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The Washington Post

February 17, 1994, Thursday, Final Edition

SECTION: FIRST SECTION; PAGE A1

LENGTH: 964 words

HEADLINE: Whitewater Investigation Outlined;
Counsel Tells Judge Clinton-Thrift Probe Could Take 1 1/2 Years

SERIES: Occasional

BYLINE: Susan Schmidt, Washington Post Staff Writer

BODY:

Special counsel Robert B. Fiske Jr. told a federal judge yesterday his investigation of President Clinton's Whitewater real estate venture and ties to a failed S&L may last 18 months, cover more than a million documents and involve 20 or more investigators.

After meeting with Fiske behind closed doors, U.S. District Court Judge Stephen M. Reasoner in Little Rock, Ark., agreed to empanel a special grand jury to exclusively handle the federal probe of Madison Guaranty Savings & Loan, and the Whitewater Development Corp. real estate venture, a corporation jointly owned by President and Hillary Rodham Clinton, Madison owner James McDougal and his former wife, Susan.

"The duties of any grand jury investigating this matter are much more extensive than the court had previously envisioned," Reasoner said in his order.

Early this week, Fiske's office served a subpoena seeking a wide range of documents on the Rose Law Firm, where Hillary Clinton and several high-ranking administration officials were once senior partners. They include Associate Attorney General Webster L. Hubbell, assistant White House counsel William H. Kennedy III, and Vincent Foster, the deputy White House counsel who committed suicide last July. The scope of Fiske's work includes looking at how the investigation into the Foster suicide was handled by the White House and law enforcement officials.

Rose firm lawyers did legal work relating to Madison. Hillary Clinton represented Madison during the mid-1980s when it sought regulatory approval for a stock plan from state officials. McDougal, a longtime Clinton friend, has said he placed the Rose firm on a $ 2,000-a-month retainer when then-Gov. Clinton complained to him about his family finances.

Hubbell represented the government when it sued Madison's accountants for malpractice in 1990. The Federal Deposit Insurance Corp. has been examining whether Hubbell and the Rose firm properly disclosed possible conflicts of interest in handling the case.

After his meeting with Reasoner, Fiske told reporters in Little Rock that it was necessary to ask for a special grand jury "because of the importance of this investigation and the importance of doing it as quickly and as thoroughly as

possible."

In his order, Reasoner said that even if the regular grand jury was asked to extend its term until the end of the year, it would not be able to complete the investigation. Those grand jurors, who have already begun work on the Whitewater investigation, initially thought they could do the job, Reasoner wrote, but believe it would be impossible now that the "actual scope and magnitude of the duties that would be involved in such a task has become more apparent."

Reasoner asked James Burnett, the foreman of the grand jury, to attend his meeting with Fiske. Burnett served as head of the National Transportation Safety Board under President Ronald Reagan.

In addition to the criminal investigation going on in Little Rock, a special civil task force assembled by the Resolution Trust Corp., the federal agency charged with overseeing the S&L crisis cleanup, has been working feverishly in Kansas City for the past several weeks.

RTC investigators and lawyers, as well as lawyers from the firm of Pillsbury, Madison & Sutro hired under contract by the RTC, are poring over Madison files to see if there are any civil claims that can still be brought against Madison attorneys, officials or borrowers. The statute of limitations on some potential civil claims expires on Feb. 28, five years to the day after Madison failed and was taken over by the government.

The subpoena delivered this week to the Rose firm sought information on a 2 1/2-page list of entities and individuals, according to knowledgeable sources. The list was similar to one contained in a subpoena served last month on Arkansas Gov. Jim Guy Tucker (D), according to a source who has seen both subpoenas. In addition to documents relating to Madison and Whitewater, the Tucker subpoena sought materials on President Clinton, Hillary Clinton and Clinton campaign funds.

Rose firm Managing Partner Ronald Clark could not be reached for comment on the subpoena, but he said in an interview last week that the firm was collecting documents in anticipation of one.

"We are investigating anything and everything that has to do with Madison and Whitewater," said Clark.

Among the materials being prepared by the Rose lawyers and sought on the Tucker subpoena were documents relating to P.O.M. Inc., a large parking meter manufacturing firm that was owned until recently by Seth Ward, Hubbell's father-in-law, and is now owned by Ward's son, Seth Ward II. Hubbell was P.O.M.'s lawyer, and court documents show that Hillary Clinton did work for P.O.M. as well.

P.O.M. was a Madison borrower, and Seth Ward was a Madison employee. In 1985, P.O.M. was the first company to receive a special "private activity bond" under a program initiated by Clinton when he was governor.

Other individuals and entities listed on the Tucker subpoena related to partnerships and corporations created by Madison owner McDougal, several Madison insiders and borrowers, and materials related to Capital Management Services Inc., a venture capital company that received federal funds from the Small

Business Administration.

Capital Management's owner, David Hale, is facing a trial on criminal fraud charges by Fiske's office this spring. Hale has alleged that Tucker and Clinton pressured him to make SBA-funded loans to help Madison, including a $ 300,000 loan, part of which ended up financing a Whitewater land transaction. Tucker and Clinton have denied pressuring Hale for the loans, and Clinton has said he remembers no such conversations where such loans were discussed.

GRAPHIC: PHOTO, SPECIAL COUNSEL ROBERT B. FISKE JR. TALKS TO REPORTERS OUTSIDE COURTHOUSE AFTER FEDERAL JUDGE AGREED TO EMPANEL GRAND JURY TO REVIEW WHITEWATER. AP

LANGUAGE: ENGLISH

LOAD-DATE-MDC: February 17, 1994

shots in the health care system,'' and asked whether seniors wanted ''the insurance companies and the HMOs that they control to call the shots for the future.''

As far as the industry is concerned, Clinton warned, access to insurance means something quite different.

''They want to give you access just like everybody in this room right now has access to a Mercedes,'' he said.

WHITEWATER PROSECUTOR SEEKS SPECIAL GRAND JURY

By Steve Barnes

LITTLE ROCK, Ark (Reuter) -- Special prosecutor Robert Fiske asked Wednesday for a special grand jury to review evidence in the Whitewater investigation he directs, saying a separate panel was needed ''to do this investigation quickly and thoroughly.''

Fiske met behind closed doors with the federal judge who would authorize the grand jury and said afterward, ''We would like the grand jury empaneled as soon as it reasonably can be, consistent with the procedures in this district.''

Fiske said Judge Stephen Reasoner, chief judge of the Eastern District of Arkansas, indicated he would review the request and decide within a few days whether to call a grand jury.

''We felt it would not be fair to ask a grand jury that was told it would meet only two times a month to sit the additional time we think it will be necessary to do this investigation quickly and thoroughly.''

Fiske would not say how long he thought the probe would take.

Fiske is investigating President Clinton's business affairs while he was governor of Arkansas to determine if depositor funds from the now-defunct Madison Guaranty Savings and Loan were illegally diverted to campaign use in 1984.

He is also checking whether the Whitewater real estate development in north Arkansas, in which the Clintons were investors, improperly benefited from a Small Business Administration-guaranteed loan to the wife of Jim McDougal, Whitewater's developer and the chairman of Madison.

The savings and loan's failure in 1989 cost taxpayers at least $46 million.

It was learned Wednesday that the foreman of the present grand jury is James Burnett, an attorney and Republican Party activist who served as chairman of the National Transportation Safety Board at the appointment of President Ronald Reagan.

''That was not a factor in our request for a new grand jury,'' Fiske said.

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Fiske said he requested a special grand jury be empaneled for the 18 months federal procedures allow.

Fiske would not comment on what materials his staff may already have subpoenaed except to note that ''It's fair to say a lot of documents are involved.'' He would not say if documents have been obtained from Little Rock's Rose Law Firm, where Mrs Clinton was a partner.

In a letter to Judge Reasoner made public Tuesday, Fiske suggested that the current grand jury's caseload made questionable its ability to review evidence in the Whitewater investigation ''in a prompt and through manner.''

In a written response to Fiske's request, Judge Reasoner said Fiske's petition did not justify the expense of a second grand jury and scheduled Wednesday's hearing to allow Fiske to ''present and develop his position.''

Reasoner's order closed the hearing to the public and press, citing the potential for disclosures that ''could very well ... hinder the independent counsel's investigation.'' REUTER

Reno pushes for administration's crime bill

By MICHAEL KIRKLAND

BALTIMORE (UPI) The administration's push for President Clinton's crime bill went on the road again Wednesday, with Attorney General Janet Reno calling for its passage during a visit to a Baltimore neighborhood.

President Clinton sounded the same theme during a Tuesday visit to London, Ohio.

Reno met with community leaders in the Greenmount section of the city and said, ''We've got to get the crime bill passed.''

Added Sen. Barbara Mikulski, D-Md., ''We need to have a national outburst for Congress to get off its guidelines'' and pass the crime package.

Baltimore Mayor Kurt Schmoke, who escorted Reno to a public discussion with community leaders, said later ''it's vitally important'' to his city that the crime bill passes because Baltimore needs more police officers and drug treatment programs.

About 48,000 of Baltimore's 750,000 residents about one in every 15 people is addicted to heroin or cocaine, said Schmoke, but there are only about 5,500 spaces available for treatment.

The Senate passed its version of the crime bill late last year, but the House has not passed its proposal. Both bills still have to be reconciled before a final version could be passed and sent to Clinton.

The package would include money to help communities hire 50,000 more police officers, build more prison space and provide boot camps for young offenders.

BC-HILLARY national editors:TB
FDIC says Hillary had no conflict of interest in bank case
By Gary Marx and William Gaines
Chicago Tribune

As a private attorney in the 1980s, First Lady Hillary Clinton represented a government agency in a lawsuit against a family friend, but her actions in the case didn't constitute a conflict of interest, federal banking regulators said Tuesday.

The statement by officials of the Federal Deposit Insurance Corp. involved a suit between the now defunct Federal Savings and Loan Insurance Corp. (FSLIC) and an Oak Brook savings and loan.

The FDIC inquiry was triggered by a Feb. 3 report in the Chicago Tribune about Hillary's role as an attorney for a federal agency that had sued Dan Lasater, a friend and political benefactor of Clinton and her husband, who was governor of Arkansas at the time.

The story reported that Clinton represented the government agency in the case against her friend, a potential conflict of interest. The story also said that Hillary, as an attorney for the government agency involved, helped settle the suit, which initially sought $3.3 million in damages, for $200,000.

FDIC officials said their inquiry confirmed that Hillary was a lawyer representing the FSLIC in the 1980s and that she actively participated in the agency's litigation against Lasater.

But the agency said Hillary's involvement in the case was not extensive enough to constitute a conflict of interest under rules governing the federal regulation of savings and loans. The FDIC said that, under federal rules existing at the time, Hillary didn't have to directly tell the government about her friendship with Lasater.

FDIC officials said that their inquiry involved primarily a review of court documents and the billing records submitted by the Rose Law Firm, where Clinton was a partner.

``Based on what our people found, Mrs. Clinton's involvement was confined to two hours reviewing the amended complaint (against Lasater),'' said chief FDIC spokesman Alan Whitney. Whitney said the investigators did not question Hillary.

FDIC officials said Hillary Clinton signed an amended complaint in the litigation that reduced from $3.3 million to $1.3 million the damages sought against Lasater, a bond trader who was accused of making unauthorized Treasury-bond trades that resulted in more than $361,000 in losses for First American Savings and Loan Association of Oak Brook.

However, Whitney said FDIC officials believe that Hillary was not involved in the final decision to actually settle the case against her friend for the $200,000. He said the case was handled primarily by Vincent Foster, a Rose attorney and close friend of the Clintons who committed suicide last July.

Law and accounting firms are generally barred from representing the government in S&L cases if they have previously represented the thrift, or have personal links to any officials or targets of the lawsuit.

As the primary FSLIC contactor that hired the Rose Law Firm, Hopkins & Sutter, a Chicago law firm, was responsible for asking the Rose attorneys whether they had any potential conflicts of interest in handling the suit against Lasater, Whitney said.

An FDIC official familiar with the inquiry said that attorneys at Hopkins & Sutter could not remember details of the case. But they told federal officials that they have no records indicating that Hillary worked on any aspect of the case beyond the amended complaint.

**** filed by:KR-F(--) on 02/15/94 at 22:25EST ****
**** printed by:WHPR(JEL) on 02/16/94 at 08:28EST ****

PM-IL--Hillary Illinois S&L,390
FDIC Says Hillary Clinton Had No Conflict in Illinois S&L Case
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CHICAGO (AP) Hillary Rodham Clinton's representation of the government in a lawsuit against a family friend did not constitute a conflict of interest, federal banking regulators say.

The Chicago Tribune reported Feb. 3 that Mrs. Clinton, representing the now-defunct Federal Savings and Loan Insurance Corp., helped settle a $3.3 million lawsuit for $200,000 in 1987, a year after her husband's ties with the defendant had been a campaign issue in his re-election as Arkansas governor.

The Federal Deposit Insurance Corp. investigated the report, reviewing court documents and billing records submitted by the Rose Law Firm of Little Rock, Ark., where Mrs. Clinton worked.

``Based on what our people found, Mrs. Clinton's involvement was confined to two hours reviewing the amended complaint,'' chief FDIC spokesman Alan Whitney said Tuesday.

That was not enough to constitute a conflict of interest under federal savings-and-loan regulations, the Tribune reported today.

Investigators did not question Mrs. Clinton, Whitney said.

The lawsuit was against Dan Lasater, a convicted felon whose bond trading firm played a part in the troubles of several savings and loans, including First American Savings and Loan in the Chicago suburb of Oak Brook.

Former Illinois Gov. Dan Walker, who headed First American, accused Lasater of trading Treasury bond futures with thrift funds without informing the thrift's officers.

First American sued Lasater's bond firm, accusing it of mail, wire and securities fraud.

First American was seized in 1986, before the case went to court, by federal regulators who charged Walker with lending himself $1.4 million in federally insured deposits. Walker was convicted of fraud and jailed.

About the same time, Lasater was convicted of cocaine distribution and trafficking and jailed. But federal regulators decided to pursue First American's lawsuit against Lasater, and hired the Rose firm to pursue the case.

FDIC officials said Mrs. Clinton signed an amended complaint that reduced the damages sought from Lasater from $3.3 million to $1.3 million. FDIC officials believe Mrs. Clinton was not involved in the final settlement for $200,000, Whitney said.

The case was handled primarily by Vincent Foster, the deputy White House counsel who committed suicide last July, Whitney told the Tribune. Foster worked with Mrs. Clinton at Rose.

**** filed by:APW-(IL) on 02/16/94 at 06:27EST ****
**** printed by:WHPR(JEL) on 02/16/94 at 08:27EST ****

**** filed by:APW-(AR) on 02/16/94 at 02:19EST ****
**** printed by:WHPR(JEL) on 02/16/94 at 08:28EST ****

Passport Probe Develops Witness Trouble

By Walter Pincus
Washington Post Staff Writer

Independent counsel Joseph E. diGenova, who is trying to conclude his 14-month investigation into the 1992 preelection search of President Clinton's passport files, has run into a legal roadblock attempting to compel sworn testimony from his final key witness.

As a result, sources said, diGenova is being forced to negotiate for a voluntary appearance by Steven K. Berry, former acting assistant secretary of state for legislative affairs and one of two officials who helped to instigate the two-day file search in archived records for information to discredit Clinton.

U.S. District Judge John Garrett Penn ruled secretly last year that because State Department operations center monitor had illegally overheard Berry discussing the passport file search, Berry did not have to respond to a subpoena or testify before a grand jury, according to sources.

Berry is prepared to cooperate with diGenova, who needs Berry's testimony, sources said. "But he does not want to lose his rights," one source said.

Berry and his attorney, Theodore C. Olson, have refused to discuss the matter.

Berry had direct conversations during the files search with Janet G. Mullins, then assistant to President George Bush for political affairs and now the main subject of diGenova's inquiry. One source said yesterday that the final outstanding issue for diGenova is the allegation that Mullins made false statements to State Department investigators in 1992 when the search first became public.

Mullins twice denied any "knowledge of, or participation in, the search of Clinton's files," according to a Bush Justice Department report made public in December 1992. According to that same report, credible sources said she was "aware of the interest in Clinton's files before the search occurred and that Mullins helped encourage and direct the search."

Meanwhile, diGenova has been in the Czech Republic investigating new reports that Bush campaign aides in 1992 asked Czech internal police for information on Clinton's trip to that country 24 years ago, when Clinton was a Rhodes scholar at Oxford.

In an article published in a Prague newspaper last month shortly before Clinton's first presidential visit to that city, the former deputy chief of the Czech communist internal security service was quoted as saying his agency in the summer of 1992 was asked to look for information about Clinton.

During the 1992 campaign Republicans criticized Clinton for his trip to Prague early in 1970, 16 months after the Soviets crushed the short-lived Czech revolt against Moscow rule.

Investigators also have found that Bush adminstration officials searched files at the Veterans Administration in 1992 in an unsuccessful quest for any letters Clinton might have written about his draft status.

A source familiar with the investigation said diGenova is working to tie up all the loose ends of the affair because his final report, by law, must include reasons why he did not bring prosecutions.

The passport search was first disclosed in news reports in the last weeks of the presidential campaign. Once the matter became public, notes taken earlier by State Department operations center officials were turned over to then-Deputy Secretary of State Lawrence S. Eagleburger. The notes recorded the contents of monitored phone conversations about the passport search between Berry and then-Assistant Secretary for Consular Affairs Elizabeth M. Tamposi, w soon was asked to resign. Ber was removed from his job and lat resigned.

STEVEN K. BERRY
. . . diGenova is seeking his testimon

An investigation by State Depa ment Inspector General Sherm M. Funk led Bush Attorney Gene William P. Barr to find that the was credible evidence that Mulli and perhaps others in the Bu White House had violated son criminal law.

Sources said diGenova's inqui has not turned up any credible e idence to link former White Hou chief of staff James A. Baker III Margaret Tutwiler, former ant to the president for commu cations, to the passport matter.

House Joins Senate in Vote to Bring Back Independent Counsel

By Kenneth J. Cooper
Washington Post Staff Writer

The House yesterday voted overwhelmingly to reinstate a post-Watergate law that authorized independent counsels to investigate alleged wrongdoing by top federal officials.

The 356 to 56 vote cleared the way for House and Senate negotiators to resolve relatively minor differences on a five-year reinstatement of the independent counsel law, which expired in December 1992. The Senate passed its version, 76 to 21, in November.

Political pressures for House action on the matter eased after Attorney General Janet Reno decided last month not to wait for reenactment of the law and named Robert B. Fiske Jr. as special counsel to investigate the Arkansas land investments of President Clinton and Hillary Rodham Clinton.

The House debate centered instead on a partisan battle over how to apply the independent counsel law, first adopted in 1978, to members of Congress.

Republicans argued that accused lawmakers ought to be covered automatically, in the same manner as 60 top officials in the executive branch, including Cabinet officers, the vice president and president. The attorney general must conduct a preliminary investigation of credible allegations against those officials and must, if "reasonable grounds" exist, ask the federal appeals court to appoint an independent counsel.

Rep. George W. Gekas (R-Pa.) urged lawmakers to support his amendment for mandatory coverage as "an advance into good government" that would "make sure that members of Congress are put under the same scrutiny as members of the Cabinet."

Gekas described a scenario in which an attorney general of the same party could refuse to investigate a "high-ranking, powerful lawmaker . . . on whom the White House might depend for clearance on bills near and dear to the heart" of the president.

That scenario sounded similar to the ongoing federal investigation of House Ways and Means Committee Chairman Dan Rostenkowski (D-Ill.), who has played a pivotal role in Clinton's trade and health proposals. That investigation began during the Bush administration and has continued under Clinton's.

Democrats argued that attorneys general of both parties have proved to be energetic prosecutors of errant lawmakers, whether Democratic or Republican. "There has been no hesitancy to prosecute members of Congress," said Rep. John Bryant (D-Tex.).

No vote was taken on the Gek amendment, but a Democratic stitute was adopted, 230 to 18 that allows an attorney general seek an independent investigati of lawmakers if such a probe found to be "in the public interest.

The Senate bill sets a differe standard. It explicitly permits independent investigation of makers if the attorney general there would be a conflict of inte

Under the expired law, 13 ind pendent counsels were appointe but none investigated a member Congress. The law did not speci ically mention lawmakers as p ble targets of independent invest gations, although Democrats they were covered under its broa language.

The law expired because Repul licans, angry at independent c sel Lawrence E. Walsh's $35 mi lion inquiry into the Iran-contra a fair, filibustered in the Senate.

History Lesson for Macy's

Outcry Ends Black Memorabilia Display

By Kirstin Downey Grimsley
Washington Post Staff Writer

Michaela Cooper, a Department of Labor employee, was browsing at the R.H. Macy & Co. department store at Pentagon City last Friday when she stumbled across something that she said left her in "shocked disbelief."

Cooper, who is African American, said the glass display cases at the store contained such disturbing items as a "Mammy" cookie jar, a ceramic figure of a black man with a white woman sitting on his knee and liquor bottles that depicted dark-skinned men tap-dancing.

She was furious, as were other customers and Macy's employees who saw the exhibit of black historical memorabilia and collectibles. Macy's had organized the display as part of a Black History Month display intended to honor black Americans—but many saw it instead as a painful reminder of the country's Jim Crow past.

Shocked at the strongly negative response, Macy's hurriedly removed the exhibit, banishing all traces of it to a back room by Friday evening, less than 24 hours after it went up.

The problem arose, the company said, because the exhibit was mistakenly and prematurely displayed without commentary articles prepared for it by prominent District-based black memorabilia collector Steven Lewis. He put together the exhibit, which is one of about two dozen

See MACY'S, A10, Col. 1

Macy's Removes Black History Display

MACY'S, From A1

events organized by Macy's to celebrate Black History month.

Macy's officials apologized for their failure to include explanatory materials. "Those pieces were displayed without proper signage, and people didn't understand what the artifacts and memorabilia were doing in the cases," said Macy's spokeswoman Gloria Kreisman.

She said that Macy's intention was to create a display that would highlight the rich history of black Americans, and that no offense had been intended. "Our motivation was of the highest level," she said.

Macy's does not plan to restore the exhibit, substituting a display of antique photographs of black Americans, playbills and concert programs.

But its decision to withdraw the collection aroused criticism and disappointment among several specialists in black collectibles, who said that critics reacted negatively to things they didn't understand and were unable to keep in proper historical perspective.

"I think it's terrible it had to be removed," said Malinda Saunders, owner of a black collectibles shop called That Certain Place in Hyattsville, who said similar displays often attract controversy. "It's [caused] by a lack of understanding of black memorabilia. . . .People are ashamed but it's part of our history," said Saunders, who, like the other specialists interviewed, is black.

"Macy's is giving in to their customers," said Jeannette Carson, chief executive of Black Ethnic Collectibles Corp., which publishes a magazine on the subject. "They're looking like they're guilty of something by withdrawing it."

Black collectibles have attracted increasing interest in the past decade, and there are about 10,000 collectors of such memorabilia, most of them black, in the United States. Items of interest include comic books, dolls, paintings, photographs, household goods, concert programs and the packaging of goods available for sale in earlier decades.

To enthusiasts of black collectibles, these items shed light on the past, and are valuable for the information they impart on how African Americans viewed themselves in earlier eras, and how they were viewed and depicted by white people.

The difficulty, all involved said, is how things are viewed through the prisms of perspective and time. Some things intended then to be offensive still are offensive now, and serve as useful reminders of what black people

BY NANCY ANDREWS—THE WASHINGTON POST

Steven Lewis put together the controversial Macy's exhibit.

endured in earlier eras, they said. Other objects can be viewed now as representing the hurdles that black people have overcome and the achievements that many have attained, they said.

The Mammy cookie jar, for example: Saunders said that while some viewers would see it as a demeaning depiction of the black woman as a domestic, she sees it as honoring black women who provided for their children by doing housework.

Among the items that were displayed at Macy's, some were positive depictions, some were negative and some were neutral. Among the Valentines from earlier eras, for example, some were sweetly romantic and intended for a black market. Others featured racist stereotypes of black people. Also on display were topsy-turvy dolls, where one side was black and the other white.

Also exhibited were old-fashioned hair-grooming products targeted to a black market, painted liquor bottles and a ceramic figurine that depicted a white child and black child sitting side by side, with the inscription, "Let's Do Business Together."

The reactions from shoppers and some store employees made clear that racist images from the past still have the power to evoke intense emotions. One caller to radio station WKYS, Beverly Obanian, was so dismayed that she suggested on air that the store should be boycotted.

"That's nothing I want thrown in my face," said Obanian this week, adding that some of the people gathered around the glass display cases thought the items were being offered for sale by Macy's.

Andrew Frank was still disturbed by the exhibit five days after seeing it. Frank, a sales associate at Blackberry, a store at the mall that specializes in African American objects, said, "I think we've come too far to even look back at images likes that."

Some problems can arise because of context, and the site where the item is displayed, specialists said. For example, modern-day Mammy cookie jars similar to those in the exhibit are on display for sale at the black-owned Blackberry store, where they have attracted little controversy.

"If a black company had put it up, it wouldn't have been so offensive, Saunders said. "The bottom line is it was Macy's."

Lewis, the owner of the collection, said he laughed when he learned of the outcry because such displays often stir strong emotions.

"Blacks see the images and become spastic," he said. "Blacks need to be reminded of the harshness of what America has done to us as a people."

But he said he feels partially to blame, because he assembled the items, which are staples of his extensive personal collection of memorabilia, wrote up the commentary and left town for a lecture tour without double-checking how the display was being mounted. Lewis said that Macy's had not intended anything offensive.

"There was nothing racist about it," Lewis said. "There was nothing intended to be derogatory."

There might have been an outcry even if the explanatory text had been displayed, said black collectibles expert Carson. "Sometimes people don't even look at those cards," she said.

Macy's spokeswoman Kreisman said some company officials were taken aback by the criticism, particularly because the exhibit had been suggested by a black employee.

"It was really designed for black pride and enjoyment of their own rich background," said Kreisman, who is white. "The sensitivity of people of all kinds is at such a pitch now that there's almost nothing you can do—even something the most benign—that someone won't object to."

Black collectibles expert Saunders said it was appropriate that some items still have such power to shock. "It reflects the past, where we've been," she said. "By seeing the derogatory items, we become stronger because we've overcome those derogatory things. We need to look at it as our strength."

Media Notes

ABC News Plunges Into Whitewater

By Howard Kurtz
Washington Post Staff Writer

"World News Tonight" blew off most of the world Wednesday night.

In a highly unorthodox move, the ABC newscast devoted 18 of its 22 minutes to the Whitewater scandal, a story spectacularly ill-suited to television. "We are going to attempt something ambitious this evening," anchor Peter Jennings announced, "which is to try to explain in one fell swoop the Whitewater jam that Bill and Hillary Clinton seem unable to get themselves out of."

What followed was a primer that broke little new ground but tried to unravel for a national audience the tangled dealings between the Clintons and their Arkansas business partner, James McDougal, whose sav-

See MEDIA NOTES, B4, Col. 3

Whitewater Torrent

MEDIA NOTES, From B1

ings and loan went belly-up. The reports by Jennings, Jim Wooten and Mark Potter also featured the first extended TV interview with McDougal.

"Most people, and I include myself among them, didn't really understand the Whitewater deal," said Rick Kaplan, who replaced Emily Rooney last month as the newscast's executive producer. "It just didn't make sense to do it as a bunch of four-minute pieces."

The sudden immersion in Whitewater, which was primarily a newspaper story until recent weeks, carried echoes of 1972, when CBS anchor Walter Cronkite stunned the Nixon White House by devoting most of one night's newscast to the little-understood Watergate scandal. Kaplan was a junior staffer on that broadcast. A former executive producer of "Nightline," he also admits to a fondness for the Big Story approach.

"With two minutes here and one minute there you think, 'My eyes glaze over, no one's going to understand this,' " Kaplan said. "I said look, the only way to follow this is to do it all at once."

Media analyst Robert Lichter called it "a very good piece of explanatory journalism" that "tells other journalists this is important and tells the White House that journalists aren't going to ignore the story because of the special counsel's investigation." But in a recent Times Mirror poll, only 13 percent of those surveyed said they were following Whitewater very closely.

"It's a gamble," said Erik Sorenson, executive producer of the "CBS Evening News." While crediting ABC's effort, he said, "the downside is you run the risk of depriving people of news they may be expecting to get. You didn't get the news of the day from ABC."

ABC took pains to introduce the cast of characters, interspersing footage of a young Gov. Clinton and his wife with shots of the Whitewater vacation property and pictures of some of the checks. In one newsworthy disclosure, ABC obtained a $20,744 canceled check that the Clintons say paid for part of their losses on the land deal. But the check was written to a McDougal bank as repayment of a personal loan, and McDougal says it had "nothing at all to do with Whitewater."

Christopher Isham, head of the investigative unit, said off-air reporter Chris Vlasto persuaded McDougal to talk by hanging out with him at the Western Sizzlin' steakhouse in Arkadelphia. "We beat the bushes, went through files searched court records," Isham said. White House officials declined to appear on camera.

Kaplan dismissed suggestions that the segment might have been related to media criticism of his long friendship with Clinton. "It's immaterial," he said. "I'm a journalist. This is what I do for a living."

Bee Gets Stung

The Sacramento Bee, under pressure from the black community, has apologized for a political cartoon that was meant to ridicule racism.

The paper published three separate apologies in recent days after 955 readers canceled subscriptions, most black Bee staffers denounced the cartoon and the local NAACP called for a boycott. A black city council member also introduced a resolution assailing the paper.

