunday's Los Angeles Times quoting unnamed senior White House officials and members of Congress criticizing Aspin as the weak link in the administration's national security team.

``I challenge the premise of those reports,'' Ms. deLaski said. ``We continually get assurances that the president is satisfied, very satisfied, with Secretary Aspin's performance.''

Ms. deLaski added that Aspin met Monday night at the White House with the president to brief him on the U.S. military role in Somalia, but said she was told the topic was ``strictly Somalia.''

The spokeswoman also discounted as ``six-month-old gossip'' some published reports that said the secretary would resign for health reasons.

``He has boundless energy'' and outlasted her and reporters who accompanied him to Japan and Korea last week, the spokeswoman said. Aspin had a pacemaker implanted earlier this year after a heart problem flared anew.

``He's showing no symptoms that alarm him or his doctor,'' she added.

DeLaski also contended that Aspin's ``tiger teams,'' specially formed to help manage policy for trouble spots such as Haiti, Somalia, Bosnia and North Korea, have been ``working very well,'' but she declined to discuss how.

Aspin came under scathing attack on Capitol Hill following a street battle in Mogadishu last month that killed 18 U.S. Rangers and wounded 77, particularly after the secretary acknowledged rejecting a request for additional armored vehicles that some military officers contend might have averted many of the deaths.

In a televised interview Sunday, Clinton said Aspin and