Last week's editorial page cartoon by Dennis Renault showed two Ku Klux Klansmen reading a statement by Nation of Islam leader Louis Farrakhan that said: "You can't be a racist by talking—only by acting."

In the caption, one Klansman said: "That nigger makes a lot of sense."

The cartoon was referring to Farrakhan's comments last week that anti-Jewish and anti-white slurs by one of his chief spokesmen could not be construed as racism because it was only words.

In his apology, Erwin Potts, chief executive of McClatchy Newspapers which owns the Bee, said: "The cartoon was intended to be a reaffirmation of our stand against bigotry. Unfortunately, that anti-racism message has been lost in the ensuing controversy. And for that we are sincerely sorry."

Renault, however, said there was "no doubt" that the paper had bowed to "an organized effort" of community pressure. "There should have been an absolute, strong statement that we stand behind this cartoon," he said. "And for those sincerely bothered by the word—which has appeared in quotes 50 times in this newspaper since January 1992, on everything from rap groups to white racist groups—you say we're sorry, but this cartoon would run tomorrow just like it did today."

But Nate White, president of the Sacramento NAACP, said Renault's use of "the N-word" was "offensive to black people. On the verge of Black History Month, it was in poor taste. You're referring to a group of people, and that's wrong. We have called for people to drop their subscriptions. . . . They waited too long to apologize."

Editorial Page Editor Peter Schrag, who also apologized, said about 90 percent of the calls to the paper have supported Renault, "including from some black people. . . . I don't think we caved in on the principle. We stuck by the message of the cartoon. We said we're sorry for offending those people who were offended."

Tonya Watch

Number of stories mentioning Tonya Harding since rival skater Nancy Kerrigan was attacked Jan. 6:

USA Today: 122
New York Times: 111
Los Angeles Times: 101
Washington Post: 95

50

White House Reporter Frank Cormier Dies

Associated Press

Frank Cormier, 66, who covered five presidents as White House correspondent for the Associated Press, died Feb. 9 at Commonwealth Care Center in Fairfax. He had a neurological disorder.

Before his retirement in 1980 due to illness, Mr. Cormier was the senior wire service correspondent at the White House and therefore designated to close all presidential news conferences. Countless Americans heard the strapping New Englander's booming: "Thank you, Mr. President."

As White House correspondent for nearly 20 years, Mr. Cormier covered John F. Kennedy, Lyndon B. Johnson, Richard M. Nixon, Gerald R. Ford and Jimmy Carter.

He reported on the Kennedy assassination in 1963 from Dallas and wrote four books, including a personalized account of the Johnson administration.

A native of Worcester, Mass., Mr. Cormier graduated from the Medill school of journalism at Northwestern University. He joined the AP in Chicago in 1951 and transferred to Washington three years later. After a stint covering the Treasury Department, he became White House correspondent in 1962.

Mr. Cormier continued freelance writing after his retirement. He was a former president of the White House Correspondents Association and a member of the Gridiron Club and Sigma Delta Chi, an honorary journalism society. His honors included the alumni achievement award of the Medill school of journalism.

Survivors include his wife of 41 years, Margot Bumiller Cormier of Fairfax; four children, Elizabeth Heinz of Jenkintown, Pa.; John Cormier of Fredericksburg, Va., William Cormier of Mexico City and Michael Cormier of Washington; and eight grandchildren.

1973 PHOTO

FRANK CORMIER

CORRECTIONS

President Clinton's drug-policy announcement was incorrectly described in an article yesterday. The proposed $13.2 billion anti-drug spending level for fiscal 1995 represents a 9 percent increase from the current level.

The U.S.-led operation to airdrop food to besieged Bosnian towns is called Provide Promise. A report from Sarajevo yesterday mistakenly called it Provide Comfort, which is the name of the operation to protect Kurds in northern Iraq.

CLARIFICATION

The Marine Toys for Tots Foundation is cooperating in a federal investigation into whether its former president diverted money from the charity. The foundation is not the target of that probe. An article yesterday misstated the foundation's role in the investigation.

bc-counsel times - a1730
(ATTN: National editors) (Includes optional trims)
House Votes to Resume Probes by Independent Counsels (Washn)
By Michael Ross= (c) 1994, Los Angeles Times=

WASHINGTON The House, capping a highly partisan two-day debate, voted overwhelmingly Thursday to renew the Watergate-inspired law that authorizes investigations of senior administration officials by independent counsels.

The measure, approved 356-56, would re-establish for five years a mechanism for insulating investigations from the political pressures that could be brought to bear when the Justice Department looks into alleged criminal wrongdoing by top officials of the same administration.

The legislation passed only after a test of wills in which Democrats beat back a Republican attempt to apply the law equally not only to the president and other senior executive branch officials, but also to members of Congress.

Hoping to draw Democratic votes from the ranks of reform-minded freshmen, GOP leaders argued that the low esteem in which Congress is held by voters would be further depressed if the lawmakers did not vote to also apply the law equally to themselves.

``Here's your chance ... to reform the way this place works,'' Rep. Henry J. Hyde, R-Ill., said in an appeal to the chamber's 110 freshmen lawmakers. ``The American people want us to be covered by this law.''

Democrats denounced the Republican proposal as a thinly disguised attempt to politicize the statute and render it unworkable. They defeated a substitute bill offered by Hyde, 230-188.

Like the expired law it replaced, the new legislation would require the Justice Department to conduct a preliminary investigation if the attorney general receives ``specific and credible'' information alleging criminal wrongdoing by any of 60 senior executive branch officials, including the president.

If the investigation finds ``reasonable grounds'' to believe that further investigation is necessary, the attorney general is required to ask a special three-judge panel of the U.S. Court of Appeals to appointment an independent counsel.

Also like the old law, the measure would allow but not require the attorney general to seek appointment of an independent counsel to investigate members of Congress.

The House bill must now be reconciled with similar legislation passed by the Senate last November, but the differences between the two bills were minor and should pose no obstacle to final passage, sponsors of the legislation said.

(Optional add end)

First approved in 1978 in the wake of the Watergate scandal that drove former President Nixon from office, the independent counsel law was meant to circumvent the conflict of interest that an attorney general might face if called upon to investigate the president, vice president or other senior officials.

Since then, there have been 13 independent counsel investigations, although few convictions. The most famous case independent counsel Lawrence Walsh's $37 million probe into the Iran-contra affair proved to be the law's undoing, however. Angered by what they charged was a partisan probe, Senate Republican blocked a renewal of the independent counsel law when it expired in December 1992.

But President Clinton's election, and questions subsequently raised about his involvement in the troubled Whitewater Development Corp., focused new attention on the need for an independent counsel statute. Republican objections diminished.

``You can believe that we want a strong independent council's office... now that the folks from Arkansas are in charge,'' Hyde said.

In the debate over fully including Congress, Democrats argued that expanding coverage was unnecessary because the Justice Department can and has investigated members of Congress without raising conflict of interest concerns.

-quake-recover - a1941
(ATTN: National editors) (Includes optional trims)
California Gov. Proposes Borrowing to Pay Quake Bill (Sacremento)
By Daniel M. Weintraub and Dan Morain= (c) 1994, Los Angeles Times=

SACRAMENTO, Calif. California Gov. Pete Wilson proposed Thursday that the state borrow money to pay most of its $1.9 billion share of the Jan. 17 Southern California earthquake recovery costs to avoid raising taxes.

Wilson's plan would manage the state's end of the recovery with a loan from the federal government, a state bond issue, and unspecified cuts in existing state spending. Wilson's proposal attracted some initial support from legislative leaders but was harshly criticized by his Democratic opponents for governor.

``Taxes should be a last resort and not a first response,'' Wilson told the news in his office after a meeting with legislative leaders. ``The facts show that the state's general fund exposure can be financed without raising taxes.''

Wilson said that, unlike after the Loma Prieta earthquake, which struck the San Francisco Bay area in 1989, the state's economy cannot absorb a tax increase.

Legislators enacted a quarter-cent, temporary increase in the sales tax to raise $761 million after the Loma Prieta earthquake.

``We really can't afford an earthquake recovery plan that threatens an already fragile economy,'' Wilson said.

He said the state's unemployment rate is nearly twice what it was in 1989 and that personal income, which was growing at a 7.7 percent annual rate then, is nearly stagnant today. Wilson also noted that both the sales and gasoline tax have been raised significantly since 1989.

Wilson's three-point plan includes elements that will need approval from the voters, the federal government and the state Legislature.

The largest part of it would be the proposed $1.05 billion bond issue, essentially a 20-year mortgage taken out by the state. Wilson wants to seek voters approval for the measure in June.

About half of the amount raised by the bond issue would go toward costs that are already being incurred for the state's share of freeway repair and for the reconstruction of local government buildings and schools.

The other half would be spent on low-interest loans to homeowners to supplement the program run by the federal Small Business Administration. That portion $575 million will not be spent unless the bond measure is approved, Wilson said.

The second part of Wilson's plan calls for the federal government to allow California to delay payment of the estimated $334 million the state will owe as matching funds for federal disaster aid. The state would pay the money in three annual installments beginning on July 1, 1995.

The governor said that he had spoken by phone with Leon Panetta, director of the federal Office of Management and Budget, and that Panetta said the Clinton administration would be open to the idea of the loan.

``They certainly did not reject it out of hand,'' Wilson said.

(Optional add end)

The final part of the plan would require at least $290 million in cuts to the existing state budget to make up for the loss of tax revenue and to pay the state's share of grants to individuals and families.

Another $80 million would have to be cut to make the first of the annual payments on the bond measure if it is approved. Wilson did not say where he would make those cuts in a budget that already is $3 billion out of balance. ``It is part of the challenge we will face in dealing with the budget gap in general,'' he said.

The state would lose another $225 million over the next 10 years as people use their property damage losses as deductions to reduce their taxes.

The Jan. 17 earthquake caused an estimated $13 billion to $20 billion in damage. The tab for federal, state and local governments is estimated at $11.6 billion. President Clinton has proposed that the federal government pay $9.5 billion of that amount.

House Votes to Restore Independent Counsel Law

By ADAM CLYMER
Special to The New York Times

WASHINGTON, Feb. 10 — The House voted overwhelmingly today to put the independent counsel law, first enacted in the aftermath of the Watergate scandal, back on the statute books.

The new measure, which provides for prosecutors appointed by a panel of Federal judges in cases involving high-ranking Administration officials. The old bill was not renewed in 1992, when Senate Republicans voted against re-enacting it.

Today's House vote to restore independent counsels — who would not be subject to Justice Department direction — was 356 to 56, with 112 Republicans voting in favor along with 243 Democrats and one independent, while 54 Republicans and 2 Democrats voted against the bill.

House-Senate Conference

This vote sent the measure to a House-Senate conference. The Senate passed the bill last November, with 25 Republicans joining 51 Democrats in voting for passage.

Though the bill may become law by the end of the month, it is not expected to be invoked in the inquiry into President and Mrs. Clinton's connections to the Whitewater Development Company. There weeks ago, Attorney General Janet Reno appointed a special prosecutor, Robert B. Fiske Jr., to investigate that case. Under the existing regulations she used to appoint him, he could be dismissed only for "good cause" or physical infirmity, and she would be required to explain her action to Congress.

Before passing the independent counsel bill today, the House went through a bitter partisan battle over how it should deal with investigations

...ans insisted that the Attorney General be required to consider Senators and Representatives on the same basis as Cabinet members. That means she would have to apply to the judges to name a prosecutor if she thought there was "credible evidence" against them, and she would not be able to keep their prosecution within the Justice Department.

Wide support for a vestige of the Watergate era.

Democrats, arguing that the Justice Department had no problem investigating members of Congress without judicially appointed prosecutors, held out for a provision that would allow the Attorney General to ask for an independent counsel if she thought it necessary to avoid a conflict of interest. That ...tandard was in the law before it expired, and was never used.

Representative George Gekas, Republican of Pennsylvania, said the Attorney General should not have the ability to disregard an accusation against a "high-ranking, high-profile member of Congress."

But Representative John Bryant, Democrat of Texas, asked, "Are you not aware that members of Congress are under investigation today?" He urged Republicans to look at daily newspapers if they wanted to make sure.

The House voted 230 to 188 to make it optional with the Attorney General whether to invoke the statute in the case of members of Congress. The majority included 227 Democrats, 2 Republicans and anindependent.

Member Under Indictment

On the losing side were 2 Democrats and 167 Republicans, including Representative Joseph M. McDade, the only member of the House now under indictment. He is the senior Republican on the House Appropriations Committee, and was indicted for bribery in 1992.

...ans that the Senate version does not require the counsel to discuss cases that were investigated but not prosecuted in a final report. Senator Bob Dole of Kansas, the Republican leader, sought the change after contending that innocent people were unfairly subject to attack in final reports, such as the Iran-contra report.

The House version retained the language of the original bill, under which the prosecutor was directed to explain his investigations, whether or not they led to charges.

Much of the previous Republican antagonism was directed at Lawrence E. Walsh, whose investigation of the Iran-Contra case lasted seven years and cost more than $35 million. The new version of the bill includes some new cost controls and financial reporting requirements.

The Clinton Administration supported re-enactment of the law, under which the Attorney General can act on her own or must either seek the appointment of a counsel or explain why not if a majority of either the Republican or Democratic members of the Judiciary Committee in either the Senate or the House.

Shuttle Crew Prepares To End Joint Mission

CAPE CANAVERAL, Fla., Feb. 10 (AP) — Discovery's crew packed today to come home after a mission that was the first American-Russian shuttle partnership but that achieved mixed results on its scientific goals.

Bad weather threatened to disrupt the National Aeronautics and Space Administration's plans for the shuttle landing. Forecasters said rain, low clouds and high wind were possible at the Kennedy Space Center, any one of which could prevent Discovery from landing as scheduled at 12:44 P.M. Eastern time on Friday.

Flight directors said they would consider sending Discovery to Edwards ...

...day afternoon, if necessary. Another option would be to delay the landing until Saturday but only if meteorologists thought the Florida weather would improve by then.

Five Americans and the first Russian to fly on a United States shuttle, Sergei K. Krikalev, have been in orbit since Feb. 3.

WASHINGTON

Independent counsel law wins House OK

The House voted Thursday to revive the independent counsel after questions about President Clinton's land dealings in Arkansas brought Republican converts to the idea.

The House bill, similar to a Senate-passed version, would [illegible] again allow court-appointed counsels to investigate top government officials. It now goes to a conference for final clearance.

The old law expired in December 1992 after Senate Republicans, angry over the $37 million Iran-contra investigation by Lawrence Walsh, killed it with a filibuster.

Lawyer Robert Fiske was named a special counsel to investigate Clinton's Whitewater dealings. But he will report directly to Attorney General Janet Reno.

'THREE STRIKES': A proposed "three strikes and you're out" law should guard against turning prisons into "a geriatric ward at age 75 or 80 for people who are no longer dangerous," Attorney General Janet Reno said. President Clinton supports the idea of putting three-time violent offenders in prison for life. Legislation passed by the Senate would impose a mandatory life term without parole for people convicted of three violent or drug-related crimes, when the third conviction was in federal court. The administration wants a law to focus on putting truly dangerous offenders away "for all of their crime-producing life," Reno said. Some could be excluded, such as someone who "gets in a barroom brawl and is charged with a violent felony at 18, and then at 40 does something else, and then at 50 does something else," she said.

AP

RENO: Some exclusions to the law

CRIME/DISABILITY: The Senate voted to block criminals from receiving federal disability payments by counting their ill-gotten gains as assets. It would change current law that requires individuals to show they are unable to perform gainful activity to be eligible for disability benefits. A recent report released by Sen. Bill Cohen, R-Maine, showed the government paid $1.4 billion in benefits last year to 250,000 addicts, many who then bought drugs and alcohol.

HEALTH OVERHAUL: Sens. Harris Wofford, D-Pa., and Edward Kennedy, D-Mass., major supporters of President Clinton's health-care plan, don't think it goes far enough in providing long-term care benefits. They introduced a bill to provide a government-run nursing home insurance program. Clinton's plan promises adult day care and home care for seniors and the disabled, but it doesn't cover extended nursing home care. Polls show seniors want long-term care as part of the Clinton reform program in return for supporting it. Wofford said his plan would guarantee families have a choice of nursing home plans and protection "from going bankrupt from the cost of care." Industry officials dismissed it as not properly financed.

Also, the American College of Surgeons endorsed the concept of nationalized health insurance, saying a tax-supported system like Canada's would do more to preserve patients' choice of doctors than other health-care proposals, including Clinton's.

Pat Robertson's Christian Coalition said it was launching a $1.2 million campaign against Clinton's health-care plan, a blitz that will include up to 30 million postcards to be sent to members of Congress from churches across the country.

— Judi Hasson

JUSTICE SUPPORT: The Congressional Black Caucus, seeking to blunt any right-wing attack on President Clinton's latest nominee to head the Justice Department's civil rights division, strongly endorsed Boston lawyer Deval Patrick for the job Thursday. "We like his credentials," said Rep. Kweisi Mfume, D-Md. "Those who will seek to define him by using other terms and misinformation should know they will confront us at every turn." The caucus also called for Justice Department intervention in lawsuits that threaten to dissolve minority congressional districts.

ELSEWHERE IN THE WORLD

Group: U.S. firms violate trade embargo on Haiti

At least 50 U.S. firms are violating a U.N. embargo against Haiti — including some companies doing business with supporters of the coup that toppled president Jean-Bertrand Aristide, a coalition of Haitian advocates said Thursday. They also accused the U.S. Agency for International Development of partially funding a Haitian humanitarian organization controlled by a group loyal to the coup leaders. AID denied the charges. "This is just shocking and it sends the wrong message to the Haitian coup leaders," said Charles Kernaghan of the National Labor Committee, one of the groups.

AP

GAIDAR: Wants to create new party

RUSSIAN POLITICS: Yegor Gaidar, the champion of Russia's market reforms, said he wants to create a new political party to avoid another defeat of reformers, who lost December's legislative elections.

Gaidar, now in parliament, said reformers need a well-oiled campaign machine to succeed in the 1996 presidential race and other elections. Gaidar was the principal architect of the free-market changes that began in early 1992.

BRIBE CLAIMS: Russian ultranationalist Vladimir Zhirinovsky claims he's been the object of many bribery and murder attempts, including a $100 million offer from "American Zionists" to get out of politics.

MIDEAST PEACE: Israel said it needs at least one month to reach final agreement to turn over the Gaza Strip and Jericho to the Palestinians. Israeli Prime Minister Yitzhak Rabin said there would be no prisoner releases or Israeli troop withdrawal until then. PLO leader Yasser Arafat and Israeli Foreign Minister Shimon Peres signed an agreement Wednesday resolving key issues in the transfer.

KIDNAPPINGS: Somalian gunmen freed two British lawmakers and a charity worker, 24 hours after they and three others were abducted in northern Somalia. The other hostages were released earlier. The British Foreign Office said there was no ransom demand and that the kidnappings resulted from a dispute between two clans.

GUERRILLA DIES: Victor Phama, commander of the biggest black guerrilla group still waging war against white rule in South Africa, was killed in a car crash in Tanzania. Phama was commander in chief of the Azania People's Liberation Army, the military wing of the radical Pan Africanist Congress, based in Tanzania.

The Washington Times FRIDAY, FEBRUARY 11, 1994 ★

RICO the White House?

PAUL CRAIG ROBERTS

Whitewater t 'avail

In recent days the White House must have thought it was sitting on top of the San Andreas Fault. On Jan. 27, the New York Post reported that the ambulance driver and paramedics who picked up Deputy White House Counsel Vincent Foster's body doubt that it was suicide, and their baffleme nt has been echoed by various law enforcement officials.

The aftershocks were even more severe. On Feb. 3, the New York Post reported that recently ousted FBI Director William Sessions charged that the investigation of Mr. Foster's death was compromised from the beginning by political operatives in the White House and Justice Department. Unidentified FBI agents have told the press that they were called in for cover but were not permitted to really investigate.

On Feb. 4, the New York Times reported that the U.S. Park Police are critical of the White House for impeding their investigation of Mr. Foster's c h.

And on Feb. 9, The Washington Times reported that employees of the Rose Law Firm have said Whitewater documents were shredded by the law firm during the first week of February. A spokesperson for the law firm denies the story.

Whatever the Clintons hoped to achieve by withholding from the public the Whitewater documents and the police report on Mr. Foster's ı, the result has been growing suspicions, fueled by damaging leaks and speculations, that they have much to hide.

Not even Richard Nixon dared to destroy the incriminating tapes in his possession. If special prosecutor Robert Fiske fails to thoroughly investigate the report of shredding, he will confirm New York Times columnist William Safire's surmise that he was chosen as special prosecutor for his "political malleability."

The following is a summary of the Clintons' legal problems and their maneuvers to control the law enforce- : arms of the government.

It is obstruction of justice — a felony — to destroy documents relating to an investigation. If documents have been shredded as reported, a single telephone call to the Rose Law Firm from the White House or Webster Hubbell is sufficient to link the Clintons and/or the associate attorney general to a conspiracy to destroy evidence.

Similar obstruction of justice charges could arise from the revelation that Clinton political operatives removed files from Mr. Foster's office, which should have been sealed following his death, and withheld them from investigators.

Mr. Clinton could be implicated in S&L fraud. Republican investigators for the House Banking Committee claim to have established that Madison S&L funds were diverted through the Whitewater Development Corp. to pay off a Clinton loan. This is more problematic for Mr. Clinton than instances of Madison directly diverting its funds to pay his campaign debts, because as a partner in Whitewater he cannot reasonably plead ignorance of the transaction.

Mr. Clinton could also be implicated in Small Business Administration loan fraud. David Hale, who has been indicted, says Mr. Clinton pressured him to make a $300,000 loan to Mrs. James McDougal, a business partner of the Clintons who was not qualified for the loan. Part of this money showed up in the Whitewater account.

Various tax experts who have examined the Clintons' tax returns have concluded that deductions were taken for interest payments on loans that were paid by Whitewater Development Corp., their joint venture with the McDougals.

Mrs. Clinton has additional legal problems because of conflicts of interest while a lawyer at the Rose Law Firm. In the Madison S&L case, she represented herself and her husband's business partner, James McDougal, before a state regulatory board appointed by her husband. In an Illinois S&L case, she represented regulators in a suit against her husband's political ally and contributor, Dan Lasater.

These conflicts of interest are a legal problem for Mrs. Clinton, because it is an omission of a material fact — and, therefore, a violation of the criminal code — not to disclose such conflicts of interest to federal regulators. If she has twice omitted material facts, she also could be subject to prosecution under the RICO racketeering statute.

But don't hold your breath. The law enforcement arms of the government are being politicized in a way that would never be permitted for a Republican administration about which there were so many grounds for doubts.

Congressional Democrats refuse to conduct hearings.

Deputy Attorney General Philip Heymann, who took exception to the White House's handling of the Foster investigation, has been abruptly terminated. Speculation is that he will be replaced with Jamie Gorelick, who has close ties to the embattled lawyers in the White House.

The Resolution Trust Corp., supposedly an independent federal agency empowered to make law enforcer decisions concerning the Clintons' entanglement in the Madison S&L scandal, has been without a director for a year. A Clinton executive branch appointee to the Treasury De t has been running the independent agency on an acting basis.

To complete his control over the investigative arms of the government Mr. Clinton is pushing Ricki Tigert, his nominee to head the FDIC, through ate confirmation, along with a t concentrate regulatory powers ove financial institutions in her hands.

While the Whitewatergate coverug advances apace, little people are being hauled off to jail under obscure f and false statement provisions of the fed eral criminal code. People who bor rowed money from family or friends t make downpayments on homes, an failed to report the loans on their gage applications, are being sent t prison for five years. So are estat agents, if they had knowledge of th informal loans that facilitated hom ownership.

God help America when there is law for the strong and one for th weak.

Paul Craig Roberts, a distinguishe fellow of the Cato Institute and a fo assistant secretary of the U.S. Treasur is a columnist for The Washingto Times and is nationally syndicated.

The Washington Times FRIDAY, FEBRUARY 11, 1994 ★

STEFAN HALPER

Moscow's unfolding debacle ✓

Russia today is a wake-up call for the "mega-thinkers" laboring late into the night on the State Department's seventh floor, including Mr. Strobe Talbott, soon to be the deputy secretary of state. The debacle unfolding in Moscow tells us that while engineering projects, like the reconstruction of a nation, can be an object of our diplomacy, they cannot be the measure of its success. Today's complexities exceed those in 1947, for example, when Europe, supine and eager for the Marshall Plan, was spoon-fed its future by the Allied High Command.

The Russian failure, if we can call it that, is salutary. It invites us to look again at what is practical, what is doable and in our interest as the world's most powerful, but not only powerful, nation. It directs us to Lord Salisbury,the remarkable British foreign secretary who, at the turn of the century, told us the secret of the 100-year British imperium: "British foreign policy is to drift lazily downstream throwing out the occasional boat hook to avoid collision."

Today's world of regional powers and global organizations replaces both the balance of power politics of the century's first half, and the bipolar competition of the Cold War. And it is the effective use of the authority and resources of the multilateral institutions — the United Nations, the International Monetary Fund, NATO, the European Union — in support of our policy objectives that should be the prime measure of success. That is not to suggest that we avoid committing our prestige or resources to support our interests —economic, political etc. We must. But we must define our goals narrowly and clearly — erring, if necessary, on the side of too little rather than too much.

Stunned by the slow motion train wreck in Moscow, some now say "Maybe Russia was never ours to lose." Indeed, Russia — 11 time zones, 160 million people, countless dialects, ethnic groups and factions — is not now nor ever has been ours to lose.

How did we come to think otherwise?

In its first year the Clinton administration, with loose and shifting objectives, ma. aged to cashier our prestige through nation building adventures that were oversold for political gain. Haiti and Somalia come to mind, but Russia has been more damaging. Mr. Clinton's cheer leading and election-style campaigning on the streets of Moscow did little but caricature America's commitment to market-democracy. This display, together with the administration's pushy diplomacy and its effort to pass a multibillion-dollar Russian aid bill, somehow caused us to believe that Russia's trial was a test of our strength as an enlightened democracy. In that sense, losing Russia meant losing something of ourselves — an artificial predicament constructed by an administration that smoothly mixes ideals with objectives, and possibilities with necessities.

What to do. There are two main sets of policy objectives in the U.S-Russia relationship. The first is to encourage Russian internal democratic and market reform. The second is to limit Russian imperialist tendencies — particularly encroachment on Europe. (Our concerns on Russia's Central Asian and southern borders run principally to ensuring stability). The first issue is best addressed by the IMF and the World Bank, who have, together, disbursed $1.8 billion of the $4.1 billion promised for short-term currency stabilization. The rest will be released when Russia meets lower inflation targets previously agreed to. The Group of Seven Industrial Democracies (G-7) have also helped by providing $6.2 billion in export credits that allows the purchase of goods and technical assistance on credit to revamp the economy. U.S. financial help, when it arrives, will support the growth of small businesses, provide training to those transitioning from the public to the private sector, and facilitate defense conversion — and, though not decisive, that is all to the good.

The second objective is best met by a NATO invitation to interested Eastern European nations to join, and a clear statement by Washington on the absolute requirement that Russia withdraw all remaining troops from Europe and the Baltics. The projection of military power by Moscow on Russia's eastern and southern borders will soon be a factor in the region's diplomacy. There is little Washington can do about it, or should so long as stability is maintained.

Meanwhile, we might consider the notion that if the Russian boat runs aground, we "throw out the occasional boat hook" but not wrap our destiny in Russia's future..

Stefan Halper is a former White House and State Department official and a nationally syndicated columnist.

MONA CHAREN

Sketching real welfare reform ✓

Charles Murray proposes the following "thought experiment": Suppose you knew that tomorrow your children would become orphans. You have the option of placing them with one of two families. The first is very poor. Your children will be poorly clothed and will even sometimes be hungry. On the other hand, the poor couple have worked hard all their lives, will make sure your children go to school and study, and will teach your children that independence is a primary value.

The other couple has never worked and is incapable of overseeing your children's education. Still, they have good clothes ahd plenty to eat — all provided by others.

Which couple would you choose? Most people would unhesitatingly choose the first couple — a fact that sheds interesting light on debates about reforming the welfare system. Far too much condescension has infected welfare policies to date — too much belief that some people should receive handouts because (a) they, unlike us, are incapable of making their way in the world on their own; and (b) they deserve a free ride after all of the abuse their ancestors suffered.

As Mr. Murray has pointed out in a recent Wall Street Journal piece, the rate of white illegitimacy is now rising so fast that we will soon see the emergence of a white underclass. As frightening as this is for the health of the republic, it does provide a fresh opportunity to talk honestly about welfare reform.

Surely, when we set about revising the welfare system, our aim should be to do as much for the poor as we would do for our own hypothetically orphaned children.

Mr. Murray has made a persuasive case for abolishing the entire federal welfare system for able-bodied, working-age people. He would eliminate Aid to Families with Dependent Children, Medicaid, food stamps, unemployment insurance, worker's compensation, subsidized housing, disability insurance and the rest.

Unless we do something to discourage people from getting on welfare in the first place, we will do little to reverse the social calamity that welfare has spawned.

What would people do without the hammock that the social safety net has become? Well, some, probably a great many, would find jobs. Others, Mr. Murray argues, would revert back to traditional sources of help. Pregnant women would turn to their families and churches for help. Those institutions would then put pressure on young males to either marry and support their children or refrain from premarital sex. Faced with the economic consequences of sexual license, America would undergo a "desexualization" of adolescence.

It is also quite possible that the first result of such a reform would be a surge in the number of abortions. "People often conclude," Mr. Murray says, "that what is economically necessary is also morally right." Alas, such rationalization could lead not to the "desexualization" Mr. Murray hopes for but rather to an even more robust enthusiasm for abortion.

Is the point of welfare reform to force recipients to work? Mr. Murray is skeptical. Unless we do something to discourage people from getting on welfare in the first place, we will do little to reverse the social calamity that welfare has spawned.

Mr. Murray is suitably cautious about his own proposal. Understanding the law of unintended consequences better than most, he would like to see a single state experiment with such a reform before the rest of the nation adopted it. To its credit, the Clinton administration has approved each state request for waivers to experiment with welfare reform.

Pending the Murray millennium, achievable welfare reform would include ending the housing subsidy for unwed mothers. Today, having a baby is a way to get your own apartment. This is folly squared. Unwed mothers should know they will be required to live in group homes, with chores, rigid curfews, roommates and child-care classes. If a mother declines to live in such a setting but will not support herself and her child, her parental rights should be terminated. If she becomes pregnant while on welfare, her stipend should not increase.

Unwed fathers should be identified and forced to pay child support. If unemployed, they should be required to perform community service.

True welfare reform must impose real consequences for the anti-social behavior of bearing illegitimate children. Work requirements, medical coverage and job training have been tried. They failed. It's time for more stick and less carrot.

Mona Charen is a nationally syndicated columnist.

Pruden on Politics

By Wesley Pruden

A tale of Li'l Abner and Daisy May

Nobody plays the rube country boy better than the rube country boys, as a glance at the White House reminds you.

But they've got some artful lawyers down in Arkansas, too, who can draw up loopholes as convenient and as commodious as the loopholes drawn by any lawyer in Philadelphia.

James McDougal, who went partners with Bill and Hillary Clinton in that infamous Whitewater development on the White River, confesses that he just can't understand what all the fuss is about. They were just a bunch of good ol' boys sittin' around "tradin' mules," that's all.

This is the line that Bill Clinton peddles often, whenever he feels himself in a tight place, biting his lower lip and playing off the stereotype of Arkansas as Dogpatch, populated by hayseeds and rednecks who can't keep their shoes on, their hair greased down and their pants zipped up.

In Mr. Clinton's case, it's not entirely an act, but if nobody is likely to mistake the Country Club of Little Rock for Buckingham Palace, or Oaklawn Park for Ascot, it's nevertheless true that the Clintons and the Rose Law Firm have dealt unkindly with the reputation of an elegant and sophisticated little jewel of a city where folks with the right stuff are as aghast as the rest of us by what is being done in their name by this passel of cousins of the late Flem Snopes.

Mule traders or not, when the Rose Law Firm got caught shredding Whitewater documents the managing partner, after declining an opportunity to squelch the story with a believable denial before publication, went into the Philadelphia loophole mode.

The very idea that a law firm as reputable as Rose would do such a naughty thing — lawyers have ethics, don't they? — was "totally false," he said. "To my knowledge, we have no documents in the firm's possession related to Whitewater." Then he added: "If we do, we are accumulating them in a single location awaiting the appropriate time that they will be examined." Loopholes 1, 2 and 3.

Managing partner

By early afternoon, Ron Clark, the managing partner, had revised his revisions, saying that Rose had no "significant" Whitewater documents, but they were being held anyway "in anticipation" that they might be requested by federal authorities, though the firm had so far not received subpoenas or requests for the records.

Not only that, he said at nightfall, the Rose firm "has actively made every effort to preserve *all the files that would have any connection with the Whitewater-Madison matter or any other matter which may be reviewed by the Independent Counsel.* The firm will continue to see that all such files are securely maintained."

The italics describing the biggest loopholes of all are mine. Was this an admission that some Whitewater documents were destroyed, but none that mattered? How would anyone at the Rose Law Firm know which records the Independent Counsel may want to review? Unless, of course, Webb Hubbell, who was the managing partner of the Rose Law Firm until he was brought to Washington to be the managing partner of the Justice Department, thinks he has Robert Fiske's investigation wired, too.

This sort of "denial" is from the Racehorse Hanes School of Criminal Law, originated by the famous Houston lawyer that every guilty man wants to defend him. "If you sue me because my dog bit you," Mr. Hanes once explained to a group of aspiring Blackstones, "I will deny that I even have a dog. If you prove I have a dog, I will argue that my dog is always kept on a leash. If you prove that he was off the leash, I'll argue that my dog doesn't bite."

The Racehorse Hanes denial only works on someone who wants it to work; maybe the jury likes the way the defendant bites his lower lip, or the cut of the cloth of his suit, or the way he slouches in his chair.

That's why the Racehorse Hanes denial has always worked for Bill Clinton, who has perfected it to a degree not often seen in U.S. politics. Li'l Abner, Daisy May and their friends have so far sold the notion that working bank scams by day, and making out in pickup trucks with Astroturf in the back by night, is just the way they do things down home, so what are you goin' to do with a good ol' boy like Bill?

The Washington Times FRIDAY, FEBRUARY 11, 1994 ★

A budget deficit that can never be taken away

By David Dickson

Given governmental gridlock during the Reagan-Bush era, federal budgets submitted by the administration to Congress were customarily greeted as "dead on arrival." With the end of gridlock, the life expectancy of budgets has barely improved, increasing from zero to 30 hours.

That is how long it took the Congressional Budget Office to torpedo the deficit projections in President Clinton's fiscal 1995 budget. Born at 8:00 a.m. Monday, the budget was killed 2:00 p.m. Tuesday when CBO Director Robert Reischauer confirmed what Senate Finance Committee Chairman Daniel Patrick Moynihan asserted last year — to wit, the health care-expenditure estimates of Hillary Clinton were "fantasy."

Rather than reducing the federal budget deficits by $59 billion over five years, as the Clintons claimed, their health care plan would instead add $74 billion to the national debt, according to the CBO. (Take no solace from Mr. Reischauer's prediction that the president's plan "could potentially reduce the deficit" by 2004. In 1965, the last time the government bull entered the health-care china shop, government analysts every bit as authoritative as the CBO predicted that the federal expenditures of the newly enacted Medicare and Medicaid programs would together total less than $20 billion by 1990, when in fact they exceeded $135 billion.)

To see why, the differences among the actual deficit, the cyclical deficit, the structural deficit, and the on-budget deficit and off-budget surplus must be understood. As the president's budget explains, "When there is slack in the economy, receipts are lower than they would be if resources were fully employed, and outlays for unemployment-sensitive programs (such as unemployment compensation and food stamps) are higher. As a result, the deficit is higher than it would be at full employment. The portion of the deficit that can be traced to such factors is called the cyclical deficit. The remainder, the portion that would remain at full employment (consistent with a 5.5 percent unemployment rate), is called the structural deficit." The actual deficit is the sum of the cyclical and structural deficits.

From 1995 to 1999, actual deficits are forecast to average $179 billion per year. Because the administration projects that the economy will be near full employment during most of this five-year period (a highly questionable assumption that disavows the business cycle), the average actual deficit approximates the average structural deficit, which is $170 billion per year.

According to Joseph Stiglitz, a member of the president's Council of Economic Advisers, "Most economists believe that a government is fiscally responsible so long as there is no full-employment (structural) deficit." Yet, based on the newly issued budget, the structural deficit for each of the next five years will exceed 2.1 percent of Gross Domestic Product. Adopting the president's health package would increase the structural deficit to more than 2.3 percent of GDP, according to the CBO.

Ostensibly, this deficit level compares favorably to the average structural deficit achieved by Mr. Reagan (3.1 percent of GDP). But two important caveats need to be considered.

First, spending an average of 6.2 percent of GDP on national defense, Mr. Reagan fought, and the U.S. subsequently won, the Cold War. Mr. Clinton, having inherited the fruits of that victory, will spend 3.3 percent of GDP on national defense. (Here's a little-known, and never-reported, fact: From 1981 to 1986, President Reagan spent $55 billion *less* on national defense than Jimmy Carter sought in his last budget and eventually deployed 1,500 *fewer* MX-missile warheads than Mr. Carter demanded.)

Thus, if Mr. Clinton were compelled to fund national-security programs at the level deemed essential by the Carter-Reagan buildup, and if Mr. Clinton further sought to maintain a structural deficit no higher than Mr. Reagan's average of 3.1 percent, he would need to obtain additional budget cuts and tax increases totalling more than $160 billion *per year*. Absent such action, Mr. Clinton's budget projections would reflect structural deficits nearly twice the level of his present budget forecasts and greater than 5 percent of GDP.

The second caveat — and the one that sends Mr. Moynihan to Fantasyland — concerns the squandering of the Social Security surplus that is purportedly accumulating in the Orwellian-named trust fund. Here, an understanding of the distinction between on-budget and off-budget accounting is needed.

In 1983, when Social Security was in danger of running a large deficit, payroll taxes were drastically increased, assuring that huge surpluses would accumulate in the Social Security trust fund in order to pay the retirement obligations to the baby boomers in the next century. In 1985, the Social Security trust fund was moved "off-budget," ostensibly to protect its growing surpluses and to remove Social Security from political play.

In reality, the "off-budget" surpluses in the trust fund were used by Congress and the president to reduce the growing "on-budget" deficits dollar for dollar. In effect, the trust money was being squandered to mask the size of the "on-budget" federal deficit. At first, annual trust-fund surpluses were relatively small, averaging less than $5 billion in 1984 and 1985. By 1988, the "off-budget" surplus was $39 billion, and it reduced the "on-budget" deficit by a like amount. Finally, Mr. Moynihan, who was then chairman of the Senate Finance subcommittee on Social Security, blew the whistle on the scam in December 1989.

In 1990, he observed, "We are abusing a trust. We are taking moneys given for retirement benefits, for widows and orphans and for the disabled, and we're using it as if it were general revenue." Mr. Moynihan, who was tutored about the intricacies of trust-fund accounting by former Social Security chief actuary Robert Myers, has long advocated "a tough combination of budget cuts and tax increases to move us quickly to a balanced operating budget." In turn, according to the senator in 1992, "The largest revenue stream in the history of public finance would immediately begin buying down the privately held public debt with a corresponding increase in the savings rate for the economy as a whole, leading to the higher investment levels that would in turn produce the extra income needed when the baby boomers then paying the retirement trust fund would begin drawing out of it."

During Mr. Reagan's tenure, the government "embezzled" (Mr. Moynihan's word) $137.8 billion from the trust fund, an average of $17.2 billion per year, and reduced the "on-budget" deficits by corresponding amounts.

According to Mr. Clinton's budget, $392.1 billion will be "embezzled" over five years, reducing the "on-budget" deficits by an average of $78.4 billion *per year*.

Mr. Reagan's "on-budget" deficits averaged $192.7 billion per year. According to Mr. Clinton's five-year forecast, his "on-budget" deficits will average $256.9 billion per year. The Clinton budget offers the technical point that some interfund transfers cancel one another, but the main thrust of Mr. Moynihan's "embezzlement" charge is true.

In fact, in February 1990, when asked about Mr. Moynihan's "embezzlement" charges, the chairman of the House Budget Committee said, "It begins to raise in really large letters the question of equity." His name? Leon Panetta, Mr. Clinton's director of the Office of Management and Budget.

David Dickson is a research librarian at The Washington Times

The Washington Times FRIDAY, FEBRUARY 11, 1994 ★

R.EMMETT TYRRELL JR.

Little Rock labyrinth

Did you know that last week was "the worst week of scandal for the Clintons since they moved into the White House"? This is the judgment of Ambrose Evans-Pritchard, the Washington correspondent for London's Sunday Telegraph, which is where he deposited this judgment. Much more so than the American media, the British media are alive with reports on the Clintons' scandals; and Mr. Evans-Pritchard, who is equal parts scholar, journalist, and adventurer, has been particularly tireless in examining those scandals. Last week he based his judgment on the fact that "allegations of unethical practice, conflict of interest, and outright criminality rained down from all quarters."

Mr. Evans-Pritchard, whose solitary missions to report on leftist guerrillas in jungle hideaways and on urban terrorists in their European lairs, had spent the week in sordid Little Rock. In the course of his investigations there, he laid hands on copies of checks from the mysterious Whitewater Development Corp. to Bill and Hillary Clinton. The Arkansas development company was jointly owned by the Clintons and James and Susan McDougal of Madison Guaranty Savings and Loan fame. The checks for $7,322.42 and $6,361.65, allegedly paid off personal bank loans contracted by the Clintons. Americans, if they live in the greater D.C. area, perhaps read of this in The Washington Times. Otherwise, I guess you had to be in London.

While in Little Rock Mr. Evans-Pritchard had tea with a former Arkansas Supreme Court Justice, Jim Johnson. Mr. Johnson is a friend of David Hale, who authorized a $300,000 loan of dubious legality to Bill Clinton's friends the McDougals. Mr. Hale insists that Mr. Clinton as governor put him up to it. Mr. Johnson says Mr. Hale has the documents to prove "Bill Clinton conspired to defraud the government of the United States. He stretched the rules and he committed a felony." The judge goes on to say "I look for Clinton to resign. I don't think he would dare go through the impeachment process because it would destroy the Democratic Party."

Now back in Washington, Mr. Evans-Pritchard expresses fears for Mr. Hale's life. He notes that there have been other unexplained deaths silencing Arkansas associates of the Clintons. Last year, the former head of security for the Clinton-Gore campaign headquarters in Little Rock, Jerry Parks, was shot dead while driving along a country road. It was not a random killing. The gunman took the trouble to stop his own car and fire a few more rounds into Mr. Parks' lifeless body. Then there was the death of Vincent Foster on the same day that the FBI was issued a search warrant to enter Mr. Hale's offices. Mr. Foster was a Clinton family lawyer who had assisted the Clintons in dealings with Mr. McDougal, in handling the Clintons' blind trust, and in various other matters. Troopers guarding the Clintons during Bill Clinton's governorship attest that Mr. Foster and Hillary Clinton were lovers.

The troopers also have attested that Mrs. Clinton took control of telephone logs from those days and had at least some destroyed. The destruction of evidence continues to be a problem in Little Rock to this very day, notwithstanding the arrival of federal investigators. According to The Washington Times, as Mr. Evans-Pritchard walked the streets of that town in pursuit of his story, shredders were abuzz over at the infamous Rose law firm.

Before that a fire had broken out on the 14th floor of the Worthen Tower, gutting some of the offices of an accounting firm that in 1986 audited Mr. McDougal's soon-to-be bankrupted Saving and Loan. "Security personnel at the Worthen Tower waited for 25 minutes before calling" in their alarm, Mr. Evans-Pritchard reports. When he tried to discover why, the chairman of the Worthen Bank telephoned him and shouted to our British visitor, "You've got a twisted mind." The bank played a large role in financing the Clinton presidential campaign.

It is arresting to reflect on all the scandals, subsumed under the rubrics of Troopergate and Whitewatergate, that are now swirling around Bill and Hillary Clinton. I do not believe that any president in this century has been the focal point of so many rumors and allegations at one time. Why all this controversy? The Clintons' party controls the federal government and both houses of Congress. There has been much sympathy for them in the press, at least until recently. Next week I shall speculate as to what it is all about. Mr. Evans-Pritchard is going on vacation

R.Emmett Tyrrell is editor-in-chief of the American Spectator.

Big government, Big Labor

Getting back in Big Labor's good graces is turning into a full-time job for President Clinton these days. Sure, he quickly eliminated President Bush's executive order prohibiting union-only contractors from winning federal contracts. His call to American Airlines chief Robert Crandall helped settle an airline attendants' strike on their terms. And, yes, he helped gut Hatch Act reforms that limited Big Labor's control of federal workers.

But he also backed the North American Free Trade Agreement and made some decidedly nasty cracks about Big Labor's opposition along the way. Now he's supporting a General Agreement on Tariffs and Trade accord, which unions rightly understand would add to the competition in labor markets supplying U.S. firms. So about now the president ranks right up there with arch-foe Frank Lorenzo in terms of union boss approval.

That's where "reinventing government" comes in. It seems that one of the major proposals from Vice President Al Gore's much-touted National Performance Review was the creation of a new bureaucracy known as the National Partnership Council. Last week, it popped up with a warm, fuzzy report guaranteed to get out the union vote in 1996.

Its goal is a federal workplace where "[u]nions and agencies work together as partners to transform the way organizations are structured, work is performed and services are delivered." And how would the administration achieve that best of all possible worlds? Well, by giving federal workers more voice in determining how they do their work and in determining how others should judge their work, says the report. They might, for example, decide it would be nice to have cash bonuses or non-cash awards like days off for good work.

Just to make sure unions understand what's at stake here, the report also calls for federal workers now represented by unions to pay some kind of dues or "fair share" fee. That's important because although a union may have won the right to represent this or that group of federal workers, the latter don't actually have to become union members and they don't have to pay union dues. In short, you don't have to join a union to work for the government.

It's an important distinction. The American Federation of Government Employees, for example, represents some 665,000 federal employees whether they like it or not. But only about 150,000 of them are dues-paying members. Likewise the National Federation of Federal Employees represents about 140,000 workers, but only about 22,000 are members.

By forcing all workers represented by unions to pay fees to them, the Clinton administration could put an extra $200 million into union coffers, by some estimates. Of course, a fair amount of that $200 million would turn into 1996 Clinton re-election apparatus in the form of "non-partisan" vote drives, phone banks and so on.

Now, obviously federal workers themselves aren't crazy about turning over part of their paychecks to the unions. Otherwise they would voluntarily do so. The public isn't thrilled about the idea either. In April 1993 the Marketing Research Institute surveyed 1,000 people on the following question: Do you favor or oppose arrangements requiring public employees to support a union in order to work for the government? Roughly 23 percent either answered yes or didn't know. More than 77 percent said no.

This, then, is the state to which organized labor has fallen in the 1990s. Unable to grasp the notion of providing workers service of the kind that would encourage them to join voluntarily, union officials are reduced to dragooning them at regulatory gunpoint. This is "service"?

Not to most federal workers, and certainly not to most citizens. If political payoffs are what the Clinton administration means by "reinventing government," the unreinvented kind is going to start looking better and better.

Please, no more crying wolf on Bosnia

It would be good news for the people of Sarajevo, as well as for the rest of us, if the NATO allies actually have arrived at a decision not to tolerate the slaughter and barbarity in Bosnia any longer. The war, which has been allowed to fester for almost two years, has made a mockery of European protestations of political unity, of NATO protestations of future relevance, of American protestations of concern for European stability, human rights and international responsibilities. It's hard to accept that it took the death and dismemberment of 68 civilians — and the wounding of 200 more — in the market place in Sarajevo to bring about some kind of agreement among the allies that this state of affairs is intolerable, but there it is.

This is not to say that the ultimatum that was issued Wednesday is without its problems. It gives the Serbian forces 10 days (why not 48 hours?) to withdraw their heavy artillery and guns from the hills around the city, from which vantage point they have been lobbing shells and grenades at hospitals, bread lines, markets and sledding children. From NATO, the United Nations, the European Community, the U.S. government and other assorted organizations, ultimatums have been flowing fast and furious with no action to back them up.

As The Washington Times has reported, our government has reversed its position no fewer than 10 times. If President Clinton does not want to be the laughingstock of every thug and tin-pot dictator in the world, he has to follow through this time on the threat. (Equally important, he ought not to leave decisions that are properly his in the hands of U.N. Secretary General Boutros Boutros-Ghali. Mr. Boutros-Ghali is not — and should never be — the commander of American forces.) On earlier occasions, we have tried to bully the Serbs to withdraw their artillery under threat of military action. We have on occasion claimed success when they have withdrawn a few pieces, only to bring them back the moment the threat has receded. This has seriously undermined American credibility as an international power.

And there is the serious consideration of what will happen next. What happens if our bombings don't scare the Serbs? Will we get dragged further into the conflict? Will we have to commit ground troops? What kind of end game do we have in mind? And what will the Russians say?

These are all good questions that our planners must consider if we are to become engaged. However, the inescapable truth at this time is that it will take the leadership of NATO — of the United States — to end this crisis and prevent it from spreading. What is needed here clearly is a balance of power, the absence of which has so far meant the rape of the weaker party, Bosnia, by the stronger ones, Serbia and (more recently) Croatia. And what is also needed is a credible external guarantor of whatever agreement may eventually be reached between them.

Ending the siege of Sarajevo will be an important first step. It ought not be an impossible task. NATO pilots have been flying over the terrain over and over — to the huge distress of the people below —and ought to know it like the back of their hand. Serbian artillery positions ought to have been pin-pointed by now. Relieving the city will show good faith on our part. And good faith has been absent in our dealings with Bosnia for far too long.

WHITE HOUSE TV NEWS ANALYSIS
Monday, February 14, 1994
Produced by the Office of News Analysis (162 OEOB, 6-7151)

ABC WORLD NEWS

1. U.S. and Japanese trade issues remain unresolved.
2. Unfair trading practices in Japan plague U.S. firms.
3. 30 day weather forecast announced.
4. Cease fire holds in Sarajevo.
5. Dan Jensen falls, failing to win a medal in speed skating.
6. Kennedy loses control of his sled, failing to win a medal.
7. Tonya Harding prepares to leave for Olympic Games.
8. Michael Jackson testifies that he did not steal lyrics.
9. Corning and others set up fund to pay implant victims.
10. Delinquent farm loans cost tax payers $5 billion.
11. Chrysler recalls 1994 luxury sedans.
12. Dow Jones up in moderate trading.
13. President Clinton promises $400 billion loan to Kazakhstan.
14. Chevron invests in Kazakhstan.
15. Chaos breaks out at political rally in Durban, South Africa.
16. British firm develops luggage container to withstand bombs.
17. Exhibit honors first all Black calvary unit.

CBS EVENING NEWS

1. U.S. will respond to Japan's refusal to open its markets.
2. Truce holds in Sarajevo for another day.
3. Severe weather will have enormous economic costs.
4. Health care companies settle losses in breast implants case.
5. Tonya Harding will skate in Olympics in Norway.
6. Olympic skater Dan Jansen loses; skiier Tommy Moe wins gold.
7. Zulu leader demands independent state in South Africa.
8. Terrorist attacks on the rise in Egypt.
9. Iran rejects appeal to lift sentence against Salman Rushdie.
10. Senator Packwood asks appeals court to keep diaries secret.
11. Reality Check: the cost of welfare reform.
12. Eye on America: Aushwitz survivor fighting for reparations.

NBC Nightly News

1. Economic gains overshadowed by trade dispute with Japan.
2. Truce holds in Sarajevo; U.N. is ready with threat of bombs.
3. Child neglect is up 50% since 1985.
4. Cal State-Northridge begins classes 4 weeks after earthquake.
5. Three leading makers of breast implants settle damage claims.
6. Chrysler recalls luxury cars.
7. Crowds take over Olympic Village.
8. Economic opportunities open to Gold Medalist Tommy Moe.
9. The rate of Sudden Infant Death Syndrome is down.
10. America Close-Up: Treatment program for female child abusers.
11. Perfume options for Valentine's Day.

PHOTOCOPY
PRESERVATION

The Christian Science Monitor
Tuesday Feb 15, 1994

Profits in Clintons' Whitewater

THE money-losing Arkansas real estate venture that has entangled the first family in a federal investigation began generating a small income months before president and Mrs. Clinton sold their interest.

The Clintons decided not to take any of the money before ending their 14-year relationship with Whitewater Development Corp. in December 1992, one of their lawyers told The Associated Press.

In May 1992, Whitewater paid off its remaining loans, enabling it to begin making a little money. Since then, those proceeds – which total less than $200 a month – have gone to the Clintons' former business partner, James McDougal.

The Clintons have said they invested and lost nearly $69,000 during their years as co-owners of Whitewater.

They formed the venture in 1978 with Mr. McDougal and his then-wife, Susan, to build a bustling vacation and retirement community on the banks of the White River in northern Arkansas's Ozark Mountains.

The venture is now a focus of a federal investigation into a failed Arkansas savings and loan owned by McDougal and other business dealings with ties to the Clintons.

The Clintons sold their half of Whitewater to McDougal in December 1992 for $1,000. They have said they never made any money on their investment. During most of the Clintons' involvement in Whitewater, revenues from the venture went to pay off principal and interest on the original $203,000 mortgage the two couples used to buy the property.

– Associated Press

PHOTOCOPY
PRESERVATION

'Tough' federal lawyer went soft on Hubbell in S&L case

By Frank J. Murray
THE WASHINGTON TIMES

A1

A government lawyer considered a hard-liner against law-firm conflicts of interest took relaxed stands on the role of the Rose Law Firm's Webster L. Hubbell in a $10 million lawsuit to recoup taxpayer losses from Madison Guaranty Savings and Loan Association.

Little Rock's Rose firm — whose partners included Mr. Hubbell, Hillary Rodham Clinton and the late Vincent W. Foster Jr. — handled the Madison-related case despite its earlier efforts to keep the Arkansas thrift afloat and Mr. Hubbell's family ties to Madison.

Rose took over the $10 million lawsuit against Madison's auditors, Frost and Co., from a Memphis law firm, moving the case out of state courts and into federal court. The Federal Deposit Insurance Corp. (FDIC) accused Frost of being responsible for heavy taxpayer losses in Madison.

April Breslaw, as an FDIC staff lawyer known for her toughness on conflict of interest, intervened on behalf of Mr. Hubbell in 1989, according to FDIC records.

Mr. Hubbell, a close friend of President Clinton's, is now associate attorney general and the No. 3 official at the Justice Department.

FDIC investigators may shed some light when they report, perhaps today, on a probe of two possible conflicts of interest in the Rose firm's takeover of the FDIC's suit

see **HUBBELL**, *page A10*

The Washington Times TUESDAY, FEBRUARY 15, 1994

HUBBELL

From page A1

against Frost, whose audit was used by the Rose firm to persuade state regulators to allow the failing thrift to stay open.

While Mr. Hubbell, Rose's managing partner, and Miss Breslaw appear to know each other only through a prior case Rose handled for the FDIC, documents show that she:

- Brushed aside repeated internal challenges to Mr. Hubbell's loyalty to FDIC with personal assurances he would not disclose confidential information to family members with ties to Madison.
- Vouched in writing for the Rose firm's performance in the other FDIC case — Corning Bank/Manatt.
- And inexplicably approved a $1 million settlement with Frost, although it had $3 million in liability insurance.

Miss Breslaw, 33, whose duties were switched in 1992 from the FDIC to the Resolution Trust Corp. (RTC), which handles the S&L bailout, did not respond to requests to both agencies for interviews.

Through an RTC spokesman, she said yesterday she vouched for Mr. Hubbell because she "was assured to her satisfaction" that he had no conflicts of the type that led her to instantly remove the case from a Memphis law firm, Gerrish and McCreary, the attorney of record hired by Madison.

"That is one of our biggest no-nos," a senior FDIC official said yesterday, speaking about the case on the condition of anonymity.

Mr. Hubbell's father-in-law, Seth Ward, was an officer of a Madison real estate subsidiary, Madison Financial Corp., at the time Mr. Hubbell agreed to handle the FDIC case. Mr. Ward's involvement with Madison Guaranty, sources say, was well known then.

Mr. Ward defaulted on more than $587,000 in Madison Guaranty loans and was considered by the government to be a prime offender in the abuse of Madison funds, according to Federal Home Loan Bank Board records. He was in litigation with the failed thrift when the government took it over on March 2, 1989, at a cost to taxpayers of $50 million. He later settled the case.

"She [Miss Breslaw] said Mr. Hubbell stated in writing at some point that he would not and did not represent Seth Ward," the RTC spokesman said.

The general concern about Mr. Hubbell, originated by Madison litigation coordinator Sue Strayhorn, is that he might pass on confidential information from a bank strategy book to Mr. Ward, or his son Seth Ward II, who had a separate lawsuit pending.

In a June letter to David Paulson, managing agent of the Madison conservatorship, Miss Breslaw dismissed the risk and said: "For one thing, Hubbell does not represent Ward" and would not do so in the future.

Mr. Hubbell never made such a broad promise, and his letter promising not to represent Mr. Ward or his son in matters involving Madison was written five days after Miss Breslaw passed along the assurances she now says are based on that letter.

"I have no intention of representing Mr. Ward or his son in the future concerning any matter relating to Madison Guaranty," Mr. Hubbell wrote to Mr. Paulson.

FDIC investigators also are looking into whether Mr. Foster, the White House deputy counsel who committed suicide July 20, concealed the Rose firm's representation of Madison in order to take over the Frost case and its $400,000 fee.

Mr. Foster's nine-page letter on Feb. 28, 1989, soliciting the case said in part "the Firm does not represent any savings and loan association in state or federal regulatory matters" and listed what he called previous specialized matters that did not include representation by Hillary Rodham Clinton, then a Rose partner, before a state regulatory agency.

In that case, Rose lawyers relied heavily on Frost audits, which they later attacked in the FDIC lawsuit.

The current investigation looked into Rose's claim the information was given orally, which FDIC lawyers don't recall. But the federal agency asserts it "would not be viewed as a disqualifying conflict" even if it were known.

When Miss Breslaw went to bat for Mr Hubbell in 1989, she fended off challenges from within the FDIC questioning his loyalty to FDIC and Rose conflicts.

"Another thing to keep in mind is that our primary attorney in the Frost matter is Rick Donovan, not Webb Hubbell. . . . Some of his 'in-laws' think that we owe them money and one of his law firm partners has become our attorney. On these facts, I am not inclined to take a $10,000,000 case away from counsel that has obtained fine results for me on other matters," she wrote in a letter to an FDIC official who wanted Mr. Hubbell's firm taken off the case.

Despite Miss Breslaw's assertion that Mr. Donovan was the FDIC's lawyer, Rose bills showed Mr. Donovan's billings only a bit higher than those of Mr. Hubbell, who repeatedly charged the government for phone conferences with Miss Breslaw.

Rose telephone logs from March 27 to June 27, submitted with bills, show no discussion on matters of conflict. Despite firm government policy banning payment for resolving conflicts, however, Miss Breslaw approved Mr. Hubbell's billing for writing a letter doing exactly that.

Another billing for a consultation between Mr. Hubbell and David L. Hale, a former Little Rock judge who has since implicated Mr. Clinton in obtaining and channeling an improper $300,000 Small Business Administration loan.

Other records obtained by The Washington Times show Mr. Hubbell as the attorney of record in the Frost suit.

The conflict issue was raised anew on Aug. 10, 1989, by FDIC credit specialist Ken Schneck.

"I would like someone with a wider scope of authority to review the situation and possibly eliminate this conflict," Mr. Schneck wrote, apparently to no avail.

An official familiar with government attempts to get the caretaking function in motion during multiple savings and loan collapses in the late 1980s suggested the fault in handling the Madison case lay with that confusion and not with Miss Breslaw.

"It was chaos," the official said.

'The Four Musketeers'

By Geordie Greig
and Mark Skipworth
LONDON SUNDAY TIMES

A1

LITTLE ROCK, Ark. — They were known by their fellow lawyers as the Four Musketeers. When it came to business, it was one for all and all for one, and this pact, between Hillary Rodham Clinton and her three best friends at the Rose Law Firm, lasted all the way from Little Rock to the White House.

It was not so much the lucrative, small-town deals they had spun together that paid such high dividends, but their own incestuous cronyism. As Mrs. Clinton became first lady and moved to Washington, she took along her former law partners, Webster L. Hubbell, Vincent W. Foster Jr. and William Kennedy III. All were rewarded with top jobs in the Clinton administration.

It was no surprise to anyone in Little Rock: It was always the way business had been done in this one-time fur trapper post on the banks of the Arkansas River.

Take the time in June 1981

see **ROSE**, *page A10*

ROSE

From page A1

when Mrs. Clinton and the other Rose partners, including Mr. Hubbell, then Little Rock's mayor, signed a contract for a $2 million tax-free loan to refurbish their offices. In the heat of the Arkansas summer, nobody paid attention to the sweetheart deal, except John Harkey, an alert local judge, who was surprised that taxpayers' money was being used for private purposes from a fund authorized by Gov. Bill Clinton in 1980.

"Hell, they were, in effect, using public money to decorate Hillary's office," Judge Harkey said.

Once, such intimate details were written off as Southern ways; today they are being held up to a different standard.

Bill and Hillary Clinton face scrutiny in their back yard and on their front lawn. An investigation has been launched into the couple's links with Whitewater Development Corp., a real estate venture selling land for cabins and vacation homes in the Arkansas Ozarks.

In Washington, Mr. Foster, one of the musketeers and the Clintons' personal lawyer, was found shot dead last July next to a cannon at the Civil War entrenchments across the river in Virginia. A 1913 Colt revolver was still in his hand; at first sight it appeared to be a suicide.

Others are not so sure: The paramedics who attended the scene were struck by the absence of blood and the position of the body, lying straight "as if in a coffin." There are growing suspicions he might have been murdered.

The Rose Law Firm, housed in an imposing three-story red brick building at 120 E. Fourth St. in downtown Little Rock, is the oldest legal business west of the Mississippi. It enjoyed rapid growth after Mrs. Clinton joined as a litigation lawyer in 1977. Mr. Clinton was then the Arkansas state attorney general and was soon to become governor.

THE SUNDAY TIMES

As his wife and as a woman twice voted one of the top 100 lawyers in America, Mrs. Clinton was a key asset. Within two years, she had become the firm's first female partner, known as the Dragon Lady for her fierce temper as well as her empire-building.

Mrs. Clinton was the "rainmaker" who brought in the business deals but was rarely seen in court. For her husband, she was also the main family earner.

While the governor's income stayed flat at about $35,000 a year, Mrs. Clinton's soared from $50,000 in 1981 to nearly $180,000 a decade later. Most of it came from Rose, but she also raked in more than $5,000 from speaking fees and $65,000 for sitting on several boards; these included Wal-Mart, the giant retail group, and TCBY ("The Country's Best Yogurt"). Both of these Arkansas-based companies were Rose clients and substantial funders of her husband's political campaigns.

Critics are quick to suggest her success in Little Rock would not have been so rapid without her attorney general husband. "There was no way she would have been hired without that tie-in," sniped a Little Rock lawyer.

The second musketeer was Mr. Kennedy, now associate counsel in the White House, a powerful position that makes him No. 3 in line when the president needs legal advice. He was the hard man who had a reputation for his aggressive business manner.

The third was Mr. Hubbell, now associate attorney general and widely regarded as the man who really runs the Justice Department. He was the mixer who knew how to milk political opportunities. A former college football player for the Arkansas Razorbacks, he concealed a quick brain behind a shambling, oafish demeanor.

The final musketeer was Mr. Foster, the deputy White House counsel and a man both personally and professionally close to the Clintons. He was the cleanup man, the brains behind Rose, the quiet executive in the brown suit and the office with brown carpet and brown walls, a man whose hobby was making pasta.

They were well matched in Little Rock, a town as introverted and incestuous as you can get.

The claustrophobic geography of Little Rock (population 170,000) lends itself to cronyism.

Just one block from the Rose firm is the Worthen Bank, which in 1992 provided Mr. Clinton's presidential campaign with $3.5 million credit. In the same building are the offices of Wright, Lindsey and Jennings, the law firm where Mr. Clinton worked when he was briefly voted out as governor and where Bruce Lindsey, another White House aide, was a partner.

On nearby Fourth Street is First Commercial Bank, where Frank White [who whipped Mr. Clinton in the 1980 gubernatorial race] works — close to the Stephens Building, where the president has his Arkansas "White House" office.

"It was like brothers marrying sisters and made for back scratching at every level," said Roy P. Drew, an independent stock analyst who once advised the Rose partners about their investments. "They were a powerful clique, used to getting their own way."

Mr. Drew's campaign to root out cronyism has cost him dearly. Little Rock's leading firms and banks have tried to squeeze him out of business. "Nobody likes the apple cart to be rocked, especially when it is loaded with the truth," he says ruefully.

The Washington Times TUESDAY, FEBRUARY 15, 1994

A2

PM AR- Whitewater-Check,400
Lawyer, McDougal Recollect Whitewater Check Differently
EDS: first moved for AMs. bcsphfon

LITTLE ROCK (AP) A $20,744 check in February 1982 from Bill Clinton to a bank was counted as part of the president's investment in Whitewater Development Co. Inc., according to an attorney who says it was proper to do so.

Questions have been raised as to whether the check was included in Clinton's 1992 presidential campaign report and whether it should have been included. The report said the former Arkansas governor and his wife lost $68,900 in the land development corporation.

James Lyons of Denver, who arranged for an accounting firm to do the 1992 analysis of the Clintons' Whitewater costs, said the check was a payment on a Whitewater-related loan that James B. McDougal obtained from his own bank.

``I have no memory of anything like that,'' McDougal said when questioned about Lyons' account of the check.

McDougal, Clinton's partner in Whitewater in 1978-92 and owner of 40 percent of the stock in the Bank of Kingston in 1980-83, said the check wasn't for a Whitewater loan but a campaign loan Clinton had received from the bank.

A bank official declined to give information about any loans, including those involving the Clintons, McDougal, or Whitewater. McDougal's partner in the Kingston bank, Steve Smith, said he did not recall Clinton getting a campaign loan from the bank at the time, although McDougal said he thought Clinton was working with Smith then on bank transactions.

A special prosecutor is investigating whether the Whitewater land development corporation or Clinton or others benefited improperly from a savings and loan that McDougal bought in 1982, as well as other matters. The S&L failed in 1989.

Lyons was uncertain of the details, but said he thought the amount of the loan was about $27,000 and that it was probably obtained in 1981 or 1982.

Clinton paid on the loan as a partner in Whitewater, Lyons said.

The Bank of Kingston became Madison Bank and Trust, the institution to which Clinton's check was made.

The loan was separate from a $30,000 loan the Bank of Kingston made to Hillary Rodham Clinton in 1980 for the development of a lot in the Whitewater project. That loan was repaid in 1983 with a loan from a bank in Paragould, a White House spokesman has said.

**** filed by:APW-(AR) on 02/14/94 at 08:04EST ****
**** printed by:WHPR(NLAT) on 02/14/94 at 09:11EST ****

THE NEW YORK TIMES MAGAZINE

SUNDAY, FEBRUARY 13, 1994

MAUREEN

DOWD On Washington

A CAUTIONARY FABLE

Afterward, when all Washington was abuzz with talk of the President's astonishing, audacious gamble to shed his Whitewater baggage, the pundits agreed that they should have seen it coming.

As soon as those headlines hit, a jittery White House had begun its usual damage control.

First, David Gergen, the President's counselor, filled the ears of friendly reporters with murmurs that poor Bill had no head for numbers, and that Hillary was the brains on household financial matters.

Then came a series of trial balloons, floating above the West Wing like big, pillowy clouds: Donna Shalala would be taking a larger role on health care; Felix Rohatyn was going to assume responsibility for the First Family's tangled finances. ("Big Mac II," the President was heard to quip, as he passed the ketchup.)

The final devastating signal came when the Vice President appeared on "Meet the Press" and offhandedly referred to the Whitewater affair as "Hillarygate."

Still, no one anticipated the President's ploy, and his Rose Garden news conference on that torrid summer afternoon of 1994 was a stunner.

He walked with slow, measured steps to the podium. With his wife standing still and solemn beside him, he stared down at the statement in his hands for a long time. Then he looked up, bit his lower lip and began.

"I come here today to announce to the American people the most painful decision I have ever had to make," he said. "I love my wife dearly and we will remain life partners, sharing our hopes and dreams for this country. But this morning, with deep regret, I accepted Hillary Rodham Clinton's request to be relieved of her official duties as First Lady. I am very grateful that she has agreed to remain at her post until Dec. 1, so that we can effect a smooth transition in the East Wing. Hillary has been a close adviser and a wife of mine for a long time. I have valued her wise counsel as a key member of my team. She has made invaluable contributions on health care and broken new ground in equality for First Ladies. And I have told her that after she takes the break she has requested, I very much hope that she will consider other assignments for this Administration.

"At the time that she took over the job of First Lady, I had not gone over the Whitewater files. In retrospect, I wish I had. I trusted that she would exercise full and careful judgment in the handling of these matters, and I must confess that I paid little or no attention to supervising her in this area. Last [illegible] a matter of fairness to her, I read the files again in good detail, keeping in mind the high ethical standards I have set for my Administration. I have to tell you that, had I gone over these records before the inauguration, I would not have brought Hillary to Washington with me.

"I acknowledge that the vetting procedure for the First Lady was inadequate. This process is in no way a reflection on her. It was my personal responsibility. But we were trying to make an inaugural deadline, which was probably my error, again. In retrospect, what I should have done is basically delay the whole thing for a couple of days and look into it in greater depth.

"And I want to make it clear that that is not to say that I agree with all the attacks on her. Hillary has been subject to a vicious series of willful distortions. Like most Americans, even I cannot say for sure what [illegible] need a special counsel investigating Whitewater. But as we in this Administration now know all too well, it is *appearance* and *perception* that count in this crazy, cannibalistic Washington culture that doesn't give a lick for civility or truth or feelings.

"I retain the utmost confidence in Hillary's integrity, but we both agree that her ability to work on the very goals she wishes to achieve has been gravely damaged.

"The Hillary Clinton I know is a person of strong character, great intellect and a superb legal record. I think that she is one of the ablest First Ladies I have ever met. And I want all of you to know that if this thing could be fought out on her character or her record as First Lady, as opposed to this business down in Arkansas, I would stay with it to the end. It is not the warnings of my political advisers or the fear of defeat in '96 that has prompted this decision; it is the certainty that the battle would be fought on a ground that I, as President, could not defend.

"I am well aware that this will upset many people in this country who believe in Hillary and had hoped that she would continue to transform the role of First Lady. But as some feminists have pointed out, First Ladies who seek the glory must also take the consequences if they are called to account. I can only pledge that I will continue to work, as I have for nearly 20 years, for the cause of women, and that I want an Administration second to none in its dedication to women's rights.

"I will be consulting promptly with my chief of staff, Mack McLarty, with Congressional leaders and with women's groups about a replacement for Hillary. I hope to have an announcement in the next few days.

"Hillary," the President concluded, looking over at his wife, who stared straight ahead, her face frozen, "I share your pain."

THE REPORTERS IN THE ROSE GARDEN were speechless for a moment. Then a few called out questions:

Q: "Is there any truth to the rumor that Mrs. Clinton will be named Ambassador to Belarus?"

Q: "Mr. President, aren't you afraid that you're playing into the hands of the American Medical Association?"

Q: "Did you break the news to Mrs. Clinton, yourself, or did George?"

The President would only say, before leaving: "I am sure this extraordinary and able person will have a rich and successful career."

Now, six months after that historic news conference, with the 1996 election cycle already underway, the Whitewater investigation dragging on and the President's poll numbers precarious, the fallout over Bill Clinton's decision to push the First Lady off the Presidential sled continues.

As in any split, the town is divided between "Bill people" and "Hillary people." Bill people argue, as George Stephanopoulos put it [illegible] show, that "sometimes you have to be cruel to be kind," and that jettisoning the First Lady was essential to the success of her own dearest dream, a national health care plan.

Hillary people cry sexism and counter that the health bill that eventually passed — the Moynihan-Cooper-Gramm Omnibus Health, Welfare and Crime Reform Act of 1994 — was hardly the sort of legislation Mrs. Clinton had in mind.

After much fevered speculation about whom the President would appoint to the post of First Lady, Bill Clinton has recently announced that the ceremonial duties would pass to a trusted adviser who had already perfected the art of standing by his man and gazing approvingly: Al Gore. ■

FDIC finds Hillary Clinton's role in suit was mino

Greg Gordon
Washington Bureau Correspondent

Washington, D.C.
Federal regulators have found "no evidence" that First Lady Hillary Rodham Clinton had a conflict of interest when she represented the government in a lawsuit against a longtime friend and political benefactor of her and President Clinton.

Officials at the Federal Deposit Insurance Corp. (FDIC) said that, contrary to published reports, Clinton was not involved in settling the $3.3 million suit for $200,000 in 1987, said chief FDIC spokesman Alan Whitney.

"Our review reflects that her involvement in the litigation was very limited — two hours" spent reviewing an amended complaint, he said.

Whitney said Clinton signed the document months before the settlement was negotiated. "Based upon our review, we see no evidence that a conflict existed," he said.

However, Clinton still may have created an appearance problem by signing the amended complaint, which reduced to $1.3 million the damages being sought from a firm headed by the Clintons' friend Dan Lasater.

The agency's brief inquiry was triggered by a Feb. 3 report in the Chicago Tribune asserting that Clinton joined her longtime friend and law partner, the late Vincent Foster, in secretly settling the racketeering suit.

The suit, stemming from the collapse of an Illinois savings and loan, was originally filed in 1985 by the First American Savings and Loan Association of Oakbrook, Ill. It charged that Lasater's Arkansas bond trading company had defrauded the thrift of more than $361,000 by making unauthorized U.S. Treasury bond trades.

After the Federal Savings and Loan Insurance Corp. seized the thrift in 1986, the Arkansas-based Rose Law Firm, where Clinton and Foster worked, was hired as an agency subcontractor to take over the litigation.

Agency officials said they have not yet ascertained from other lawyers in the case whether Clinton, who signed the amended complaint on May 8, 1987, because Foster was away that day, made any substantive changes in the complaint before it was filed, but stressed that the $200,000 ultimately recovered accounted for more than half the $361,000 in actual damages claimed by the government. The rest of the money sought was for punitive damages, which are difficult to recover, they said.

Patrick Goss, a Little Rock lawyer who represented United Capital Corp., Lasater's bond-trading firm, said that he assumed that Foster reduced the punitive damages sought in the amended complaint because he "was embarrassed by its overreaching."

At the time of the settlement, Lasater was serving a prison sentence for cocaine trafficking and his firm's assets were being managed by Patsy Thomasson, now the director of the White House Office of Administration.

William Wernz, former chairman of the Minnesota Lawyers Responsibility Board, said that whether Clinton could be accused of ethical improprieties would hinge on whether her legal work was affected by her and her husband's relationship with Lasater.

American Bar Association Model Rules, he said, define as a conflict of interest instances wher it is likely a lawyer "might pull a punc because he has some relationship with the c er side or some third party of interest."

FDI pokesman David Barr said the agency 'has t been able to turn up any records or note as to what was disclosed about Clinton lationships with Lasater and Thomas-

First y continued on page 10A

First Lady Continued from page 7A

son before a Chicago law firm hired the Rose firm as a subcontractor.

Goss said that he "never saw [Clinton's] face or heard her ... in that lawsuit." He said that during the suit, Foster was "aggressive, hard-nosed, smart and effective."

The controversy may also underscore the perils lawyers can face when they sign documents on behalf of colleagues.

The Chicago Tribune reported that Thomas Marr, a junior member of the Rose firm who had worked with Foster and Clinton, assisted them in the First American suit against Lasater's firm. It said Marr then left the firm and represented United Capital Corp., helping to negotiate a $250,000 settlement of a similar, $4.6 million suit by Home Federal Savings and Loan of Centralia, Ill. The report suggested that Marr may also have had a conflict of interest.

In a phone interview, Marr said that while at the Rose firm, he had "no involvement in the merits or the strategy" of the First American suit but that he may have signed a court pleading on Foster's behalf when he was out of town. "That is an accepted practice in other major, respected law firms," he said.

Meanwhile, the U.S. Park Police report on Foster's suicide does not mention Whitewater Development Corp., the Clintons' failed Arkansas real estate deal, a police official said yesterday.

"Nothing in there talks about Whitewater," said Park Police Maj. Robert Hines. "No one we interviewed mentioned it."

The Park Police interviewed Foster's family and friends and concluded that he was depressed about his White House work. At the time of Foster's suicide, July 20, Whitewater was not of major public interest. Subsequently, it was learned that some Whitewater files found in Foster's office were transferred by White House Counsel Bernard Nussbaum to the Clintons' personal attorney without being shown to Park Police investigators.

The files have since been turned over to the Justice Department, and special counsel Robert Fiske has been named to look into the Clintons' financial dealings with Whitewater and with the failed Madison Guaranty Savings & Loan in Arkansas.

LEVEL 1 - 7 OF 18 STORIES

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The Washington Post

February 10, 1994, Thursday, Final Edition

SECTION: FIRST SECTION; PAGE A7

LENGTH: 453 words

HEADLINE: Alleged Whitewater Shredding to Be Probed

SERIES: Occasional

BYLINE: Susan Schmidt, Washington Post Staff Writer

DATELINE: LITTLE ROCK, Ark., Feb. 9

BODY:

Special counsel Robert B. Fiske Jr. will investigate allegations that employees at the Rose Law Firm here have shredded documents relating to Whitewater Development Corp. Rose officials today denied the claim.

The Washington Times, quoting an unnamed Rose employee, said law firm documents on the real estate investment of President Clinton and his wife Hillary, a former Rose partner, were shredded last Thursday.

A spokeswoman for Fiske said "the alleged shredding will be investigated by this office."

Ronald M. Clark, managing partner of the Rose firm, said, "We categorically deny shredding any documents relating to Whitewater or any other matter reported in the press."

Clark said the firm expects to receive a subpoena from Fiske and has been pulling together documents the counsel might want.

"We anticipate producing those documents at the appropriate time, but there is absolutely no destruction of documents going on," he said.

Fiske is investigating the Clintons' Whitewater investment and their ties to Madison Guaranty Savings & Loan, the Arkansas thrift owned by the couple's Whitewater business partner, James McDougal. Clark said the firm has few documents on Whitewater because its legal work for the company was limited.

He said Rose lawyers also were compiling documents relating to former Rose lawyer Webster L. Hubbell's representation of the government in its malpractice suit against Madison's accountants; files pertaining to Hubbell's father-in-law, Seth Ward, and the parking meter company formerly owned by Ward and now owned by his son; and records of the Rose firm's representation of Madison before state regulators in the mid-1980s.

McDougal hired the firm in 1985 for $ 2,000 a month to help push an unusual stock plan before regulators appointed by then-Gov. Clinton. Hubbell, now associate attorney general, was a senior partner at the Rose firm along with the late deputy White House counsel Vincent Foster, who committed suicide in July.

The Washington Post, February 10, 1994

Clark said Rose lawyers also are searching files for others named on a subpoena of another figure in the Madison-Whitewater probe, Arkansas Gov. Jim Guy Tucker (D).

In Washington, the Senate voted unanimously to extend the statute of limitations covering civil actions by the Resolution Trust Corp. for fraud and gross negligence until the end of 1995. The current RTC statute of limitations expires Feb. 28.

Sen. Alfonse M. D'Amato (N.Y.), ranking Republican on the Senate Banking Committee, had been pushing an extension to keep from closing the books on civil actions to recoup taxpayer losses from the Madison S&L collapse. Democrats went along on condition that the extension apply to all civil actions before the RTC.

LANGUAGE: ENGLISH

LOAD-DATE-MDC: February 10, 1994

After air strikes, 'no guarantees' on what's next

By Martin Sieff
THE WASHINGTON TIMES

NEWS ANALYSIS

After a year and a half of tough talk but no action, the Western allies — reflecting mounting public humanitarian concern — finally appear ready to use air strikes to break the siege of Sarajevo.

The decision could end or ease the city's plight, military experts say, but they warn that it may be difficult to implement, that it will not end the larger war and that it carries the risk of escalation if the Serbs defy the NATO threat or attack U.N. peacekeepers elsewhere.

U.S. and European defense sources said the Western allies this time are serious and will carry out their threat to use air strikes if they are needed to halt the shelling of Sarajevo.

Both the Serbian government and the Bosnian Serb leadership seem to be taking the threat seriously, the defense sources said. Even before Wednesday's ultimatum was announced, the Bosnian Serb leadership agreed to place its heavy weapons under U.N. monitoring and so far has honored a cease-fire.

The hardening Western resolve is a direct result of TV coverage of the suffering in Sarajevo, particularly the carnage caused when a 120 mm round crashed into a marketplace Saturday, killing 68 persons.

The sources said it was the public outcry over that incident that prompted President Clinton and British Prime Minister John Major to agree to NATO air strikes in spite of their previous reluctance.

"The problem is, every aspect of this decision has been taken in response to those TV pictures," a senior European defense official said.

If the ultimatum does succeed in breaking the siege, the sources said, the reasons will be more political than military.

"If the Serbs really want Sarajevo, this is a complete waste of time, but they may decide that taking it is not worth it," the European source said.

Clinton administration officials acknowledged that it would not be easy to conduct air strikes against gun positions around Sarajevo if that became necessary.

"It is . . . difficult to find those artillery pieces. They're easy to hide," Deputy Undersecretary of Defense Walter Slocombe told a Pentagon briefing.

Don Snider a military analyst with the Center for Strategic and International Studies, was more skeptical.

"This decision is not enforceable. Its military usefulness should not be overrated," he said. "Finding a mortar in that terrain within a 12-mile radius is like looking for a terrorist in Northern Ireland."

U.S. officials also acknowledged that there was nothing to prevent the Serbs from pulling their heavy artillery away from Sarajevo and using it against other Bosnian cities.

The ultimatum "only addresses removing the heavy weaponry from the exclusion zone that's been defined by NATO or, as an alternative, submitting it to control . . . by the United Nations," State Department spokesman Mike McCurry said.

"There's nothing that prevents them from redeploying elsewhere. That is correct," he said in response to a question.

Lawmaker seeks Clinton's answers on Whitewater

By Jerry Seper
THE WASHINGTON TIMES

The ranking Republican on the House Committee on Small Business late yesterday introduced a resolution calling on President Clinton to answer questions about his purported involvement in a questionable $300,000 SBA loan now under federal investigation.

Rep. Jan Meyers of Kansas wants details on the April 1986 loan and seeks communication records between the White House and the Small Business Administration.

She also called for an accounting of events surrounding the removal of records from White House Deputy Counsel Vincent W. Foster Jr.'s office following his July 20 death.

"In the Whitewater matter, information has been dribbling out piece by piece," Mrs. Meyers said. "The SBA has provided numerous documents to Congress, while other agencies have refused to provide any."

"Recent news reports alleging that the Rose Law Firm in Little Rock has been destroying documents concerning the Whitewater Development Corp. heighten my concerns," she said.

Special Counsel Robert B. Fiske Jr., who is looking into allegations of financial irregularities involving Madison Guaranty Savings and Loan Association and the Whitewater real estate project, also has focused on an SBA loan to Susan McDougal, wife of Madison's owner, James B. McDougal.

David L. Hale, owner of Capital Management Services Inc., a Little Rock SBA-backed lending company, has told investigators Mr. Clinton and Mr. McDougal pressured him for the loan — $110,000 of which went to the Whitewater acount. The McDougals and Clintons were Whitewater partners at the time.

Meanwhile, Rep. Lamar Smith, Texas Republican, yesterday asked House Judiciary Committee Chairman Jack Brooks to hold hearings on the Whitewater-Madison affair. In a letter, he said there were "serious questions about the Department of Justice's ability to prosecute wrongdoing that may have occurred."

The requests come amid new concerns about records in the Whitewater-Madison affair — some of which an employee at Hillary Rodham Clinton's old law firm said were shredded on Feb. 3 — and comments by Mr. McDougal on ABC-TV that suggested he could not vouch for Mrs. Clinton's credibility.

In an interview on ABC's "Nightline" Wednesday, Mr. McDougal said he could pass a polygraph examination on his claims that Mr. Clinton had never done anything "illegal, immoral, dishonest or unethical" — but he would not make the same offer for Mrs. Clinton.

"I don't know Mrs. Clinton well enough to give that broad a guarantee," he told host Ted Koppel.

In the "Nightline" interview, Mr. McDougal said, "Everybody understands that the president's absolutely blameless, and I think there's some controversy about Mrs. Clinton's role. But in my mind there's no doubt that she is completely innocent of having done anything illegal, immoral."

He acknowledged, however, that he had no question that Mrs. Clinton was aware of what was going on with Whitewater, the $203,000 real estate venture in the Arkansas Ozarks that eventually failed.

Mr. McDougal also said it never occurred to him that having Mr. Clinton — the governor — as a business partner was a political advantage. "There was absolutely nothing, at that point, that the governor of Arkansas could have done for me," he said.

In a related matter, the House yesterday evening approved a two-year extension of the government deadline for pursuit of civil charges against failed savings and loans such as Madison.

The Senate on Wednesday approved extending the deadline through Dec. 31, 1995.

Tailhook accuser quitting Navy

Cites ordeal as 'frightening'; identified wrong attacker

By Rowan Scarborough
THE WASHINGTON TIMES

Lt. Paula Coughlin, who was molested at the infamous Tailhook convention and blew the whistle on the scandal, is quitting the Navy.

In her letter of resignation, Lt. Coughlin cited emotional stress from the attack and alluded to adverse treatment from fellow fliers. She said she could no longer perform at the high standards she expects of herself.

Stationed at the Norfolk Naval Air Station, Lt. Coughlin submitted her resignation on Monday to the commanding officer of her unit, Helicopter Combat Support Squadron 2.

Lt. Coughlin reported to the unit a year ago and has received superb performance evaluations, her colleagues said.

The letter of resignation is moving up the Navy's chain of command before reaching the desk of Navy Secretary John Dalton.

The 32-year-old helicopter pilot was the first Navy woman to go public with charges that a gantlet of Navy fliers at the 1991 convention groped and grabbed her in the Las Vegas Hilton's third-floor hallway.

Her story led to the firing of at least three admirals and an extensive Defense Department investigation that concluded that 83 women were the victims of indecent assaults at the convention.

Despite the Pentagon inspector general forwarding 140 cases to the Navy and Marine Corps for disciplinary action, no officer has been court-martialed and more than half the cases were dismissed for insufficient evidence.

The dismissals included the case of an officer whom Lt. Coughlin accused of assaulting her.

The Marine Corps dropped the assault charge against Capt. Gregory Bonam after a pre-trial hearing at which Lt. Coughlin acknowledged she initially picked out the wrong man in a photo lineup.

She testified her ordeal was "very, very frightening . . . I had the feeling things were going very badly for me."

Capt. Bonam, an F-18 fighter-bomber pilot, produced witnesses who said he was elsewhere at the Hilton when the gantlet attack happened and was not wearing the color of clothing that Lt. Coughlin said her assailant wore.

Since going public with her charges, Lt. Coughlin has been the brunt of jokes and ridicule from some fellow male aviators.

Her resignation came the day before a Navy judge in Norfolk dismissed the last Tailhook criminal cases.

In dropping charges against three officers, Capt. William Vest Jr. accused Adm. Frank B. Kelso II, chief of naval operations, of having a personal interest in the case because investigators suspected he had witnessed bawdy behavior at Tailhook and did not stop it.

The judge said Adm. Kelso should not have appointed the admiral who has overseen all Tailhook prosecutions and punishments.

That officer, Vice Adm. J. Paul Reason, is expected to decide today whether to appeal Capt. Vest's opinion to the U.S. Court of Military Appeals or drop the cases. He could refer the cases to Mr. Dalton.

Dole rips Clinton on foreign policy

By Ralph Z. Hallow
THE WASHINGTON TIMES

President Clinton's conduct of foreign affairs threatens to rob the United States of global preeminence, respect and the ability to protect its national interests, Senate Minority Leader Bob Dole said yesterday.

"Unfortunatley, our image and position abroad is on the same downward spiral as during the Carter years, when the United States was feared by none, respected by few and ignored by many," Mr. Dole told the 21st annual Conservative Political Action Conference (CPAC) yesterday.

He belittled Mr. Clinton's serial ultimatums on the Bosnia conflict. "Last night, the president announced he was giving the Serbs ten more days," Mr. Dole said with a shrug. "And if that doesn't work, he'll give them ten more days."

He also challenged the president's insistence on universal health care insurance.

The Kansas Republican instead endorsed voluntary "universal access" to health care to oppose the government-required coverage for every American that Mr. Clinton has demanded from Congress under threat of veto.

"We [Republicans] are about the maximum amount of choice for the maximum amount of people," Mr. Dole told about 700 people in the Regency Ballroom of the Omni Shoreham Hotel. "We're about helping people gain access to the best health care system in the world [through] universal access."

The Republican leader, who shared the dais with Democratic Rep. Timothy J. Penny of Minnesota, dominated the first day of the three-day conference.

American Conservative Union (ACU) Chairman David A. Keene said the conference drew a record 2,000 paid registrants from across the country. ACU is the event's chief sponsor.

Mr. Dole, who is expected to seek the presidency in 1996, pounded Mr. Clinton on the one policy area that Republicans say he hasn't succeeded in stealing from them — foreign policy.

"When Ronald Reagan and George Bush were around, people slept pretty well at night, knowing that from a foreign policy standpoint, we had real leaders in the White House," he said.

Mr. Dole called for the United States to lift unilaterally the arms embargo against the Bosnian government to "allow the Bosnian people [to] defend themselves against the ongoing slaughter."

He said he does not intend "to suggest for one moment that we in America have an obligation" to intervene in every messy situation in the world and clean it up, "unless there is a clear national interest."

Mr. Dole welcomed the NATO deadline for Bosnian Serbs to pull back their artillery from Sarajevo, but he hoped "it is not just more talk. . . . The bottom line is that America, under the Clinton administration, is abdicating leadership — at the United Nations, at NATO, and around the globe."

Displaying the biting humor many in the audience had come to hear, Mr. Dole introduced the foreign policy part of his speech this way: "I want to say one thing about foreign policy. We don't have any."

The firm

It was more than a little entertaining yesterday to follow the evolving position of the Rose Law Firm's managing partner, Ronald M. Clark, on the question of document shredding at the firm last Thursday. The Washington Times' Jerry Seper reported yesterday that Rose employees shredded records from the Whitewater Development Corp. Calls from The Washington Times to Mr. Clark on Tuesday had gone unreturned. Wednesday, however, Mr. Clark was full of things to say.

In a morning dispatch, the Associated Press quotes Mr. Clark calling The Times' account "totally false." In response to a specific question from AP on whether Whitewater-related documents were shredded, Mr. Clark is quoted as saying: "Absolutely not. To my knowledge, we have no documents in the firm's possession related to Whitewater, and if we do, we are accumulating them in a single location awaiting the appropriate time that they will be examined."

Get it? The firm has no documents — and if it does, they are being gathered in a safe place.

That is quite an example of arguing in the alternative. One hopes that it is not indicative of the kind of legal argument Mr. Clark's firm crafts for its clients. Of course, the Rose firm did represent Madison Guaranty Savings and Loan in its effort to avoid being shut down and then went on to represent the federal government in its effort to shut down Madison, so who knows? In that case, however, a couple years intervened before the firm switched sides. Mr. Clark's blatant contradiction develops over the course of a comma.

By afternoon, Mr. Clark had a rather different tale to tell. AP quoted him saying that the report of shredding Whitewater documents was "totally false .... I am absolutely sure." Apparently he arrived at his position of absolute certitude only sometime after his first statement. This certitude now included the statement quoted by AP that his firm had "no significant documents" on Whitewater. And he said the firm had kept documents on Madison "in anticipation they will be requested" by Independent Counsel Robert Fiske.

He also is quoted as saying, "I am extremely upset that somebody would allege this." No doubt. Destruction of documents as described in The Times' story is clearly criminal.

We now know, by Mr. Clark's admission, that the Rose firm has documents relevant to Mr. Fiske's probe. It would be prudent, under the circumstances, for the independent counsel to obtain them forthwith.

Also, given the circumstances, it would be prudent for him to determine exactly what did happen last Thursday. Given Mr. Clark's evidently nuanced sense of the truth, perhaps Mr. Fiske's team would best begin by sitting everyone from the Rose Law Firm down in separate rooms, swearing them, and beginning the interviews with a reading of the federal statute on perjury.

Can Mr. Clinton go to Vietnam?

The president's words rang woefully hollow last week when he declared the lifting of the decades-old embargo against Vietnam. He was taking this step, Mr. Clinton said, because he had concluded that it would provide the best opportunity for determining the fate of the 1,647 American servicemen still missing in Vietnam.

"This decision today, I believe, renews that commitment in our constant, constant effort never to forget those until our job is done," Mr. Clinton solemnly intoned as he spoke before an audience packed with veterans of the war that Mr. Clinton himself so artfully had dodged.

On the question of Vietnam's trade status, of course, the president's views have undergone a bit of an evolution. During the campaign, when Vietnam War draft dodging was one of those very pesky charges facing candidate Clinton, he had only harsh words for the hopefuls in Hanoi who were convinced that a Clinton presidency would mean good news for them. Any normalization to get information on POWs was "backwards," Mr. Clinton believed in October 1992. "I don't think we should normalize and then get accounting. I think we ought to know where our people are. That's putting the cart before the horse."

Somewhere along the way, that precondition was downgraded to a goal, and the cart and the horse reversed positions. That may not surprise those who have kept tabs on the Mr. Clinton's trail of broken campaign promises. But the cynicism of using the POW/MIA issue as a cover for what is very obviously a decision to humor the U.S. business community (which is clamoring to join what it believes to be a Vietnamese gold rush) is awfully distasteful.

It may be that Mr. Clinton thinks he has good financial reasons to up for trade with Vietnam. A lot of people believe that; American companies want to have a share of a market now dominated by the Japanese and the South Koreans, the British, the French and the Dutch, one that shows the potential for growth enjoyed by other Asian nations if only its communist regime would allow its people to pursue it. If the president finds that such considerations outweigh any scruples about dealing with a regime whose human rights record is a among the worst in the world, he ought to make the case.

If he believes that business and contacts with the outside world will help improve conditions for the Vietnamese people (as opposed to funding and perpetuating a viciously repressive regime), maybe he should have made that case.

If he believes that bygones can be bygones with people who tortured, maimed and incarcerated captured American soldiers, then perhaps Mr. Clinton ought to have spoken to that issue. In other words, the president did not address these tough questions, presumably because his own actions during the war prevent an open and honest discussion of them. But it is foolish to put much faith in the honest intentions of a government that, only four days after the lifting of the embargo, rewarded us with the remains of 12 Americans. A small thanks for a big favor.

But now that Mr. Clinton has made "full accounting" the standard by which our future relations with Hanoi are to be measured, he shall be held to it. We should expect to see results from new searches in Vietnam, and we should expect Mr. Clinton to direct the Pentagon to cease the policy of automatically seeking to debunk any account of Americans left behind alive after 1973, of any perhaps still alive. Mr. Clinton has done nothing to deserve a presumption of good faith on this matter. He will have to earn it by his follow-up actions.

Fatal

"Coma" author Robin Cook's new best-selling novel, "Fatal Cure," examines a health care system that rises above the best interest of the patient. What an awful scenario, thought Republican Sens. Orrin Hatch of Utah and Connie Mack of Florida.

That's why the senators personally sent Bill and Hillary Clinton a copy of the thriller — "for some good nighttime reading," Mr. Hatch told us yesterday. And the senators didn't stop at the White House. They distributed copies to every lawmaker on the Hill — 535 in all.

Political statement

The help-wanted ad in Sunday's Washington Post read: "Campaign to Defeat Oliver North. Entry level and leadership staff needed to defeat Oliver North, who is the leading candidate to be Virginia's next U.S. Senator. . . . Paid for by Clean Up Congress, not by any candidate."

Wait a minute, we thought Clean Up Congress was an environmental group, concerned with environmental records of public officials.

"This is the first exception," Woody Holton, director of Clean Up Congr told us. Since Mr. North d 't an environmental record to attack, Mr. Holton said his group is settling for "dishonesty."

'Star wars' victory

Exiled Russian author Alexander Solzhenitsyn, who 20 years after his expose of communist terror is finally preparing to return home, tells New Yorker magazine that Ronald Reagan, not Mikhail Gorbachev, should be given credit for ending the Cold War.

But what about Mr. Gorbachev's decision to withdraw from the arms race?

"He really understood that the country was in such a difficult economic situation that sustaining the tension of the old rivalry with the West was no longer possible," Mr. Solzhenitsyn told writer David Remnick in an interview at his Vermont home.

"The Cold War was essentially won by Ronald Reagan when he embarked on the 'star wars' program and the Soviet Union understood that it could not take this next step," the Nobel Prize-winning author said. "Ending the Cold War had nothing to do with Gorbachev's generosity; he was compelled to end it. He had no choice but to disarm."

INSIDE THE BELTWAY

By John McCaslin

Alexander Solzhenitsyn identifies who really shut down the Cold War.

Old Abe

"Why not recognize the great emancipator?" writes Frederick Drum Hunt of Bethesda, upset because he was told President Clinton, for the second straight year, decided against laying a wreath at the Lincoln Memorial on Saturday, President Lincoln's 185th birthday.

There's still hope, Mr. Hunt. Jeremy Gaines, one of the president's press aides, told us yesterday that "it's possible" Mr. Clinton will honor the 16th president after all.

The other Roger

Watch out, Mr. President, Roger's coming to town.

No, not your brother. Roger Perry. You remember, the Arkansas state trooper from your gubernatorial security detail, who with fellow trooper Larry Patterson charged in newspaper, magazine and television interviews that they stood watch as you . . . well, you know the rest of the story.

Both troopers, in fact, will be in Washington tomorrow, along with attorneys, Cliff Jackson and Lynn Davis. Among other appearances, they'll be holding a news conference at the Omni Shoreham.

Fighting back

At his news conference last week, Nation of Islam leader Louis Farrakhan noted that Kean College President Elsa Gomez was herself a minority and was apparently worried about being forced from her post because of Khalid Abdul Muhammad's hate speech on the New Jersey campus.

Inside the Beltway has since obtained a two-page letter sent by Ms. Gomez to alumni of the college. In it, we find no hint she's worried.

"Hate speech visited Kean College on Nov. 29, 1993 and when it left three hours later, it left behind what hate speech always tries to create: irrational hatred, pervasive fear and a justification for violence," Ms. Gomez writes. "In this particular case, it also left something else, something the hatemonger fully intended to leave. Kean College was shaken to its foundations."

As a result, Ms. Gomez announced several steps, including assigning a representative to listen to every speech" on campus and "report to me immediately on the content of the speech"; invite a member of any "targeted group to present a counterview immediately following the speech"; and asking the attorney general "to explore our legal options related to the issue of free speech" and how the school can "protect our college community from speakers who undermine our mission."

The envelope, please

Rep. Curt Weldon, Pennsylvania Republican, made this unusual announcement yesterday on the House floor:

"Mr. Speaker, today we find out the nominees for the Academy Awards in Hollywood. I thought I would take the liberty of presenting the Academy Awards for the longest-running comedy in Washington. . . .

"Best actor in a full-scale cover-up: Bill Clinton, who has insisted for months he knew nothing about a land deal that lost him $9,000.

"Best actress in a full-scale cover-up: Hillary Clinton, who remembered to deduct every pair of Bill's used underwear but somehow forgot to declare a $69,000 tax loss."

FDIC nominee told to widen Whitewater recusal

By Paul Bedard
THE WASHINGTON TIMES

Ricki Rhordarmer Tigert's nomination to run the Federal Deposit Insurance Corp. was put in jeopardy yesterday amid new concerns that Ms. Tigert — a longtime friend of the Clintons' — hasn't fully recused herself from FDIC probes into Whitewater-Madison.

A key Tigert opponent on the Senate Banking Committee yesterday demanded that the Clinton nominee enhance her promise to stay out of Whitewater-related FDIC investigations, even if the probes do not specifically target the Clintons.

So far, Ms. Tigert has said only that she will rec from FDIC business "concerning President or Mrs. Clinton in their personal capacities."

Her foes on the Senate Banking Committee have said the recusal is too "narrow" and opens the door to her involvement in FDIC probes into Whitewater-related financial institutions in which the Clintons either weren't specifically named or were named, but in their official capacity.

Sen. Lauch Faircloth, North Carolina Republican, yesterday fired off a letter to Ms. Tigert demanding she expand her pledge to stay away from the agency's investigation of Madison Guaranty Savings & Loan and other institutions in the Whitewater case.

If he doesn't get an answer this morning, the senator has threatened to delay Ms. Tigert's confirmation vote in the Banking Committee today, according to committee aides.

Sen. Lauch Faircloth fired off a letter to Ms. Tigert demanding she expand her pledge.

"It is your unfortunate fate to have been nominated to a post which has direct jurisdiction over aspects of the emerging scandal involving a series of improprieties that have collectively come to be known as 'Whitewater,' " Mr. Faircloth wrote in the letter to Ms. Tigert.

"Because the [Democratic] leadership in Congress has chosen not to exercise its oversight responsibility into this matter, those members who are serious about finding the truth in this matter have no choice but to exercise scrutiny of appoi that do have jurisdiction," he d.

Mr. Faircloth is concerned that Ms. Tigert will stay away only from probes of deals involving the Clintons by name — not the mass of Whitewater-related cases involving many other Arkansas institutions that may also involve the Clintons.

In his letter, Mr. Faircloth called on Ms. Tigert to "expand your recusal from merely those matters concerning president and Mrs. Clinton in their personal capacities to also include their capacities either directly or indirectly as partners in firms, in their capacities either directly or indirectly as governo officials, such as the governor of Arkansas."

He also called on Ms. Tigert to recuse herself from specific involvement in any probe of financial institutions linked to the Whitewater Development Corp., a real estate deal in which the Clintons were partners with Madison President James B. MacDougal and his wife, Susan.

The FDIC is investigating Madison loans to Whitewater. Madison failed in 1989, costing taxpayers $50 million.

Ms. Tigert's secretary at the law firm of Gibson Dunn & Crutcher said her boss is refusing to talk to reporters until after she is confirmed by the Senate.

Mr. Faircloth has so far led the opposition to putting Ms. Tigert, a former Federal Reserve and Treasury Department official, in charge of the FDIC.

He fears that even with her recusal, Ms. Tigert will find it hard to forget her long personal relationship with the Clintons when it comes to FDIC probes of Whitewater-related financial institutions.

Time magazine this year described the Tennessee native as a close friend of first lady Hillary Rodham Clinton, whose role in Whitewater-Madison is under scrutiny. In a story about the annual Renaissance Weekend in Hilton Head, S.C., Time said Mrs. Clinton's favorite activity was "hanging out with FDIC nominee Rickie Tigert."

Since Mr. Faircloth first aired his opposition, friends of the Clintons' who attended the Renaissance Weekend have lobbied the senator on behalf of Ms. Tigert.

FOB Regulation

Today the Senate Banking Committee will vote on Ricki Tigert as head of the FDIC, she having agreed to recuse herself from issues involving the Clintons and Whitewater. Let us all pause to see who is running the rest of the bank regulatory apparatus. Why, Deputy Treasury Secretary Roger Altman, a presidential appointee as well as Georgetown friend, is running the ostensibly independent Resolution Trust Corp. And Eugene Ludwig, another college Buddy of Bill, has been installed as Comptroller of the Currency.

Why, the FOBs are taking over financial regulation, lock, stock and barrel. They haven't quite got the Federal Reserve yet, but they have a regulatory reform proposal that would take care of that. The Clinton folks aren't content to relegate cronies and pals to harmless backwaters like Commerce or Postmaster General or the alter ego of a presidential Counselor. They learned back in Arkansas that it was convenient to have a Beverly Bassett Schaffer sending "Dear Hillary" letters waving through a new capitalization plan for a financial institution.

We're glad to see that a couple of courageous Republicans are blowing the whistle.

North Carolina's Senator Lauch Faircloth, unlike some of his colleagues on Don Riegle's banking committee, isn't willing to let the matter drop with Ms. Tigert's recusal. In the FDIC nominee's first appearance before the committee, the Senator raised the issue of how someone who says she's known the Clintons for eight years and been a Renaissance Weekend regular could convincingly head an agency with an active investigation of the Madison S&L collapse. Ms. Tigert weasled, but later sent Senator Faircloth a recusal statement, which she said was written after consulting FDIC's ethics office. She promised she'll recuse herself from matters "concerning President or Mrs. Clinton in their personal capacities."

While consoling Ms. Tigert on the "unfortunate fate" surrounding her nomination, Senator Faircloth is now wondering about the caveat "personal." Does that remind you of "didn't inhale" or "no price controls?" Sen. Faircloth now wants Ms. Tigert to "expand your recusal" from matters involving the "personal" activities of President and Mrs. Clinton to include their public activities. More pointedly, he asks: "Will you recuse yourself from matters concerning Webster Hubbell, Vincent Foster, Dan Lasater, Frost and Company, Madison Guaranty Savings and Loan, the Worthen Bank Corporation" and onward through all the financial institutions now running under the Whitewater flag? How did we end up with an FDIC head going in recusing herself from the agency's most sensitive business?

Meanwhile, Rep. Jim Leach is wondering about Deputy Treasury Secretary/Interim RTC CEO Roger Altman. The Congressman wrote last week also seeking recusal commitments in matters involving the RTC's investigation of Madison's collapse and relationship to Whitewater. Mr. Leach's tone is cordial, but he thinks the inherent conflicts need to be faced:

"I have high regard for your personal integrity, but as you know, from the beginning, it has been an awkward situation to have a presidentially appointed and confirmed officer of the Treasury Department also head an independent federal agency, the RTC. When this prospect was first suggested at the beginning of the Clinton Administration, it did not strike the Minority as overly unreasonable for a month or two given the fact that no RTC head had been selected.

"However, it has been over a year since the administration has been in office and it can only be described as structurally unseemly for a political appointee of an Executive branch department to make what are, in effect, law enforcement decisions for an independent federal agency as they may touch upon the President."

Finally, we have Mr. Ludwig, appointed by Mr. Clinton to head the comptroller's office, which regulates and examines national banks. They attended Oxford and Yale together, and remain close. Just how close the American Banker described in its Jan. 31 edition, reporting on a videotape taken at a Renaissance Weekend by someone from "Saturday Night Live" who was also there: "The tape featured Mr. Clinton. But it was hard to miss Mr. Ludwig in a bright blue sweater and white shorts. Almost every shot of the President showed the beaming comptroller at his shoulder."

So we have three Friends of Bill or Hillary calling signals, amid a blizzard of recusals, at three traditionally independent bank regulatory agencies. Surely by now enough is known of the Clinton political mores to agree that we're past the point of simply passing all this through as of no consequence. After the Savings and Loan scandal, BCCI, the Keating Five and now whatever Whitewater is, it ought to be at least clear that federal financial regulators should be held to a Caesar's wife standard of propriety and independence. Instead, we get this.

We're quite used to the Clinton White House stonewalling or deriding anyone's inquiries or doubts about its behavior. But we're glad that Senator Faircloth and Rep. Leach are persisting with their questions about the administration's appointment practices. As we run the numbers, Renaissance Weekend plus Whitewater plus the RTC plus the Comptroller plus the FDIC plus regulatory independence does not compute.

THE WALL STREET JOURNAL THURSDAY, FEBRUARY 10, 1994

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Paper-shredding added to probe

Rose denies destroying Whitewater files

By Jerry Seper
THE WASHINGTON TIMES

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Special counsel Robert B. Fiske Jr. expanded his Whitewater-Madison inquiry yesterday to include a statement by an employe at Little Rock's Rose Law Firm that Whitewater Development Corp. documents pertaining to President and Mrs. Clinton, were shredded.

One law enforcement official in Little Rock, who asked not to be identified, said an accusation by a Rose employee — first reported yesterday in The Washington Times — that the Whitewater documents were destroyed last week has been forwarded by Mr. Fiske's office to investigators.

"It's certainly part of the record and something that will be looked into very seriously," the official said.

The managing partner at the Rose Law Firm, Ronald M. Clark, in statements to other media outlets, yesterday denied that any documents had been shredded, saying he was "absolutely sure" the allegation was "totally false."

However, the language of the denial by Mr. Clark changed throughout the day.

In the early morning, he described The Times' report as "totally false," saying, "To my knowledge, we have no documents in the firm's possession related to Whitewater." Then he added: "If we do, we are accumulating them in a single location awaiting the appropriate time that they will be examined."

In early afternoon, Mr. Clark told the Associated Press that the Rose firm had no "significant" documents concerning Whitewater. Disputing the first assertion of early morning, he said the Rose firm did, after all, hold Whitewater documents, and said they being held "in anticipation they will be requested" by federal authorities.

Mr. Clark told the Associated Press that the Rose firm had not yet received subpoenas or requests for the records.

In a statement sent via facsimile to The Times last night, Mr. Clark said, "... the Rose Law Firm has categorically denied that it has destroyed any documents relating to the Whitewater investigation."

The statement continued, "The firm has actively made every effort to preserve all the files that would have any connection with the Whitewater-Madison matter or any other matter which may be reviewed by the Independent Counsel. The firm will continue to see that all such files are securely maintained."

However, in the absence of a subpoena or request for records, it was not clear how the Rose firm determined which files would have "any

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connection" to the investigation, or which files the independent counsel might seek to review.

The Times had called Mr. Clark three times on Tuesday, when an account of the shredding was being prepared for publication, and left specific and precise questions with his secretary about the shredding. He did not respond to the calls.

Neither did Mr. Clark respond to two telephone inquiries from this newspaper yesterday.

The Times reported in yesterday's editions that an employee of the Rose firm had confirmed the shredding of Whitewater records showing Bill and Hillary Clinton's involvement in the north Arkansas real estate venture, which is now under federal investigation.

The employee, who requested anonymity, said there was "absolutely no doubt" that Whitewater records had been destroyed and that some people at the firm, including one employee who did the shredding, thought "that this could be very bad."

Identified as the one who destroyed the documents, the second employee declined comment in a telephone interview, although he declined an invitation to say that the shredding incident had not taken place.

"I'm not going to comment," he said. "I'm not going to say anything about what happened. I would just prefer not to say anything about this at all."

It is not clear which documents were destroyed, although former White House Deputy Counsel Vincent W. Foster Jr., a partner in the law firm, handled Whitewater legal matters for the Clintons.

Mr. Foster's body was found July 20 in a Virginia park in what federal authorities said was a suicide.

Neither was it clear yesterday whether the shredding violated state or federal law. An FBI agent and a former high-ranking Justice Department official said various interpretations of federal statutes show that the Rose firm could be held criminally liable if the incident is substantiated by the special counsel.

Former Rose firm partners also include first lady Hillary Rodham Clinton and Associate Attorney General Webster L. Hubbell.

As the Clintons' personal lawyer, Mr. Foster handled, among other Whitewater matters, the sale of the couple's half share of the development in November and corporate tax problems he uncovered in December.

The special counsel, a former U.S. attorney in New York, was named Jan. 20 by Attorney General Janet Reno to investigate accusations of financial irregularities involving James B. McDougal and his defunct Madison Guaranty Savings and Loan Association, which was closed by federal banking regulators in 1989 after it cost taxpayers $50 million.

Mr. McDougal, a longtime Clinton business associate who bought Madison in 1982, is suspected of manipulating $250,000 in loans through Madison and diverting other money to the campaigns of several powerful Arkansas politicians, including Mr. Clinton.

The inquiry also has focused on allegations that some of the S&L's funds were routed, in violation of the law, to the Whitewater account.

At the time, the Clintons, Mr. McDougal and his wife, Susan, were partners in the Whitewater venture, a $203,000 development project along the White River in the Arkansas Ozarks. The project later failed. The McDougals are divorced.

The Resolution Trust Corp. (RTC), which oversees failed S&Ls, investigated allegations that Mr. McDougal diverted Madison funds to Mr. Clinton using overdrawn accounts and thrift-approved l s. The RTC also asked whether Madison funds had been illegally diverted to Whitewater and then routed into Mr. Clinton's successful 1984 gubernatorial campaign.

One of those campaign contributions included money collected at a $35,000 fund-raiser Mr. McDougal hosted at Madison's offices in April 1985. The proceeds were t to help the Clintons retire a $50,000 personal loan they took from an Arkansas bank for the 1984 gubernatorial campaign.

The Fiske investigation also will include a review of the circumstances of the Foster death, the Whitewater documents secretly taken from his office after his h, and a look at a $300,000 Small Business Administration-guaranteed loan to Susan McDougal. A : $110,000 of the loan eventually found its way into the Whitewater account.

Mr. McDougal, who was indicted in 1989 for fraud in connection with Madison and later acquitted, has denied any wrongdoing.

Mr. Clinton has said that he and his wife did "nothing improper" with regard to Madison or Whitewater.

The Rose firm was founded in 1820 and is one of the oldest of the Mississippi River. One of its original members, U.M. Rose, was the founder of the American Bar Association. Six of its partners have served on the Arkansas Supre Court, three as chief justice.

The firm has 28 senior par s and 24 associates. According to the Martindale-Hubbell Law Directory, its specialities include civil litigation, products liability law, tax , corporate law, banking and securities regulations, labor law, and discrimination lawsuits.

Its clients have included Wal-Mart Stores Inc., Tyson Foods Inc., TCBY Enterprises Inc., and Stephens Inc., all Arkansas-based, and the Prudential Insurance Company of America, PaineWebber Inc., New York Life Insurance Co., MCI Telecommunications Corp., General Electric Co. and the Federal Desposit Insurance Corp.

Time extended for S&L probe

THE WASHINGTON TIMES

The Senate yesterday unanimously approved an effort by Sen. Alfonse M. D'Amato to extend the statute of limitations for civil actions tied to the savings and loan bailout.

The vote was 95-0.

The New York Republican sought to extend the statute from Feb. 28 to Dec. 31, 1995. so the Resolution Trust Corp. would have ample time to investigate questions about President and Mrs. Clinton's involvement in Arkansas' Whitewater Development Corp. and its financial ties to the failed Madison Guaranty Savings and Loan Association.

The statute of limitations on the Whitewater-Madison affair expires on Feb. 28.

In a compromise with Sen. Howard M. Metzenbaum, Ohio Democrat, Mr. D'Amato agreed to extend the statute of limitations for all pending civil cases for the RTC until Dec. 31, 1995, or until the Federal Deposit Insurance Corp. takes over the savings and loan bailout.

Since the House did not approve similar language, the D'Amato amendment faces an uncertain future. To become law, it must remain in the conference bill, which will include provisions approved by the House and Senate.

"The clock is ticking," Mr. D'Amato said.

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Scandals need clean broom of independent investigator

OUR VIEW **To avoid the appearance of a whitewash, the White House needs an outside investigator.**

One way exists to learn the unvarnished truth — and end the spreading rumors — about the Clintons' role in the Whitewater mess. It's an independent prosecutor — appointed by judges beholden to neither political party.

Today the House, following the Senate, can take a step toward providing one. It can vote to revive the Independent Counsel Act authorizing such prosecutors. And it should do so.

With the act renewed, a three-judge panel could appoint an independent counsel to investigate the Clintons' involvement in the Whitewater fiasco.

The investigation is now in the hands of Robert Fiske, a special prosecutor appointed by Attorney General Janet Reno. If he finds Clinton guilt-free, Republicans will scream "whitewash" until the '96 votes are counted.

An independent counsel — be it Fiske or someone else — would carry none of that baggage.

To measure the value of independence, one need only remember the Saturday Night Massacre of Watergate. President Nixon fired the special prosecutor and the attorney general. The fallout led Congress to authorize independent prosecutors to probe allegations of impropriety by high officials.

The law died because Republicans, tired of being investigated in the Reagan-Bush years, threatened to filibuster its renewal. Now that they smell blood on the Clintons' hands, they're eagerly changing position.

Rumors linking Clinton to an Arkansas scandal known as Whitewater, which cost taxpayers $60 million to bail out a savings and loan, refuse to go away. This week a Washington, D.C., newspaper, quoting an anonymous source, spread the rumor that Hillary Rodham Clinton's Little Rock law firm shredded Whitewater-related papers.

The public deserves to have the rumors confirmed or debunked — preferably by someone other than a lawyer hired by Reno.

Reject this broom of smears

OPPOSING VIEW **History of independent counsels is history of unfair attacks without adequate evidence.**

By Bruce Fein

Congress should keep the Office of Independent Counsel as dead as the Spanish Inquisition. In the office's short but villainous 14-year life, independent counsels defamed individuals, including two presidents, as criminals, despite the lack of criminal indictments. It proved the greatest menace to fairness and reputations since cowardly Sen. Joe McCarthy smeared multitudes while hiding behind his congressional immunity.

Independent counsels are not necessary to ensure uncompromised investigations of high-level executive officials. Before 1978, the Justice Department had regularly employed outside special prosecutors to pursue credible charges of misconduct by executive-branch Brahmins — the Whiskey Ring, Teapot Dome, the Truman administration tax scandals, Watergate and Jimmy Carter's peanut business, to name a few.

No credible evidence suggests that these special prosecutors' work was either corrupted or unable to evoke public confidence that no official, even a president, is above the law.

Moreover, while enjoying absolute immunity from defamation suits, some independent counsels recklessly practiced character assassination. One publicly damned former attorney general Edwin Meese as a two-time tax felon. Lawrence Walsh, either directly or through innuendo, pronounced more than a half-dozen unindicted or acquitted individuals guilty of Iran-contra crimes, leaving their reputations permanently scarred in violation of Justice Department and American Bar Association ethical standards and the Supreme Court's teachings on due process.

To revive the Office of Independent Counsel is to scorn attorney Joseph Welch's chilling indictment during the Army-McCarthy hearings: "Have you no sense of decency, sir, at long last? Have you left no sense of decency?"

Bruce Fein is a former associate deputy attorney general and was research director for Republican members of the House Iran-contra Committee.

THURSDAY, FEBRUARY 10, 1994 • USA TODAY

Report: Whitewater papers shredded

First lady Hillary Rodham Clinton's former law firm denies it shredded documents last week related to the Whitewater land deal controversy that has preoccupied the White House for weeks. Ronald Clark, managing partner of Little Rock's Rose Law Firm, said in response to a *Washington Times* story alleging papers were shredded, "We categorically deny destroying any documents."

Special investigator Robert Fiske said he'll look into the report. The newspaper, quoting an unidentified Rose employee, said papers related to the Clintons' investment in the Arkansas vacation home venture were destroyed last Thursday. But Clark said the firm has "actively made every effort to preserve all files" connected with the matter.

Fiske is probing whether Clinton business partner James McDougal illegally diverted funds from his failing Madison Guaranty Savings & Loan into Whitewater Development Co., a firm in which the Clintons had a 50% interest.

McDougal, appearing Wednesday night on ABC's *Nightline*, told Ted Koppel he would take a lie detector to show his faith in President Clinton's honesty.

"... let's apply all those same tests to Mrs. Clinton," Koppel said. "Would you give the same answer?"

"I don't know Mrs. Clinton well enough to give that broad of a guarantee," McDougal replied. **(Today's debate, 10A)**

PAPER CRUNCH: Virginia GOP Senate candidate Oliver North, who once destroyed so many Iran-contra documents in a White House shredder that it jammed, is now shredding documents of a different sort.

According to records filed with the Federal Election Commission, North's campaign paid $120 in November to a firm called Document Destructor for "waste disposal."

By J. Scott Applewhite, AP
NORTH: $120 for waste disposal

North spokesman Mark Merritt said the company makes a weekly pickup at campaign headquarters to protect against snooping reporters and dirty tricksters from other campaigns. "Any time a piece of paper comes out with Ollie's name on it, people think it's some top-secret thing," Merritt said.

Carol Kopelman, a co-owner, said Document Destructor pulverizes confidential records for numerous clients, including the U.S. government. "People are constantly saying, 'Ollie North should know about you.' " *— Leslie Phillips*

WAR AILMENTS: Sen. Don Riegle, D-Mich., suggested that mysterious illnesses afflicting Persian Gulf war veterans were caused by Iraqi use of biological weapons developed from cultures sent from the USA. He said he was troubled that the United States had permitted export of biological cultures to a country "with a known biological warfare program." Hundreds of service personnel who served in the 1991 war with Iraq have complained of severe flu-like symptoms. Despite traces of chemical agents found in northern Saudi Arabia three years ago, the Pentagon has said it has no evidence that Iraq used chemical or biological arms. Riegle said an investigation had disclosed that in the 1980s a U.S. firm received U.S. licenses to export to Iraq.

PLEA FOR HELP: The United States has a moral obligation and economic interest in aiding South Africa's development, the country's top foreign affairs representatives said. "We deserve special attention," Ambassador Harry Schwarz said at a USA TODAY International breakfast. "For every dollar you put in South Africa, you'll get a better return than from the Russian Federation or anywhere else." The group discounted the influence of the Freedom Alliance, a coalition of blacks and white conservatives that has vowed to boycott the elections. "They don't have a sympathetic population," and will not alter the direction of the April 26 elections, said Councilor John Barratt.

CORRECTION: The source of the "Top 10 targets for Clinton's cuts" that ran Monday was incorrect. The information came from USA TODAY research.

ELSEWHERE IN THE WORLD

U.S. troops in Colombia ignite political firestorm

A political fight over the presence of U.S. soldiers in Colombia burst wide open on Wednesday when President Cesar Gaviria angrily rejected a commission's finding that inviting the troops was unconstitutional and violated Colombia's sovereignty.

About 130 soldiers, mostly combat engineers from Fort Rucker, Ala., are in the Pacific coastal city of Juanchaco on what has been billed as a humanitarian mission to build a school and clinic and improve a road. The mission raised suspicions because it is 45 miles west of Cali, home of the world's biggest cocaine cartel. Other U.S. soldiers maintain a U.S.-built radar system that has netted drug-trafficking flights, and others train Colombian soldiers to better fight drug traffickers and guerrillas.

Gaviria said Colombia needed all the help it could get to fight its powerful cocaine traffickers.

AP (1985 photo)
DENG: First TV appearance in a year

DENG APPEARS: Looking gaunt and frail, China's 89-year-old paramount leader Deng Xiaoping appeared on state TV for the first time in more than a year. Supported on both sides by his daughters, Deng, the architect of China's economic reforms, walked slowly into a reception in Shanghai to mark the start of the Lunar New Year. Deng's TV appearance has become an annual event on Lunar New Year's eve to dispel chronic rumors that he is on his deathbed.

CANADA STRIKE: Picket lines came down at Canada's west coast ports after a 12-day longshoremen's strike that paralyzed shipping and left grain piled up in warehouses.

CUBA CLAIM: Cuba accused the United States of creating a "bottleneck" for Cubans seeking to travel to the USA, saying U.S. officials denied visas last year to 70,000 of 100,000 people who sought one. It said that while so many Cubans who legally apply are turned down, Washington gives red-carpet treatment to all Cuban refugees who enter the USA illegally after crossing the Straits of Florida in small boats, rafts and inner tubes.

ALSO: Nicaragua declared an immediate truce with the last remnants of the contra rebels.... More than 20,000 supporters of Poland's Solidarity trade union marched through Warsaw demanding that the government ditch its tight budget and spend more.... The Vatican blasted a European Parliament resolution that homosexual couples should be allowed to marry and adopt children, saying, "No man can take the place of a natural mother."

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The Clinton Two vs. the Keating Five

By David I. Thompson

As one who lived through the myriad investigations launched as a result of the failure of Charles Keating's Lincoln Savings in 1989, I have more than a passing interest in the allegations surrounding the Clintons' involvement with Whitewater Development Corp. and Madison Guaranty Savings & Loan.

The Clintons and their defenders repeatedly argue that because the Clintons (allegedly) suffered a loss on their investment in Whitewater, they could not have engaged in any wrongdoing. Yet even if the Clintons did lose money on the specific Whitewater investment, the relationship they developed with their business partner and Madison owner, Jim McDougal, profited them handsomely in terms of campaign contributions, handshake loans and access to powerful people. More important, the cozy relationship between the Clintons and Madison may have kept Madison alive longer than it should have, magnifying the bill to the taxpayers.

Indeed, many of the issues that appear relevant to Madison and Whitewater are identical to those scrutinized so exhaustively with respect to Lincoln. Here are a few comparisons that merit scrutiny by the special counsel appointed by Janet Reno to investigate the case:

• *Unfair influence.* Charlie Keating was pilloried for his generous donations to politicians, including the "Keating Five" in the Senate, who went to bat for him in dealing with zealous regulators. Without diminishing the significance of the political pressure those senators could impose upon the regulators, ultimately it was *only* pressure they could bring; the Keating Five had no direct control over Lincoln's supervision, and the regulators eventually triumphed over both Lincoln and the senators, ruining a few careers in the process.

In contrast, Bill Clinton as governor had the power to hire and fire the Arkansas securities commissioner, responsible for supervising all state-chartered thrifts. In 1985, shortly after Madison had received a negative regulatory audit noting its "unsafe and unsound" practices, and shortly after Mr. McDougal raised $35,000 to "knock out" a personal debt Bill and Hillary Clinton owed from the latest gubernatorial race, Mr. Clinton fired the sitting commissioner and replaced him with a longtime friend and political supporter.

Thus, Mr. Clinton had life-and-death power over the bureaucrat with life-and-death power over Madison. Never mind the Clintons' small investment with Whitewater. Mr. McDougal had just proved his usefulness to Mr. Clinton in other ways. How useful would he be if his S&L were taken over? The Clintons at the very least had an incentive to provide as sympathetic an ear as possible to Mr. McDougal and Madison, and they seem to have done it.

• *Cronyism.* Another of Mr. Keating's actions that outraged the public was the hiring, on a monthly retainer, of a California law firm whose senior partner was one of Gov. George Deukmejian's closest political advisers. This firm represented Mr. Keating's interests before the California Securities Commission, headed by a lawyer formerly employed by the same firm. After Lincoln was seized, the firm and its lawyers were accused of using their connections with the Deukmejian administration to prop up a tottering institution. They, along with other Keating lawyers, were sued and ultimately settled for several million dollars.

Mr. McDougal went Mr. Keating one better, taking a belt-and-suspenders approach to the state regulatory process. Not content with the knowledge that a Friend of Bill's was now the securities commissioner, he went to Hillary Rodham Clinton for his legal representation, placing her on a monthly retainer. Mrs. Clinton's assignment was to represent Madison before the Arkansas securities commissioner after the Federal Deposit Insurance Corp. issued its report of Madison's "unsafe and unsound" practices. Mrs. Clinton's lobbying apparently succeeded: Armed with an independent audit, she persuaded her friend the state regulator to keep Madison open. During the next year, Madison more than doubled in size and left a bigger crater for the taxpayers to fill when it was finally seized.

• *Misleading the regulators.* One of Charlie Keating's biggest sins was allegedly misleading the regulators by "file-stuffing"—creating documents that, although created after the fact, were written in the present tense to leave the impression that loan and real-estate underwriting was thorough and complete at the time a particular transaction was entered into. In the Keating case, such conduct involved criminal penalties, since making "false entries" and misleading the regulators are strictly forbidden.

Yet Hillary Rodham Clinton's law firm, which had represented Madison for several years before it failed, flagrantly misled the FDIC after the agency seized Madison in 1986. The FDIC elected to sue the accounting firm that had pronounced Madison healthy and whose report Mrs. Clinton had vouched for in arguing for Madison's continued existence.

The FDIC lawsuit against the accountants should have been a big deal; Madison's failure cost $60 million against reported total assets of $120 million, meaning that 50 cents of every dollar held by Madison and allegedly examined by the auditors was phony. As with Lincoln's accountants, Madison's accounting firm represented a deep pocket with which to cover some of the losses to the taxpayers. Amazingly, Mrs. Clinton's law firm bid for and was awarded the representation to sue the accounting firm.

How could a law firm that only a year earlier had used the accountants' report to help keep Madison alive now sue the accountants for the report? Normally, in the S&L carnage that resulted from deregulation and then reregulation, legal counsel to institutions that failed as spectacularly as Madison (at least equal, on a percentage-of-assets basis, to Lincoln's failure) expected to find themselves on the receiving end of major litigation almost as a matter of course. Mrs. Clinton's law firm, in fact, was an "institution-affiliated party" as defined in section 901 of FIRREA, and thus its own dealings with Madison should have been scrutinized closely.

Mrs. Clinton's law firm escaped such a fate the old-fashioned way, apparently flagrantly misrepresenting prior ties to Madison. Late White House Deputy Counsel Vincent Foster, Mrs. Clinton's partner at the law firm, wrote to the FDIC in an effort to get the representation against the accounting firm, stating, in pertinent part: "the firm does not represent any savings-and-loan association in state or federal regulatory matters."

The present tense chosen by Mr. Foster makes the statement literally accurate, but any first-year law student knows that fraud can arise when one omits material facts necessary to make a statement not misleading—i.e., that the law firm had represented Madison in the extremely recent past. Lincoln's lawyers got sued for hundreds of millions of dollars; Madison's lawyers not only got off scot-free, but also collected a $400,000 fee for suing the accountants and "winning" a paltry $1 million settlement.

Moreover, if it can be established that Whitewater or its partners received one dollar of benefit from Madison, indirectly or directly, diverted any business opportunity rightfully belonging to Madison, or otherwise profited at Madison's expense, then a whole new area of investigation opens wide, with possible prohibited affiliate transactions of the kind that were fatal to Mr. Keating.

It must be noted that the contributions to the Keating Five, the cozy relationships with state supervisors, the employing of influential law firms, and so on, did not, directly, convict Charles Keating. But those things did focus such widespread attention on Lincoln and its operations that the full power and wrath of the U.S. government eventually came down on Mr. Keating's head.

It would seem only logical that when the same, or more extreme, indicators of questionable conduct are present in a case involving the highest elected official in the country, the same standards of scrutiny be applied. Let's be fair: Applying the Lincoln test to Madison will show that we do have a government of laws, not men.

Mr. Thompson is a Cincinnati attorney who was a vice president and corporate counsel for Lincoln Savings from 1985 to 1989.

THE WALL STREET JOURNAL THURSDAY, FEBRUARY 10, 1994

White House Acts Swiftly to Ward Off Civil-Rights Post Nominee's Adversaries

By Joe Davidson
Staff Reporter of The Wall Street Journal

WASHINGTON – The battle to define Deval Patrick began even before he was officially nominated to be President Clinton's assistant attorney general for civil rights.

The day before the nomination, Clint Bolick, the conservative legal gadfly who led the successful assault on Lani Guinier, Mr. Clinton's first nominee for the job, sent news organizations a news release labeling Mr. Patrick a "stealth Guinier." Two days later, Mr. Bolick followed with an op-ed piece in The Wall Street Journal whose headline called Mr. Patrick a "quota clone." A Journal headline on an earlier Bolick broadside against Ms. Guinier had dubbed her a "quota queen."

But this time the administration, learning from past mistakes, moved just as swiftly to prevent the nominee from being placed in a box designed by adversaries. Officials introduced the 37-year-old Boston lawyer to reporters prior to his first meeting with the president. Later, they feted him with a reception attended by civil-rights activists and members of Congress. And within an hour of his White House nomination ceremonies, they took him to Capitol Hill to meet Democratic and Republican legislators. Sen. Edward Kennedy (D., Mass.) introduced him to lawmakers as they came off the Senate floor.

Signal of New Approach

Mr. Clinton himself signaled the administration's new, more aggressive approach. The nominee's critics "never believed in the civil-rights laws, they never believed in equal opportunity, they never lifted a finger to give anybody of a minority race a chance in this country," he said. "If they attack his record, it means just exactly what we've all suspected all along: They don't give a riff about civil rights. Well, those of us who care about civil rights were elected by the American people to take care of them, and that's what we intended to do."

All this has paid off for the White House. So far, Mr. Patrick hasn't encountered substantial opposition in Congress. "Nobody has given any indication of picking up the cudgel on this particular individual," says one GOP Senate staffer.

Of course, Mr. Patrick's nomination has been helped by the fact that, while he has participated in some important civil-rights cases, he lacks an extensive paper trail – numerous published articles – that opponents can cite to attack his ideas.

The administration presented him as a modern-day success story, a young jazz lover and a good cook who came from a broken home and surmounted welfare, poverty and turmoil growing up on Chicago's South Side. He once described his childhood as "a life of want, of deeply segregated and ill-equipped schools, of gang violence and limited hope." From there, he went to the exclusive Milton Academy in Massachusetts and then to Harvard University, where he played squash and earned an undergraduate degree in literature and a law degree.

Mainstream Thinking

Supporters promote Mr. Patrick as well within the mainstream of civil-rights thinking, a member of a blue-chip law firm and someone even Republicans can support. In a June commencement address at Milton, he lamented the lack of a national consensus on civil rights. The nation is "trapped in a pattern of neglect and retrenchment," he said, because of a "failure of will, a lack of leadership and fear . . . Indeed, we seem to have abandoned any sense of the possibility of national community."

Mr. Bolick decries an argument Mr. Patrick made against the death penalty; the nominee had argued unsuccessfully before the Supreme Court that the death penalty is unconstitutional because it is used disproportionately against black men. Mr. Bolick says the case indicates Mr. Patrick believes that otherwise fair procedures are racist if they produce unequal outcomes. Equality of opportunity, not equality of results, should be the civil rights touchstone, Mr. Bolick argues.

The conservative critic also makes much of Mr. Patrick's association with the National Association for the Advancement of Colored People Legal Defense and Educational Fund; the nominee worked for that group after graduating from law school, and currently serves on its national board and New England steering committee. Mr. Bolick contends that the organization relentlessly pushes racial quotas, busing and laws guaranteeing minority companies government work.

But few have bought the notion that the organization and Mr. Patrick are radical civil-rights outsiders. Supporters point to the number of federal and state judges, law deans and university presidents who came from Legal Defense Fund ranks, and note that Solicitor General Drew Days worked for the group.

Indeed, this time it's civil-rights leaders and Mr. Clinton who are attempting to cast Mr. Bolick as outside the mainstream. On public television's MacNeil-Lehrer NewsHour, Legal Defense Fund Executive Director Elaine Jones got Mr. Bolick to admit that even the late Supreme Court Justice Thurgood Marshall probably, in Ms. Jones' words, "could not pass the Clint Bolick test."

Counsel to Study Report On Document Shredding

By a Wall Street Journal *Staff Reporter*

WASHINGTON – The special counsel investigating the Whitewater affair will look into a published report alleging that Hillary Rodham Clinton's former law firm shredded documents related to the matter.

The **Rose Law Firm** yesterday denied an account in the Washington Times quoting an unidentified employee of the Rose Law Firm as saying he had participated in destroying Whitewater documents last Thursday. The Little Rock, Ark., law firm represented **Madison Guaranty Savings & Loan**, which is at the center of the Whitewater affair because its owner was a partner of the Clintons in the failed real estate development deal now under investigation by Special Counsel Robert B. Fiske Jr.

Ronald M. Clark, the managing partner of the Rose Law Firm, said yesterday that "there has been no destruction of documents to my knowledge." He said the law firm has been systematically "accumulating and then safe keeping" any documents related to Madison. "To my knowledge," he added, the firm has "no substantial documents whatsoever with respect to Whitewater."

Mr. Clark also said that last month the Rose Law Firm retained **Vinson & Elkins**, a 530-lawyer Houston law firm to represent it in "anything and everything that arises out of this matter."

THE WALL STREET JOURNAL THURSDAY, FEBRUARY 10, 1994

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Spending Battle Holds Up Earthquake Relie

Kerrey-Brown Proposal in Senate Tries to Link Deficit Reduction to Disaster Assistance Bill

By Helen Dewar
Washington Post Staff Writer

The Senate plunged into its first big budget war of the year yesterday as a bipartisan group of anti-deficit "hawks" attempted to piggyback $94 billion worth of spending cuts over five years onto a bill containing $8.6 billion in emergency aid to earthquake victims in Southern California.

The House has passed the spending bill, and the Senate is hoping to wrap up work on it in time for final enactment before Congress leaves for its week-long President's Day recess—just short of a month since the disasterous Los Angeles temblor.

But the rush to approve relief for California's earthquake victims slowed for a daylong debate over a long list of spending cuts that Sens. Bob Kerrey (D-Neb.) and Hank Brown (R-Colo.) proposed in what Kerrey described as an effort to continue the momentum started by the deficit reduction plan approved last year.

Also pending was a Republican proposal to cut spending by enough to offset costs of the spending bill, along with a larger plan to be considered later in the year to cut deficits by $50 billion over five years.

The Kerrey-Brown proposal called for 57 separate spending cuts that would save $7 billion this year—or roughly double the $3.4 billion in cuts that President Clinton proposed and the Senate Appropriations Committee wrote into the bill to partially offset the disaster spending.

Their proposal was similar to the five-year, $90 billion savings plan proposed last year in the House by Reps. Timothy J. Penny (D-Minn.) and John R. Kasich (R-Ohio) and narrowly defeated after a heavy lobbying campaign by the White House.

While Kerrey denied he was trying to hold the relief measure hostage to passage of the spending cuts, Sen. Barbara Boxer (D-Calif.) said Kerrey's proposal threatened to delay relief for California and begged him to withdraw it.

Kerrey turned aside the request, saying the real "driving force" behind the rush was Congress's hope to recess on time. Besides, he said, "when it comes time to spend money, we can do things in record time."

Deficit reductions are necessary to create an economy strong enough to support the kind of national "generosity" that the earthquake-relief measure epitomizes, Kerrey argued.

The Kerrey-Brown proposal called for elimination, consolidation and reduction of a wide variety of programs, with the biggest savings coming from Medicare ($30.5 billion), cutting the federal work force by 252,000 jobs ($26.7 billion) and cutting back on the growth of travel, communications and other overhead costs of federal agencies ($21 billion).

But these big-ticket items became big targets for Senate Appropriations Committee Chairman Robert C. Byrd (D-W.Va.), who described them as illustrative of what he described as the illusionary quality of the Kerrey-Brown proposals.

Medicare savings are essential to the financing of every major health care proposal before Congress and thus cannot be counted as savings, he argued. Nearly all of the savings from work force cuts have been claimed in financing the huge anti-crime bill passed by the Senate last year and thus cannot be counted again, he added. As for agency overhead costs, Clinton has made most of the savings by executive order, Byrd added.

Byrd did not stop with the big items, however. Some of the smaller savings claimed by Kerrey and Brown were appropriations that were never approved or spending that already has been rescinded, he contended.

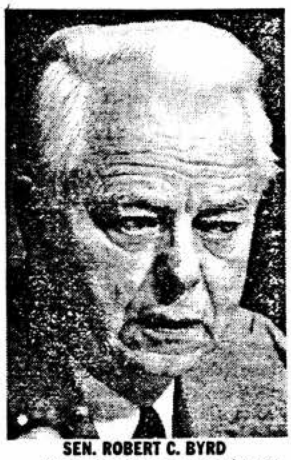
As a whole, "the overwhelming percentage of these claimed savings are nonexistent," Byrd declared. "Try as we might, we cannot have it both ways" in counting money both for deficit reduction and popular spending programs such as anti-crime initiatives, he added.

The bill before the Senate totals $11 billion, including money to cover a variety of funding shortfalls as well as the $8.6 billion in emergency aid and longer-term housing, highway and business assistance for Southern California.

At Clinton's request, the Senate is adding $250 million to the $435 million that the House approved to help clean up after the midwestern floods last summer. Also at Clinton's request, offsetting spending cuts were increased by $880 million to $3.4 billion.

The bill also includes $1.2 billion for peacekeeping operations in Somalia, Bosnia, Iraq and Haiti as well as $315 million to help rebuild a freeway damaged by the 1989 Loma Prieta earthquake in the San Francisco Bay area.

SEN. BOB KERREY
. . . cuts would fund quake "generosity"



SEN. ROBERT C. BYRD
. . . "claimed savings are nonexistent"

SEN. HANK BROWN
. . . plan would cut $94 billion in five

Alleged Whitewater Shredding to Be Probed

By Susan Schmidt
Washington Post Staff Writer

LITTLE ROCK, Ark., Feb. 9—Special counsel Robert B. Fiske Jr. will investigate allegations that employees at the Rose Law Firm here have shredded documents relating to Whitewater Development Corp. Rose officials today denied the claim.

The Washington Times, quoting an unnamed Rose employee, said law firm documents on the real estate investment of President Clinton and his wife Hillary, a former Rose partner, had been shredded last Thursday.

A spokeswoman for Fiske said the office is aware of the Times story, and "the alleged shredding will be investigated by this office."

Ronald M. Clark, managing partner of the Rose firm, said, "We categorically deny shredding any documents relating to Whitewater or any other matter reported in the press."

Clark said the firm expects to receive a subpoena from Fiske and has been pulling together documents the counsel might want.

"We anticipate producing those documents at the appropriate time, but there is absolutely no destruction of documents going on," he said.

Fiske is investigating the Clintons' Whitewater investment and their ties to Madison Guaranty Savings & Loan, the Arkansas thrift owned by the couple's Whitewater business partner James McDougal.

Clark said the firm has few documents on Whitewater because its legal work for the company was limited.

He said Rose lawyers also were compiling documents relating to former Rose lawyer Webster L. Hubbell's representation of the government in its malpractice suit against Madison's accountants; files pertaining to Hubbell's father-in-law, Seth Ward, and the parking meter company formerly owned by Ward and now owned by his son; and records of the Rose firm's representation of Madison before state regulators in the mid-1980s.

McDougal hired the firm in 1985 for $2,000 a month to help push an unusual stock plan before regulators appointed by then-Gov. Clinton.

Hubbell, now associate attorney general, was a senior partner at the Rose firm along with the late deputy White House counsel Vincent Foster, who committed suicide in July.

Clark said Rose lawyers also are searching files for other individuals and entities named on a subpoena the FBI issued several weeks ago to another figure in the Madison-Whitewater probe, Arkansas Gov. Jim Guy Tucker (D).

THURSDAY, FEBRUARY 10, 1994 THE WASHINGTON POST

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FDIC Choice Pledges Whitewater Recusal

GOP Senators Question Tigert's Clinton Ties

THE WASHINGTON POST WEDNESDAY, FEBRUARY 9, 1994

By Jerry Knight
Washington Post Staff Writer

President Clinton's nominee to head the Federal Deposit Insurance Corp. has promised to keep away from the agency's investigation of Madison Guaranty Savings & Loan, the failed Arkansas thrift that financed Whitewater Development Corp.

Washington attorney Ricki R. Tigert issued the pledge Monday after Senate Republicans threatened to hold up her nomination because of what they contend are conflicts of interest stemming from her friendship with the president and Hillary Rodham Clinton.

In a letter released yesterday by Sen. Alfonse M. D'Amato (N.Y.), the Senate Banking Committee's ranking Republican, Tigert denied any conflicts exist but said she would avoid the Madison investigation because "I am extremely sensitive about even the appearance of any conflict of interest."

D'Amato said Tigert's decision to recuse herself from the Madison matter was "helpful to disposing of questions raised about her independence at a time when the FDIC is conducting investigations into matters involving President and Mrs. Clinton."

The FDIC took over Madison at a cost to the taxpayers of $48 million after it failed in 1989. The FDIC, the Resolution Trust Corp. and the Justice Department are investigating possible violations of banking law and regulations at Madison, including the thrift's loans to finance Whitewater, a residential real estate development in which the Clintons were partners along with Madison President James MacDougal and his wife, Susan.

Tigert said neither her appointment by Clinton to head the agency nor her acquaintance with the Clintons would prevent her from conducting an independent inquiry. She said both the Office of Government Ethics and the ethics officers of the

TIGERT, From C1

FDIC assured her that "no actual conflict of interest is involved, given the casual nature of my friendship [illegible]ons."

At Tigert's confirmation hearing last week, Sen. Lauch Faircloth (R-N.C.) portrayed her as a longtime intimate of the Clintons, but Democratic sources said she had met them fewer than a dozen times over a period of several years.

Faircloth repeatedly pressed Tigert to explain how she could oversee an investigation of people she had known personally.

Yesterday, Faircloth aides said the senator was not satisfied with her response. "It's not the most airtight recusal," a Faircloth spokesman said, predicting Republicans would continue to use Tigert's nomination to raise questions about Madison and Whitewater.

D'Amato warned yesterday that the government is running out of time to take action against Madison officials to recover damages for the S&L's failure.

Dragging a huge "Whitewater Countdown" calendar onto the Senate floor, D'Amato said the statute of limitations for suing Madison officials expires Feb. 28.

The government could keep the case open by asking Madison officials to sign voluntary agreements extending the deadline, D'Amato said, but he complained that RTC officials have refused to disclose whether they have taken that action.

The RTC referred the investigation of Madison to the Justice Department in October 1992, because of possible criminal violations, and usually in such cases the government files civil lawsuits to try to get some of its money back, D'Amato pointed out.

TODAY IN CONGRESS

SENATE

Meets at 10 a.m.
Committees:
Appropriations—2:30 p.m. Closed. Foreign operations subc. Russia & Ukraine. 219 Hart Office Bldg.
Armed Services—9:30 a.m. Pending military nominations. 222 Russell Office Bldg.
Budget—10 a.m. President's proposed FY95 budget. Treasury Sec. Lloyd Bentsen. 608 Dirksen Office Bldg.
Commerce, Science & Transportation—9:30 a.m. Nomination of Ann Brown to be chairman of Consumer Product Safety Commission. 253 ROB.
Finance—10 a.m. Congressional Budget Office analysis of president's health care reform plan. 215 DOB.
Finance—No set time. Nomination of Mary Ellen Withrow to be treasurer of the United States. 215 DOB.
Foreign Relations—10:30 a.m. Pending nominations, including nomination of Strobe Talbott to be deputy secretary of state. 419 DOB.
Foreign Relations—2 p.m. International economic policy, trade, oceans & the environment subc. Foreign aid reform proposal. 419 DOB.
Foreign Relations—3 p.m. East Asian & Pacific affairs subc. Post-embargo status of Vietnam. 216 HOB.
Judiciary—10:30 a.m. Formulating an effective response to gangs. 226 DOB.
Labor & Human Resources—11 a.m. Occupational Safety & Health Act reform. Labor Sec. Robert Reich. 430 DOB.
Veterans' Affairs—2 p.m. VA participation in state health care programs. 418 ROB.

HOUSE

Meets at noon.
Committees:
Appropriations—9:30 a.m. Agriculture [illegible] subc. Receive an Agriculture Dept. budget overview & Office of Inspector General overview. 2362A Rayburn House Office Bldg.
Appropriations—10 a.m. Interior & related agencies subc. FY95 approps. for Commission on Fine Arts; Advisory Council on Historic Preservation; & Woodrow Wilson International Center for Scholars. B-308 RHOB.
Appropriations—10 a.m. Labor-HHS-Education subc. FY95 approps. for miscellaneous programs under its jurisdiction. 2358 RHOB.
Appropriations—2 p.m. Commerce, Justice, State & the judiciary subc. FY95 approps. for Federal Maritime Commission & Marine Mammal Commission. H-310 Cap.
Armed Services—1:30 p.m. Pentagon acquisition reform. Defense Sec. William Perry. 2118 RHOB.
Banking, Finance & Urban Affairs—10 [illegible] Fishery Conservation & Management Act. 1334 Longworth House Office Bldg.
Public Works & Transportation—9:30 a.m. Aviation subc. Adequacy of commuter airline safety standards. 2167 RHOB.
Rules—10 a.m. Legislative Reorganization Act. H-313 Cap.
Science, Space & Technology—10 a.m. With House Permanent Select Intelligence Committee. Commercial remote sensing in post-Cold War era. 2318 RHOB.
Science, Space & Technology—1 p.m. Technology, environment & aviation subc. Present & future of Malcolm Baldrige National Quality Award & its relationship to standards. 2325 RHOB.
Ways & Means—10 a.m. Health subc. American Health Security Act; MediPlan Act; & other single-payer health care reform proposals. 1100 LHOB.
Ways & Means—10 a.m. Select revenue measures subc. Selected tax provisions in [illegible] health care reform proposal.

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bc-whitewater
SENATE BACKS MEASURE EXTENDING
STATUTE ON WHITEWATER S&L
By JOHN MACHACEK=
Gannett News Service=

WASHINGTON Sen. Alfonse D'Amato, R-N.Y., Wednesday won his four-week battle to protect the government's right to recover civil damages from a failed Arkansas thrift that financed the Whitewater Development Corp.

Rather than single out the savings and loan involved in the White Water affair, the D'Amato measure approved 95-0 extends to Dec. 31, 1995, the statute of limitations on all thrifts that failed because of ``fraud and gross negligence.''

Initially, D'Amato was concerned that the government take action in the case of Madison Guaranty Savings and Loan Association, charged with illegally using government loans to finance the Whitewater real estate development in which President Clinton and Hillary Clinton were once partners with Madison executives.

He complained again Wednesday that the Resolution Trust Corp. the government agency charged with cleaning up the savings and loan scandal had not specifically said what action it was taking against Madison before the statute of limitations on the case expired Feb. 28.

But D'Amato agreed to a measure to extend the statute for all failed savings and loans in cases of fraud and negligence after Sen. Howard Metzenbaum, D-Ohio, accused him of playing politics with the Madison case.

Metzenbaum charged that D'Amato and other Republicans had opposed his efforts last year to extended the statute of limitations for thousands of failed savings and loans, including Madison.

``He (D'Amato) raises the possibility of (extending) the statute of limitations in just one case,'' Metzenbaum said on the Senate floor Tuesday. ``Is that because the senator from New York knows that the president's name has been mentioned in connection with the case.''

However, D-Amato said Wednesday night that he was content with a broad extension.

``We have worked out a fair compromise,'' D'Amato said Wednesday night. ``This broad-based extension (of the statute) would only go after the intentional wrongdoers'' at the failed banks.

**** filed by:GN-F(--) on 02/09/94 at 21:43EST ****
**** printed by:WHPR(JEL) on 02/10/94 at 08:52EST ****

AM AR-Whitewater-Rose Firm,1100
First Lady's Former Law Firm Expects Records To Be Sought
By DAN SEWELL= Associated Press Writer=

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LITTLE ROCK, Ark. (AP) The law firm where first lady Hillary Rodham Clinton was a partner broke its customary silence Wednesday, emphatically denying a published report that it had recently shredded files related to the Whitewater land development corporation.

Ronald M. Clark, managing partner of the Rose Law Firm, said the firm expects federal investigators to want to review documents the firm has regarding an investigation related to the north Arkansas real estate venture in which President and Mrs. Clinton were partners with James B. McDougal and his then-wife Susan.

The Washington Times, which quoted an unidentified Rose employee about the shredding, said it stood by Wednesday's story.

``I am extremely upset that somebody would allege this,'' Clark said, adding that Rose had ``no significant documents'' concerning the Whitewater development, ``and we have searched definitely.''

Many Whitewater documents belonged to Mrs. Clinton and have not been in the Rose firm building since 1992, said two sources who asked not to be named.

Clark, in a rare interview, also rebutted accusations of unethical conflicts now under investigation. He said the firm has assembled files related to its representation of the McDougal-controlled Madison Guaranty Savings Loan Association and federal regulators Rose represented after Madison failed.

``We are accumulating those files in anticipation that they will be requested,'' Clark said, adding that ``as of this moment'' there has been no subpoena or other records request from federal investigators.

The Little Rock office of Special Counsel Robert B. Fiske Jr., appointed Jan. 20 to probe Whitewater and related matters, said the report of shredding would become part of its investigation.

``Mr. Fiske is aware of The Washington Times report on shredding of documents. That will be investigated by his office,'' said a staff assistant who would identify herself only as Joyce.

Among issues Fiske will investigate is whether savings and loan funds were illegally diverted to Whitewater or Clinton's gubernatorial campaign. Madison failed in 1989.

Destroying records to prevent their discovery in legal proceedings could be construed as obstruction of justice.

Clark said the Rose firm has kept its files concerning its earlier representation of Madison and the now-questioned lawsuit it handled for the Federal Deposit Insurance Corp. against an accounting firm accused of a fraudulent audit of Madison.

The firm, which has called itself the nation's oldest west of the Mississippi dating to 1820, has been under fire because of Madison-related representation involving former Rose partners Mrs. Clinton, Associate Attorney General Webster L. Hubbell and the late White House Deputy Counsel Vincent Foster Jr.

``We feel like we adequately disclosed all the potential conflicts,'' said Clark. Legal scholars say potential conflicts of interest are usually acceptable if clients have been fully informed.

Madison retained the Rose firm at $2,000 a month in 1985. McDougal has said he did so after a discussion with Clinton.

Clark said Rose's representation involved ``very isolated services'' and he said Mrs. Clinton didn't do the majority of work on Madison matters.

After 15 months, Clark added, Rose decided ``the matters we did for them didn't warrant that retainer.'' The firm rebated some $6,400 to Madison in 1986, he said.

Clark also said Rose properly disclosed two conflicts to the FDIC before handling a $6 million lawsuit against the Frost and Co. accounting firm.

In 1985, a Rose associate gave state regulators an optimistic assessment

of Madison's financial health. Clark said Wednesday that ``to the extent that regulators, shareholders and taxpayers were misled by incorrect audits, so was the Rose Law Firm.''

Foster had solicited FDIC business. He wrote that Rose was not then representing any savings institutions, but didn't mention its earlier work for Madison.

In a briefing memo prepared two months in anticipation of questions from congressional investigators, the FDIC said its attorneys don't remember whether Rose disclosed the earlier work.

``While we have no reason to believe we were misled by the Rose, the legal division is investigating the matter further,'' the FDIC memo said.

It said regardless, the prior work wouldn't have disqualified Rose because it wasn't substantially related to the Frost lawsuit.

``In a state like Arkansas with few firms large enough to pursue a large (public liability suit), most of the firms will have brushed against the institution or some of its directors in the past,'' the memo said.

The memo said another potential conflict was disclosed by Hubbell that his father-in-law, Arkansas businessman Seth Ward, had extensive dealings with Madison.

Rose earned $400,000 for the lawsuit against Frost, which it settled for $1 million.

There was ``a very emotional reaction'' at the Rose firm Wednesday to the latest allegation, of document shredding, Clark said.

``This is a difficult situation for the members of our firm, a difficult situation on our families,'' he said.

No attorneys or legal staff members knew of any such shredding incident, Clark said. He talked to the staffers who handled routine shredding of unneeded documents Wednesday, he said.

The Washington Times quoted the unnamed Rose employee as having ``absolutely no doubt that the records destroyed last Thursday were those the firm had on Whitewater.'' It said another employee who declined to discuss the matter was said by friends to be fearful of Rose retribution.

Clark said there's ``no gag order'' at Rose about commenting on Whitewater, but the firm has discouraged comment by its attorneys and staffers as potentially breaching attorney-client confidentiality.

``We have nothing to hide,'' said Clark.

Of six other Rose attorneys contacted Wednesday, none would comment. One said the lawyers had agreed to speak with one voice, Clark's, to avoid giving confusing messages.

The company which picks up trash at the Rose law firm said a truck picked it up on Friday and took it to the company's landfill, where it was compacted and covered with at least a foot of dirt. One company employee said it would be almost impossible to find out exactly where that load was buried, but another said the landfill manager would know.

**** filed by:APW-(AR) on 02/09/94 at 21:17EST ****
**** printed by:WHPR(JEL) on 02/10/94 at 08:52EST ****

AM-TV-ABC-Whitewater,0192

ABC Devotes Half Of Evening News Show To Whitewater

2

NEW YORK (AP) ABC's ``World News Tonight'' dedicated nearly all its Wednesday evening broadcast to an examination of the Whitewater case and President Clinton's role in it.

Arnot Walker, a spokesman for ABC News, said the segment took about 18 of the 22 minutes in the broadcast, not counting commercials.

```World News Tonight' felt there was no way to tell this story completely without doing a complete report,'' Walker said. ``They felt it was best to do it this way rather than to tell it over numerous nights in smaller reports.''

The report broke little new ground but provided a comprehensive picture of what is known of the complex deals involving the president, first lady Hillary Rodham Clinton and their business associates in Arkansas.

Robert Fiske, a Justice Department special prosecutor, is looking into ties between the failed Madison Guaranty Savings and Loan, an Arkansas thrift, and the Whitewater Development Corp.

Madison was owned by James McDougal who, with his wife, was the Clintons' partner in Whitewater, an Arkansas real estate development company.

**** filed by:APE-(--) on 02/09/94 at 23:25EST ****
**** printed by:WHPR(JEL) on 02/10/94 at 08:51EST ****
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PM Senate-Whitewater,370

Senate Votes to Extend Deadline on S&L Fraud Actions

By LARRY MARGASAK= Associated Press Writer=

WASHINGTON (AP) Spurred on by Republicans, the Senate agreed to give the government two additional years to pursue civil charges against failed savings and loans including the institution central to the Whitewater case.

The Senate voted 95-0 Wednesday to extend, through Dec. 31, 1995, the deadline for pursuing civil fraud and gross negligence actions against officials of numerous failed institutions.

But Republicans were primarily interested in one failed Arkansas institution, Madison Guaranty Savings and Loan. The statute of limitations for the Resolution Trust Corp. to file civil enforcement actions in the Madison case is Feb. 28.

Madison is linked in several ways to the Whitewater Development Corp., a real estate venture that was owned by Bill and Hillary Clinton, along with the owner of Madison and his wife at the time.

Sen. Alfonse D'Amato, R-N.Y., has been badgering Democrats daily to extend the deadline, arguing that pursuing civil actions would not affect an ongoing criminal probe of Whitewater and Madison.

He didn't have much luck until Wednesday, when Sen. Howard Metzenbaum proposed extending the deadline for a number of failed institutions not just Madison. D'Amato agreed.

The extension was attached to legislation that is certain to pass quickly, an $8.6 billion relief bill for victims of the Los Angeles earthquake.

The overall bill will go to a House-Senate conference, and D'Amato urged his Senate colleagues to fight any attempt there to delete the extension.

``This sends a strong signal that those responsible for bilking the taxpayers will not be able to hide behind the calendar,'' said D'Amato, who was accused by Democrats of caring only about Madison for political gain.

In passing legislation to provide additional funds to the RTC late last year, the Senate deleted language that would have extended the statute of limitations from three years to five years in civil matters.

The statute clock begins ticking on the day the failed institution is taken over by federal regulators. After it expires, no charges can be brought.

Acting RTC chief Roger Altman assured D'Amato, in a letter dated Jan. 25, that the agency would pursue any appropriate civil matters against Madison.

**** filed by:APW-(AR) on 02/10/94 at 06:50EST ****
**** printed by:WHPR(JEL) on 02/10/94 at 08:49EST ****

bc-whitewater
McDOUGAL MAY HAVE HIDDEN
OWNERSHIP IN WHITEWATER
By DENNIS CAUCHON=
and DEBBIE HOWLETT=
USA TODAY=

James McDougal, President Clinton's business partner in Whitewater Development Co. Inc., may have illegally hidden his ownership in Whitewater when he filed for bankruptcy in September 1991, court records show.

McDougal claimed his only assets were $300 worth of clothes when he filed for bankruptcy in Los Angeles, records show.

But his lawyer, Sam Heuer, confirmed McDougal has been co-owner of Whitewater from its formation in 1978 until now.

The revelation has prompted the bankruptcy court to take another look. ``I'm investigating his potential failure to disclose material assets,'' said bankruptcy trustee Steven Smith.

The probe could leave the Whitewater Development Co. Inc. in the hands of unexpected owners: U.S. taxpayers.

Reason: The government is McDougal's biggest creditor.

The bankruptcy filing showed McDougal owes money to:

Resolution Trust Corp., the federal bailout agency. Debt: $612,560. McDougal owned the once high-flying Madison Guaranty Savings and Loan, whose failure cost taxpayers at least $47 million.

Internal Revenue Service for failure to pay income tax. Debt: $195,000.

State of Arkansas, $16,536 for failure to pay income tax.

President Clinton isn't liable for any of McDougal's personal debts, nor is he a focus of the the bankruptcy probe.

However, the Whitewater shares Clinton once owned might be seized if the court finds McDougal improperly shielded his assets. McDougal paid $1,000 to Bill and Hillary Clinton in December 1992 for their 50 percent share of Whitewater Development.

McDougal and his ex-wife, Susan, have owned the other 50 percent since the beginning.

The Clintons and McDougals were partners in the company, which bought 230 acres on the White River in north Arkansas.

Heuer, McDougal's attorney, said he did not know why McDougal did not report his ownership of Whitewater in his bankruptcy filing.

``I'm not a bankruptcy lawyer. Maybe it's because it had a negative value of $100,000,'' he said.

But several bankruptcy lawyers say they can't think of a reason why Whitewater would not be listed as an asset.

``You are obligated to report absolutely everything you own, even if it's just one share and even if you've lost money on it,'' says lawyer Andy Cain of the American Bankruptcy Institute.

``If you don't accurately report everything, you run the risk of being charged with a crime or not getting the discharge (of debts) that you went to court for,'' Cain said.

Whitewater still produces money and has value, even though the McDougals and Clintons may not recover their full investment an amount which remains unclear.

Whitewater assets had a net worth of $42,190 on May 31, 1991 four months before the bankruptcy filing, according to a report prepared for Clinton by attorney James Lyons.

Also, Arkansas land records indicate Whitewater Development gets income every month from people who bought lots financed by the company. The records show Whitewater completed the sale of one lot for $12,000 on April 15, 1993, and another for $12,500 on June 23, 1993. James and Susan McDougal signed the deeds.

Creditors say they still want their money.

``We haven't collected anything. We consider it an open case,'' said RTC

New Independent Counsel Law Should Apply to First Lady

Rule of Law

By Theodore J. Boutrous Jr.

Today Congress will resume debate over the lapsed independent counsel law, and the arguments no doubt will be colored by President and Mrs. Clinton's controversial financial dealings in Whitewater Development Corp. I am against reauthorization of the statute in any form, but since it soon may be reauthorized, Congress might as well ensure that the statute fulfills its asserted purposes and applies in a fair and consistent manner.

Congress thus ought to resolve a question of increasingly pressing importance: Should a president's spouse be covered by the independent counsel statute? In light of Whitewater, and Hillary Rodham Clinton's deep involvement in the politics and policy of her husband's presidency, the answer to that question is clearly yes.

Everyone now seems to agree that special procedures are necessary in cases involving possible claims of high-level, executive-branch wrongdoing. Whitewater is such a case. Republicans, led by Senate Minority Leader Bob Dole and joined by numerous Senate Democrats, persuaded the White House to request that Attorney General Janet Reno appoint an outside "special counsel"—who will be insulated by Justice Department regulations from political pressures—to investigate the Whitewater affair.

Even as she announced the appointment of Robert Fiske, however, Ms. Reno reiterated her position that only a truly independent counsel appointed by the courts pursuant to the statute would instill public confidence in the Whitewater investigation. But this preference poses a problem that goes beyond Whitewater.

The independent counsel statute has never explicitly covered the president's spouse, and neither the House nor the Senate proposals pending in Congress would do so either. The statutory mandate for an independent counsel has always applied only to certain specifically identified high-ranking executive-branch officials, including the president. Neither the first lady nor any other executive-branch spouse has ever been included.

Whitewater shows why this makes no sense. As virtually everyone must know by now, the Whitewater controversy, fairly or unfairly, focuses as much on Mrs. Clinton as on the president. According to Time magazine, "compared with the President, the First Lady was a central player." Both were investors in the failed land deal. Mrs. Clinton's conduct also allegedly included: her securing of a $30,000 loan to purchase a model home for the development property and the subsequent sale of the home; her legal representation of Madison Guaranty S&L; the involvement of her law partners in various other Whitewater events; and her 1988 letter asking for power of attorney for the company.

The position of first lady no longer can be characterized as simply ceremonial—particularly since the office's policy-making function has now been made explicit. In its recent decision concerning the legal status of Mrs. Clinton and the Health Care Task Force over which she presided, the federal appeals court in Washington had little trouble concluding that the "President's spouse acts as the functional equivalent of an assistant to the President" and that the first lady is a "full-time officer or employee of the government."

Mrs. Clinton has been repeatedly characterized as the president's closest adviser. She was charged by the president with the responsibility of formulating and implementing the most far-reaching policy initiative of his administration, health care reform, and she recently testified before five congressional committees on the president's plan. The first lady also reportedly played a key role in choosing the president's cabinet, including Attorney General Reno.

During the recent Senate hearings concerning reauthorization of the independent counsel statute, Ms. Reno testified: "The reason I support the concept of an Independent Counsel, with statutory independence, is that there is an inherent conflict whenever senior Executive Branch officials are to be investigated by the Department of Justice and its appointed head, the Attorney General. . . . The Independent Counsel Act was designed to avoid even the appearance of impropriety in the consideration of allegations of misconduct by high-level Executive Branch officials."

Hillary Clinton

I believe that the Justice Department special-counsel process is fully adequate to address these concerns. But if one agrees with the attorney general's assertions, I do not see any way to dispute that the president's spouse should be subjected to mandatory coverage under any new independent counsel statute.

The "inherent conflict" and appearance problems identified by Ms. Reno would exist just as clearly if the attorney general and her subordinates retained responsibility for investigating allegations of misconduct against a first lady. Moreover, investigation and prosecution of a first lady would, in many ways, raise far more sensitive issues than cases involving other top presidential aides and advisers.

In fact, an attorney general would likely recoil in horror from the idea of targeting and pursuing the boss's spouse in connection with a criminal inquiry. Members of Congress (and some members of the press) cannot even bring themselves to ask Mrs. Clinton tough policy questions. This makes it especially difficult to imagine the attorney general and career prosecutors tenaciously investigating or bringing charges against a first lady.

Except in the most extreme circumstances, such factors would also create enormous political and practical obstacles for the attorney general that would rule out the discretionary appointment of an independent counsel to prosecute a first lady. Only mandatory coverage will fulfill the purposes offered to justify the independent counsel law.

As a matter of principle, any new independent counsel law should apply to presidential spouses (and Congress), or it should not be passed at all. Mrs. Clinton's role as policy and political adviser to the president is not likely to be an isolated incident in the history of the presidency. Nor can mandatory application of the independent counsel law to presidential spouses be challenged by the Democrats as a partisan issue.

Sen. Dole has fully endorsed Mrs. Clinton's policy activities as entirely appropriate. He often remarks amiably that he plans to fulfill a similar role when his wife, Elizabeth, is elected president. What better reason could there be for the Democratic Congress to vote to ensure that the president's spouse is covered by the independent counsel law?

Mr. Boutrous is an attorney in Washington who has represented parties in independent counsel matters.

THE WALL STREET JOURNAL WEDNESDAY, FEBRUARY 9, 1994

PM-Whitewater-Shredding, 1st Ld-Writethru, a0490,490
Rose Law Firm Denies Published Report It Shredded Whitewater Records
EDS: INSERTS 5th graf, ``Ronald M. Clark xxx with Rose flat denial; SUBS last two grafs with one new graf, ``Clark said xxx with assertions that employees not barred from talking

WASHINGTON (AP) The Rose law firm where first lady Hillary Rodham Clinton was a partner shredded documents last week relating to Whitewater Development Corp., The Washington Times reported today.

The paper cited as its source an unidentified Rose employee who said the documents included material showing the involvement of President and Mrs. Clinton, along with James B. McDougal and his then-wife Susan, in the Arkansas real estate venture.

Special counsel Robert B. Fiske Jr., appointed Jan. 20 by Attorney General Janet Reno, is looking into among other things whether McDougal improperly diverted funds from the Madison Guaranty Savings Loan Association, which he controlled, to Whitewater and Clinton gubernatorial campaigns.

The Times said it was not clear whether the reported shredding would violate sate or federal laws.

In Little Rock, Ronald M. Clark, managing partner of the Rose firm, today called the report ``totally false.'' Asked specifically whether any documents related to Whitewater were shredded, Clark said: ``Absolutely not. To my knowledge, we have no documents in the firm's possession related to Whitewater, and if we do, we are accumulating them in single location awaiting the appropriate time that they will be examined.''

Associate Attorney General Webster L. Hubbell and the late White House Deputy Counsel Vincent Foster Jr., also were partners in the Little Rock law firm with Mrs. Clinton before moving to Washington to serve in the Clinton administration.

Foster committed suicide and the White House has acknowledged that papers relating to Whitewater and other matters were taken from his White House office last July after his death and turned over to the Clinton's personal lawyer in Washington before they could be examined by officials investigating his death.

``There's absolutely no doubt that the records destroyed last Thursday were those the firm had on Whitewater,'' the Times quoted the Rose employee as saying. ``There were a lot of papers and the process took quite a long time.

``A bunch of the stuff was there to be read and it was felt that this could be very bad,'' the paper quoted the employee as saying.

It reported that a second Rose employee who took part in the shredding would not talk about it, but declined to say the incident had not occurred.

``I'm not going to comment,'' the paper quoted the second employee as saying. ``I'm not going to say anything about what happened. I would just prefer not to say anything about this at all.''

But the Times said the employee who declined to discuss the matter had confided to friends that the shredding had taken place and that he was ``scared to death'' about it.

The paper quoted an unidentified female friend of the second employee as saying he told her there was anxiety over the possibility Rose employees could be fired because the shredding had become known.

Clark said the firm's employes ``are under no gag order or anything else so they can speak freely.''

**** filed by:APE-(--) on 02/09/94 at 07:33EST ****
**** printed by:WHPR(JEL) on 02/09/94 at 08:35EST ****

Combat troops to stay in Somalia until 'very last'

By Steve Komarow
USA TODAY

The chairman of the Joint Chiefs of Staff said Tuesday a large number of U.S. troops will be kept in Somalia until just before their March 31 exit deadline to ensure their own safety.

"We are experiencing a continuing high level of lawlessness" in the capital of Mogadishu, Gen. John Shalikashvili told the Senate Armed Services Committee. "We have to be particularly watchful that this doesn't get out of hand as we get closer and closer to withdrawing."

AP
SHALIKASHVILI: 'Have to be watchful'

Shalikashvili said he has ordered "the maximum number of combat troops ... stay there until the very last."

Roughly 3,000 more U.S. troops must be evacuated in the next six weeks. U.S. forces were bolstered in Somalia after an October firefight in which 18 U.S. soldiers died. President Clinton then set a March 31 deadline for U.S. withdrawal.

Shalikashvili also alluded to the threat posed by anti-aircraft weapons believed to be in the hands of the warring Somalia militias, although he didn't explicitly say what they might be.

"We have directed that all major troop transports out of Mogadishu from now on go by ship instead of plane so we don't have to face the tragedy of an airplane full of our soldiers being shot down," he said.

"But," he said, "my main concern is to see that ... Mogadishu itself doesn't disintegrate into chaos, because that would make the withdrawal that much more difficult."

By Sayyid Azim, AP
TAKING POSITION: A Somali National Alliance gunman walks a Mogadishu street Tuesday. Lawlessness still plagues the war-torn capital.

The problems in Somalia, and especially the prospects of U.S. involvement in the war in the former Yugoslavia, nearly overshadowed the purpose of Tuesday's hearing: President Clinton's new military budget.

Sen. Robert Byrd, D-W.Va., chairman of the Senate Appropriations Committee, expressed his growing impatience with U.S. troops and dollars going toward what he called U.N. "adventurism."

"Are we going to be continually presented with emergency (budget) requests to finance foreign military actions under the auspices of the United Nations?" he asked Defense Secretary William Perry.

Perry said there were two other options: saying "no" when the world community calls for U.S. participation, or having the U.S. military carry out such operations on its own.

"And that would cost even more," he said.

House likely to OK special counsel bill

By Leslie Phillips
USA TODAY

The House today is expected to approve a bill requiring court-appointed, independent counsels to investigate wrongdoing among high government officials.

The measure would revive a 1978 law passed in response to the Watergate scandal.

The law expired last year and was not in place when questions arose about President and Mrs. Clinton's Arkansas real estate deals.

AP
WALSH: Iran-contra probe took 7 years

Under political pressure, Attorney General Janet Reno appointed special counsel Robert Fiske to investigate.

Fiske's integrity is unchallenged. But he's accountable to the attorney general. Some have argued his findings, no matter what they are, will be subject to conflict of interest charges.

"People have more confidence in the result" of an independent counsel investigation, says Rep. Henry Hyde, R-Ill., because the counsel is accountable only to the courts.

The Clintons' problems have lent momentum to the bill, especially among some of the 84 Republicans who voted against the last reauthorization in 1987 and then blocked renewal in 1992.

The GOP was livid over the Iran-contra investigation conducted by Lawrence Walsh.

Republicans said, during the course of his seven-year, $37 million probe, Walsh lived extravagantly at the Watergate Hotel and leased expensive offices instead of less costly government space. And they took particular umbrage at the indictment of former secretary of Defense Casper Weinberger.

Independent counsels have been appointed for 13 separate investigations, at a total cost of about $55 million to U.S. taxpayers.

GOP objections to the bill were based on "intrusion on executive power, when it was their president," says Wake Forest University politics professor Katy Harriger. "They're singing another tune now."

The new proposal, however, contains controls such as requiring quarterly financial statements and annual audits.

Hyde will offer a proposal requiring the counsel to seek funding every two years. And Rep. George Gekas, R-Pa., wants Congress to be covered.

WEDNESDAY, FEBRUARY 9, 1994 • USA TODAY

Rose firm shreds Whitewater records

Employee says papers detailed Clintons' involvement

By Jerry Seper
THE WASHINGTON TIMES

A1

Little Rock's Rose Law Firm — where first lady Hillary Rodham Clinton, Associate Attorney General Webster L. Hubbell and former White House Deputy Counsel Vincent W. Foster Jr. were partners before they came to Washington — last week shredded Whitewater Development Corp. records held in its possession, The Washington Times has learned.

The records, according to an employee of the firm, included documents showing President and Mrs. Clinton's involvement, along with partners James B. McDougal and his then-wife, Susan, in the north Arkansas real estate venture now under federal investigation.

Special counsel Robert B. Fiske Jr., appointed Jan. 20 by Attorney General Janet Reno, is looking into allegations that Mr. McDougal, former owner of Madison Guaranty Savings and Loan Association, illegally manipulated S&L loans and improperly diverted money to several powerful Arkansas politicians, including Gov. Clinton.

Mr. Foster, whose body was found July 20 in a Virginia park in what federal authorities said was a suicide, was the Clintons' personal lawyer and represented the couple for the Rose firm in the Whitewater matter.

"There's absolutely no doubt that the records destroyed last Thursday were those the firm had on Whitewater," said the employee, who asked not to be named. "There were a lot of papers, and the process took quite a long time.

"A bunch of the stuff was there to be read, and it was felt that this could be very bad," the employee said.

A second Rose employee who took part in the shredding declined comment. In a telephone interview, he would not say if he had shredded Whitewater documents or witnessed their destruction, but he declined to say the incident had not occurred.

"I'm not going to comment," said the employee, who earlier had confided to friends that the shredding had taken place and that he was "scared to death" about it.

"I'm not going to say anything about what happened. I would just prefer not to say anything about this at all."

A friend of this employee, who also requested anonymity, confirmed the conversation in which he said he was frightened. She said she was told there was concern at the Rose firm about what had happened an[illegible] employees could be fired because the matter had become known to The Washington Times.

Ronald M. Clark, managing partner at the Rose firm, did not return telephone calls to his office yester-

see PAPERS, *page A10*

PAPERS ✓

From page A1

day seeking comment about the destruction of the documents.

It's not clear whether the shredding violated state or federal laws, but a high-ranking Justice Department prosecutor in an earlier administration said that under certain interpretations of federal law, the shredding could be considered obstruction of justice.

"This is outrageous," he said. "If what happened was not illegal, and there is a question about that, then it certainly was highly unethical."

An officer of the FBI describes it as a "curious thing to do at this point," particularly since the Rose firm had to be aware that Whitewater was part of an ongoing federal probe.

"It certainly is no secret Whitewater is under investigation — it's been on the front page every day," he said. "Maybe they have taken the position that it's privileged information and want to protect their client.

"But if they shredded the records with the intent of preventing their discovery, that might be a different thing."

Others recalled that shredding documents during his tenure at the National Security Council proved costly to Marine Lt. Col. Oliver North. He was convicted in May 1989 and sentenced to two years' probation, 1,200 hours of community service and a $150,000 fine. The sentence was overturned on appeal in July 1990 by a federal appeals court.

The Fiske inquiry includes a review of money said to have been funneled by Madison to the Whitewater project, including a $300,000 Small Business Administration loan obtained by Mrs. McDougal.

David L. Hale, a former Little Rock municipal judge now under indictment on unrelated SBA fraud charges, said Mr. Clinton, then the governor, and Mr. McDougal pressured him to authorize the loan. About $110,000 of it eventually found its way into the Whitewater account.

Mr. McDougal has denied any wrongdoing.

Federal authorities have said the Clintons are not "targets" of the Whitewater-Madison probe, although Mr. Fiske has said he intends to question both of them under oath. They also have denied any improprieties.

It was not clear which specific Whitewater documents would have been kept [illegible] Rose firm, but Mr. Foster [illegible] Whitewater matter for the Clintons, including:

- The December sale of the couple's half-share of Whitewater.

Mr. Foster met with Mr. McDougal in November 1992 to sell the couple's partnership interests for $1,000 and later arranged for it to be taken as a capital gain on the Clintons' personal tax returns.

- Whitewater's failure to file corporate income tax records for a three-year period.

The omission was discovered after Mr. Foster met with Mr. McDougal to execute the Whitewater sale. In December 1992, Mr. Foster filed corporate tax returns for the Clintons claiming Whitewater had earned no income.

Mr. Foster also was responsible for the establishment of a blind trust [illegible] ethical concerns about the couple's personal business deals. The task was not accomplished until six months after Mr. Clinton took office — and three days before Mr. Foster's death.

The Fiske investigation will include a review of the Foster suicide. Whitewater documents were secretly taken from his office by White House officials after his body was found.

Last month, after The Washington Times reported that records had been removed from Mr. Foster's office, the White House turned over to the Justice Department 10 boxes of what it said were Whitewater documents. The delivery came in response to a federal grand jury subpoena the White House had negotiated with the Justice Department to keep the documents sealed from public view.

It was not clear whether other records held by the Rose firm pertaining to the Clintons had also been shredded.

Several federal law enforcement authorities have been concerned about a possible conflict of interest involving Mrs. Clinton's ties to an investment group and about a stock partnership involving Mr. Foster and Mr. Hubbell.

Specifically, these concerns involve:

- Value Partners, an investment group that "sold short" on several health care stocks after the Clintons moved into the White House.

By the time of the sale, Mrs. Clinton had actively taken charge of the president's health care task force. Selling short is the practice of selling shares not held for future delivery in anticipation of buying the shares later at a reduced price.

In December 1992, Value Partners had $1.2 million invested in 10 health care stocks, or about 13 percent of its total portfolio. The conflict focused on allegations that, as the head of the health care task force, Mrs. Clinton's public statements about health care and price controls depressed the price of shares in health care stocks, making the shares available at a reduced price.

- Midlife Investors, a partnership set up in 1983 by Roy P. Drew, a broker working at the time at the E.F. Hutton office in Little Rock.

According to the Clintons' joint tax returns, Mrs. Clinton was a partner in Midlife from 1983 until at least the end of 1991. The address listed for the partnership is the Rose firm.

Mrs. Clinton, Mr. Hubbell and Mr. Foster each put up $15,000, naming [illegible] others — not their spouses — as beneficiaries.

The Clintons' tax returns show the partnership never yielded much taxable dividend income, a finding that surprised Mr. Drew, now a private consultant. He said it would be "a stretch of the imagination" to believe the venture did not yield dividends, based on its stock purchases, which included Firestone Tire and Diamond Shamrock.

The Clintons and McDougals were joint partners in Whitewater and planned to build vacation homes on 42 lots along the White River in the Arkansas Ozarks. The project failed.

According to records at the Marion County Courthouse in Yellville, Ark., the partnership appears to have been structured to enable the [illegible]

The Washington Times WEDNESDAY, FEBRUARY 9, 1994

8 4

spokesman Mike Fulwider.
``We'll follow up and file a lien if we find out he has any assets,'' said Mike Leathers, commissioner of the Arkansas Department of Finance and Administration.

**** filed by:GN-F(--) on 02/06/94 at 19:27EST ****
**** printed by:WHPR(JEL) on 02/07/94 at 08:34EST ****

AM-Clinton-Whitewater, Ark Bjt,800
The Frustrated GOP Effort to Make Whitewater a Whitewatergate
Eds: Also moving on national wire
An AP News Analysis
By WALTER R. MEARS= AP Special Correspondent=

WASHINGTON (AP) The chart looks like a maze names linked by lines that interlock and overlap in all directions, with President Clinton in the middle. Republicans call it the Whitewater family tree in their unrelenting but so far frustrated effort to make the case a cutting issue.

The very complexity of their diagram, 50 names in a maze of lines, is one reason.

They've got no arena in which to pursue and dramatize questions raised about the investments the Clintons say they made and lost in the failed Ozark land deal.

Nor is there a villain they can cast as the heavy. The financier involved in this case is not a haughty fat cat; he's broke, sick, and already tried and acquitted of fraud.

None of that dispels the questions Republicans have raised as grounds for the congressional investigations that majority Democrats are refusing. But it will take more than questions to make Whitewater into Whitewatergate, the label some House Republicans want applied.

Indeed, while that argument has been going on, Clinton's approval ratings have been going up, to 58 percent in a poll a week ago. That Gallup survey for CNN and USA Today showed no significant change in the number of people who see the president as honest and trustworthy, 52 percent.

The Clintons have emphatically denied doing anything wrong.

The president has grudgingly agreed to have a special counsel look into the case of Whitewater Development Co. and the later failure of a savings and loan run by the Clintons' partner in the Whitewater land deal.

The questions involve the possibility of regulatory favors while Clinton was governor, suggestions that S&L money might have been diverted to pay off campaign debts, and the involvement of Hillary Rodham Clinton as a Little Rock lawyer.

Rumor and innuendo, says House Speaker Thomas S. Foley.

``Serious questions of possible wrongdoing,'' says a memo of suggested speechmaking points from the Senate Republican Policy Committee.

Either way, with a former Republican U.S. attorney from New York investigating as special counsel, the Democrats have a ready rebuttal to continued Republican demands for a congressional inquiry. Let him do his job, they say. There'll be time for hearings later if need be.

The counsel, Robert B. Fiske Jr., said he almost certainly would question the president and Mrs. Clinton under oath as part of his investigation. Congressional investigators couldn't.

And while the White House hadn't wanted a special counsel, having one enables the administration to deflect persistent Whitewater questioning.

To that extent, it helps now. Whether it hurts later depends on Fiske's findings, and there's no telling when he'll be done.

Republican congressional leaders had proposed a special joint committee to investigate, but dropped that when the special counsel was appointed, a step they also had urged.

Now the GOP pressure is for hearings in the House and Senate banking committees. Both chairmen have refused to conduct Whitewater-S&L hearings, but there apparently will be committee sessions on the management of the agency that overseas the savings and loan bailout. Those are supposed to be held twice a year, and they are overdue.

For Republicans, that will offer a way into the Whitewater case; they will be able to raise questions about Madison Guarantee Savings & Loan, shut down by the government in 1989 and bailed out at a cost of more than $47 million. In the House committee, Republicans have a right to call witnesses, and Rep. Jim Leach of Iowa, who has had his own investigators at work, said he intends

to do just that.

Still, the opening would be brief, not the long, close look Republicans have demanded.

And not enough to make suspicions into issues that would resound politically if, indeed, that can be done at all.

That's particularly irksome to Republicans, who saw their administrations under frequent investigation over 12 years in the White House. Sen. Bob Dole, the Republican leader, said that happened at least 18 times.

But Democrats won't investigate Democrats, he complained, although that is hardly a surprise ending.

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EDITOR'S NOTE Walter R. Mears, vice president and columnist for The Associated Press, has reported on Washington and national politics for more than 30 years.

**** filed by:APW-(AR) on 02/05/94 at 13:30EST ****
**** printed by:WHPR(JEL) on 02/07/94 at 08:35EST ****

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PM-Whitewater-Mrs McDougal,250
Susan McDougal Says No Wrongdoing in Whitewater

WASHINGTON (AP) Susan McDougal, the former wife of the key figure in the investigation of the first family's Arkansas business dealings, says she is certain that no criminal charges will be brought in the matter.

Speaking publicly for the first time about the controversy involving President Clinton and Hillary Rodham Clinton, Mrs. McDougal told The Associated Press on Friday that she has done nothing wrong.

``I am absolutely confident that there's no wrongdoing in the Whitewater case,'' said Mrs. McDougal.

She also said that she did not expect to be charged with any crimes connected with Whitewater.

``I'd be shocked to hear that there would be any criminal charges,'' said Mrs. McDougal, who now lives in the Los Angeles area. She refused to discuss any details of her involvement in the case.

Her comments came after a brief court appearance related to felony charges that she forged checks from her former employer.

Mrs. McDougal is the former wife of James McDougal, who owned the failed Madison Guaranty Savings and Loan Association.

The McDougals were partners with the Clintons in Whitewater Development Corp., a company they set up to develop a resort in the Ozarks. The real estate partnership is part of a criminal probe by special counsel Robert Fiske.

Fiske is trying to learn whether any of Madison's funds were diverted to Whitewater or used to help retire Clinton's 1984 gubernatorial campaign debt.

**** filed by:APE-(--) on 02/05/94 at 00:18EST ****
**** printed by:WHPR(JEL) on 02/07/94 at 08:35EST ****

BC-FOSTER national editors:GL
Clintons end a tough week of Whitewater innuendos
By John Aloysius Farrell
Boston Globe

WASHINGTON If President Clinton and his aides thought they had won a respite from the Whitewater scandal by requesting the appointment of a special prosecutor, this past week proved them wrong.

Gleeful Republicans and some newspapers hammered away at the White House, advancing theories about Bill and Hillary Rodham Clinton's business dealings in Arkansas, and about the death of their friend and lawyer, Vincent Foster.

Chasing a report by the New York Post, editorial writers at The Wall Street Journal suggested that Foster, a deputy White House counsel who the FBI and U.S. Park police say committed suicide last July, may have been murdered, or his body dumped or tampered with.

Foster was a longtime friend of the Clintons who handled many of their personal and business affairs, including some work on the Whitewater development, an unsuccessful real estate project they once owned in the Ozarks with James McDougal, the head of a failed savings and loan. Foster was found dead in a park near here.

The Journal also filed suit in U.S. District Court to demand access to a note written by Foster shortly before his death, which its editors suggested might be a forgery. The New York Times, quoting anonymous law enforcement sources, said unnamed investigators shared The Journal's concerns about the note.

Republicans on Capitol Hill showed that the appointment of a special counsel in the Whitewater case had not stemmed the political pressure for public hearings. The GOP won a few procedural victories from skittish congressional Democrats that could lead to a public airing of the Whitewater affair.

Shoved back into the spotlight to face 6-month-old allegations of stonewalling was Bernard Nussbaum, the White House counsel who was Foster's boss and friend, and whose supervision of FBI and police investigators angered law enforcement officials.

Nussbaum's actions in the hours and days following Foster's suicide have led to charges of a cover-up, and to this week's unsubstantiated allegations of forgery or obstruction. Ironically, Nussbaum worked for the House Judiciary Committee during its impeachment inquiry into President Nixon's attempts to cover up the Watergate scandal. He supervised Hillary Clinton, who was also on the committee staff

Foster's body was discovered at around 6 p.m. on July 20. Although White House Chief of Staff Thomas S. McLarty ordered Foster's office sealed, a guard was not posted until the following day. In the interim, the White House says, three aides made cursory searches of Foster's office, but removed nothing.

When police and FBI investigators arrived to examine Foster's papers, Nussbaum was there to conduct the search, describing the contents of each file or drawer without letting them see what he was handling. When asked at the time if ``investigators had to rely on his characterization of everything,'' White House press secretary Dee Dee Myers replied, ``That's correct.''

An FBI agent who tried to get a better look at what Nussbaum was categorizing was reprimanded by a White House aide in the room, said Myers, until Nussbaum intervened to ease the tension. When, a few days later, an aide to Nussbaum discovered the torn-up pieces of a note at the bottom of Foster's briefcase, the White House kept the note for 30 hours as officials discussed its import before giving it to the police.

When asked about Nussbaum's protective zeal about Foster's office and note, Park Police Chief Robert Langston said in August, ``we certainly weren't pleased at the way that was conducted. Our investigators would like to have seen that briefcase and would like to have examined the ... files.''

But a senior White House aide who was present when Foster's office was searched said that the Park Police never complained about the process, and

that no investigator ever expressed an interest in the Whitewater files.

Nussbaum's actions were a legal and ``reasonable'' exercise of two legal privileges, the FBI concluded: the attorney-client privilege that covers communications between Foster and the Clintons, and an executive privilege that lets White House aides protect their work in progress.

``It is not as if this was a criminal investigation,'' said Carl Stern, a spokesman for the U.S. Justice Department. ``That is why it was handled with totally different standards.''

Nussbaum's handling of the Foster investigation reveals, some critics said, a tin ear for politics and the way that appearances can be twisted by enemies for political advantage.

**** filed by:KR-F(--) on 02/05/94 at 18:52EST ****
**** printed by:WHPR(JEL) on 02/07/94 at 08:34EST ****

Clintons' Whitewater Case: Anatomy of a Land Deal That Turned Sour

By STEPHEN ENGELBERG
with JASON DePARLE
Special to The New York Times

FLIPPIN, Ark. — The Ozark air smelled of easy profits on Aug. 2, 1978, when Arkansas's hottest young politician walked into a tiny bank here and set in motion what has become one of the most closely examined sets of financial transactions in the state's history.

At age 32, still [illegible]s in the midst of the campaign that a few months later would make him the nation's youngest governor. With a meager salary, few assets and no business experience, he was scarcely in a position to ride a land boom, even one that seemed to promise lucrative returns at low risk.

But Mr. Clinton arrived with a financially impressive partner, James B. McDougal, a former Congressional aide turned land developer. It was Mr. McDougal's personal wealth, bank officials said, that allowed them to approve the $183,000 loan taken out by Mr. Clinton; his wife, Hillary; Mr. McDougal and his wife, Susan, to buy the land.

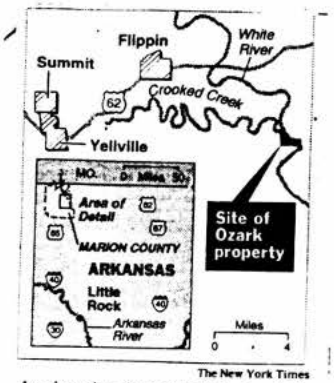
Signing on Dotted Line

Frank Burge, a bank officer who was present for the closing, recalls Mr. Clinton and his wife being surprisingly "uninquisitive" as they took on what, to that point, was their largest financial liability. After a cursory look, the four partners signed the papers that brought them 230 acres of Ozark property that day, and a Federal investigation 15 years later.

"The crux of the whole deal was McDougal was trying to do something to help Bill," said Mr. Burge, who was then senior vice president at Citizen's Bank and Trust of Flippin. "They all thought they were going to be rich."

That did not happen. Today only a handful of small homes dot the hilly land that the couples bought at the juncture of Crooked Creek and the White River.

Last month, a special prosecutor began setting up shop in Little Rock to look into a host of questions. Many arise directly from the venture's tangled finances, in particular whether Mr. McDougal improperly diverted money from his savings and loan, Madison Guaranty, to shore up or benefit the Clintons. The prosecutor, Robert B. Fiske Jr., will also examine whether Mr. Clinton showed favoritism to Mr. McDougal in later years as Madison moved toward collapse.



The New York Times

An inquiry into the Clintons' finances focuses on 230 acres they bought in the Arkansas Ozarks.

Among the topics that Mr. Fiske will confront is the Clintons' claim that they and their partners lost $160,000 on a $203,000 land purchase. The prosecutor has also said he will range far beyond Arkansas to events since Mr. Clinton became President, including the suicide of a longtime friend and top White House aide, Vincent M. Foster Jr.

Interviews with several dozen people and a review of land documents, mortgages, and other records provide only partial answers to the questions about the venture's finances.

But what does emerge clearly is a deal born in a boom that quickly fizzled, and that had its origins in the kind of interplay of personal, political and governmental interests that has become synonymous with the words Whitewater Development Company.

A Prime Opportunity

In the summer of 1978, the small business circles of Marion County were abuzz with word of the largest land deal in the county's history. A 3,200-acre parcel of riverfront property was about to become available after years of being tied up in an Oklahoma bankruptcy court.

It was viewed as a particularly ripe opportunity, since the picturesque Ozark county, about a three-hour drive north of Little Rock, had recently begun to attract prosperous retirees fleeing Illinois and other wintery states.

Land that had recently sold for $75 an acre was suddenly fetching $500, and some people thought that development might even surpass ranching and dairy as the county's economic lifeblood. "A lot of people who were shrewd investors found out it was easier to graze Yankees than to graze cattle," Mr. Burge said. "Everyone was doing it."

Six Marion County businessmen joined to capitalize on the bankruptcy sale, forming a corporation called 101 River Development. The partners included a real estate agent, Terry Wood; the president of Citizen's Bank, James N. Patterson, and the man who was running Mr. Clinton's campaign for governor in Marion County, Kearnie Carleton.

Politician in the Deal

Before going through with the $1.4 million purchase, the group lined up 15 sets of buyers for parcels of the 3,200 acres. One was the Clintons and McDougals. The inclusion of the Democratic nominee for governor seemed to bode well for Marion County, and its hopes of spurring development.

"You do things for a guy, you get him indebted to a degree," said Steven Sanders, who was then a director of Citizens Bank and Trust. "At least you get access."

Mr. Sanders said the addition of Mr. Clinton, who was Arkansas Attorney General at the time and considered a shoo-in for governor, also lent the deal a form of subtle élan.

"You bring in one of these politicians just to use their name," Mr. Sanders said. "You say, 'Oh, the Governor's involved in this deal.' "

Raising the Money

There remained an important question: How would the Clintons and the McDougals raise the $203,000 they needed to buy their piece of the land?

As a public official, Mr. Clinton had a big name but a small purse. His job as Attorney General paid only $26,500 a year; his elevation to governor would raise that only to $35,000. His wife, who had kept her maiden name of Hillary Rodham, had only recently begun working at Little Rock's prestigious Rose Law Firm. Officials of Citizens Bank and Trust said the couple had few financial assets.

"Clinton himself couldn't have gotten the loan," Mr. Sanders said. "McDougal was the guarantee of the resource here," Mr. Sanders recalled, and Mr. Burge agreed.

That loan covered all but a down payment of $20,000. Mr. Burge said he then believed that the couples were putting up their own money, as is customary. But the Clinton campaign acknowledged in 1992 that the couples had taken out a $20,000 loan from another Arkansas bank, meaning that the entire land purchase was financed with borrowed money.

Some local real estate agents contend that the couples paid an unusually high price for the land. Just 19 days before the Clinton purchase, the entire 3,200-acre tract had been bought by 101 River Development for $1.4 million, an average of $440 an acre. The land was then resold by the company to the 15 purchasers or partnerships.

The Clintons and McDougals paid $880 an acre for their land, making it the most expensive single parcel of the 15. Several 101 River partners said the high price was justified by the Clinton tract's view of the White River and Crooked Creek.

Others land agents wondered, insisting that at these prices, access to the river was more important than the view. "I know what land values are," said Bobby Joe Baker, a local real estate agent who had helped begin the land boom with some well-placed advertisements in Chicago newspapers. "They paid three times what that land was worth."

Forming a Company

Mr. Clinton won the November election easily, took office as Governor in January 1979, and soon brought Mr. McDougal into the state government as an economic development aide.

In 1979, in Mr. Clinton's first term as Governor, the Clintons and McDougals formed the Whitewater Development Company and transferred the land to it. The company officers were James and Susan McDougal; the Clintons were shareholders, entitled to half the company's profits and obligated for half its debt.

Land records valued the property at $250,000. In a 1992 interview, Sam Heuer, Mr. McDougal's lawyer, said the increase reflected his client's additional investment of $46,000 for roads, surveying and subdividing the land.

Whitewater was ready to sell, but the local land market was already souring. The size of the original 3,200-acre deal meant that many lots were coming up for sale simultaneously, while rocketing interest rates discouraged buyers.

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THE NEW YORK TIMES, MONDAY, FEBRUARY 7, 199

Where Are the Buyers?

Carol Wood, [illegible] owned a tract of land, remembers it as a frightening time. She had to [illegible] to make a modest profit before recession arrived in the early 1980's. In fact, while the Clintons and Whitewater [illegible] $1,000 of the $2,000 that the partners invested in the purchase, almost everyone else involved in buying the 101 River land either broke even or made money, according to Mr. Wood.

The Clintons say they did not come close. As of May 1980, according to a summary of Whitewater's finances released in 1992 by the Clinton campaign, only a handful of lots had been sold. And of the $60,500 in sales, only $10,000 had been collected, with the rest tied up in installment contracts.

Building a House

[illegible] in a squeeze. But the partners disagree about who kept the company afloat.

In a 1992 interview, Mr. McDougal said: "I put money into it. Money was owed me. I don't remember them putting anything in."

Bruce Lindsey, a senior White House official, said the Clintons made $22,000 in interest payments on the bank loan in 1978 and 1979. The Clintons have declined to release copies of the checks or their tax returns for those years.

Trying to increase sales in 1981, Whitewater built a modest house on one of the lots, to help buyers envision what their own might look like. Mrs. Clinton borrowed $30,000 for the house, in her name, not Whitewater's, from the Kingston Bank and Trust, a bank owned by Mr. McDougal, who had by then left government work. Regulators frown upon bank executives making loans to their own corporations.

Whitewater made payments on the $30,000 loan, but the Clintons improperly deducted the interest on it from their personal taxes, the campaign acknowledged in 1992.

Scrambling to Pay Bills

By mid-1985, Whitewater still had 24 lots on its hands. At the end of May that year, the company transferred all of its remaining property to Chris Wade, the Flippin real estate agent who was Madison's chief sales agent. Mr. Wade said that in return he gave Whitewater an airplane worth $35,000 that was used by Madison and eventually sold to Mr. McDougal, and agreed to repay $35,000 of the $100,000 the company still owed on the original loan from Citizen's Bank and Trust.

The grand dream of a developed community along the banks of the White River never materialized. Mr. McDougal lost control of his savings and loan in 1986 and later was tried and acquitted on Federal bank fraud charges. The collapse of his savings and loan cost taxpayers $60 million and left him bankrupt; he lives today on a pension.

Federal investigators are now poring over bank records and other documents to determine whether Mr. McDougal improperly diverted money from his savings and loan to Mr. Clinton's campaign for governor or to Whitewater, or in any other way that might have benefited the Clintons.

Since the case arose as a national political issue, the Clintons have been reluctant to make public the underlying documents and records that would dispel questions about Whitewater's finances.

They handled a similar inquiry very differently in 1979, when a reporter for The Arkansas Democrat found out about the land deal and began pressing for details.

Mr. Burge, the banker, said he told the reporter that such information was private. A few days later, he said, Mr. Clinton telephoned him to waive his privacy rights.

"He said, 'Tell them the truth; I've got nothing to hide,' Mr. Burge said. "So I just told them what they wanted, and right after that the story died."

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A Road Runs Near It

By JASON DePARLE

Several months after the Clintons bought land in the Ozarks, the partners in the company that sold it to them began negotiations that eventually led the state to pave a two-mile road to the company's property, at a cost of more than $150,000.

The road passes about a half mile from the Whitewater property that the Clintons owned, making both parcels easier to reach, and therefore, real estate experts say, more valuable.

The negotiations between the state and the company, 101 River Development, stretched on, intermittently, for more than four years and included the two-year stretch, from 1981 to 1983, when Mr. Clinton was out of office.

There is no evidence that Mr. Clinton discussed the project with anyone in the state government and the officials in charge say they had no idea he owned land nearby.

'An Excellent Project'

"It was an excellent project on its own merit," said Fletcher Ward, the head of the real estate division at the Arkansas Game and Fish Commission, the lead agency involved.

In a recent interview, Mr. Ward said the project might have become politically contested if the proximity of Mr. Clinton's land had been known. He said that if he had known of their holdings, he would have brought that fact to the commission's attention, though he says he believes the matter would have been approved anyway.

As part of the project, the 101 River partners gave the Game and Fish Commission two lots, worth [illegible] in exchange the commission agreed to install a boat ramp and parking lot that would be open to the public.

Then in 1982, the company donated a third lot to the commission, in exchange for the agreement to pave the two-mile road leading to the property. The commission paid 30 percent of the construction costs and the county paid the remaining 70 percent, using state aid money.

Mr. Ward said the road made it easier for fishermen and state trout-stocking trucks to reach the river. He said both the public and the developers benefited from the deal.

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THE NEW YORK TIMES, MONDAY, FEBRUARY 7, 1994

THE CLINTONS' WHITEWATER GUIDE

As the First Couple's Attorney, David Kendall Is Navigating Some Tricky Currents

By Lloyd Grove
Washington Post Staff Writer

A recent issue of the National Enquirer featured a detailed account of marital strife between Bill Clinton and Hillary Rodham Clinton, brimming with tear-streaked ultimatums and hints of infidelity

It is one of life's more intriguing ironies that Washington lawyer David Kendall—who for years has headed the legal team retained by the Enquirer to scrub its stories for libel—has also served for the past six months as the Clintons' personal attorney.

It's the sort of ethical maze that lawyers like Kendall negotiate skillfully every day: the proverbial walk in the park. "He would recuse himself on any article on anyone that he represents—that's par for the course," says Enquirer editor Iain Calder, stating a simple rule that applies not only to Calder's publication but also to The Washington Post, another client of Williams & Connolly, the high-powered law firm in which Kendall is a partner.

By comparison, the job of representing the president and First Lady in "Whitewatergate"—the nickname for the Clintons' tangled Arkansas business dealings that may or may not amount to a scandal—is a legal and political challenge akin to traversing hot coals on skis: tricky, strenuous and potentially painful.

Inquiring minds want to know: Who is David Kendall? A determinedly soft-spoken man who displays a mania for discretion, Kendall, 49, won't say which of his prestigious clients he knew better, Bill or Hillary, when all three were students at Yale Law School in the early 1970s. He won't talk to reporters—at least, not on the record—about his life and times as a civil rights activist, a death penalty opponent, a libel lawyer and a corporate litigator, preferring to let them leaf through legal briefs, news

KENDALL, From C1

clippings and law journal articles in a Williams & Connolly conference room. He won't even pose in his office for a photograph, insisting on appearing (as if by chance) on a downtown street corner wearing a mysterious-looking trench coat.

"He will do what he has to do, I'm sure, so that the Clintons will be well represented," says Washington psychotherapist Anne Kendall, his wife of 25 years. "My concern is that I see this special counsel setting up shop with this incredible war machine, and it's a little lopsided. . . . Goodness, he's one person, and it feels like David versus Goliath. But I suppose that's just a wife's view."

It's Kendall's task, presumably, to protect the First Couple's interests while special counsel Robert B. Fiske Jr., along with a team of lawyers and federal agents, pursues a wide-ranging investigation that will include, Fiske has vowed, grilling the Clintons under oath. Kendall must also be concerned with various congressional probes of the complex case involving a defunct real estate investment, a failed savings and loan and the apparent suicide of deputy White House counsel and Clinton intimate Vincent Foster.

"If there's a lesson from every public investigation in Washington, D.C., since Watergate, it's that the key to success has two major component parts," says an attorney who knows Kendall and spoke on condition of anonymity. "One is, get out in front of the story. Two is, never be seen to be stonewalling or covering up."

Already, the Clinton White House has run afoul of these lessons with haphazard leaks, erroneous public statements and much embarrassing backtracking. Kendall, meanwhile, aroused suspicion last December when he negotiated a controversial subpoena for the Clintons' financial records that effectively shielded them from congressional and public disclosure. It made matters worse, from a public relations standpoint, that Kendall, according to news reports, had tried and failed to restrict the department's internal use of the documents.

Iowa Rep. Jim Leach, ranking Republican on the House Banking Committee, calls Kendall's tactics "unusual, if not unprecedented," suggesting that the Clintons might have something to hide. "Kendall's role as the president's attorney is to limit embarrassment, and he's employing the quiet tactics of a careful attorney in a suitable way for his client," Leach says. "Whether that's i n

"Kendall's role as the president's attorney is to limit embarrassment, and he's employing the quiet tactics of a careful attorney."

—Rep. Jim Leach

the best public interest may be debatable." Leach's Republican committee staff has been investigating Madison Guaranty, the failed Arkansas savings and loan from which federally insured deposits were apparently diverted in the 1980s to Whitewater Development Corp., the Clintons' losing real estate investment.

"I know David well enough to know that he's probably learned the lessons of the last 10, 15 years," the anonymous lawyer says. "But I cannot know what his advice has been, and how much he has been listened to."

Kendall, for his part, refuses to shed any light on his work for the Clintons, and the White House has been equally uncommunicative. White House counsel Bernard Nussbaum—who has officially distanced himself from the case with the argument that it's a personal financial matter not involving the presidency—is "unavailable" for a discussion of Kendall's role, a spokesman says. The reason? "Lack of availability."

Senior presidential adviser George Stephanopoulos, meanwhile, says Kendall represents both Bill and Hillary—a situation that could prove awkward, several legal experts argue, if it turns out that their roles in Whitewater and Madison were sharply different. Another open question is how and at what rate Kendall will be paid While Williams & Connolly has been known to bill its time as expensively as $400 an hour, Kendall can charge the Clintons pretty much anything he thinks fair. Will the Clintons' supporters start a legal defense fund? Stephanopoulos won't say. "He's going to bill them and they're going to pay him," the aide allows.

Although he earns more than the president of the United States, litigating and advising the likes of General Electric and "America's Most Wanted," Kendall has never been seen worshiping at the altar of Mammon. Rather, he betrays a highly developed social conscience instilled by a Quaker upbringing in rural Indiana and is proud of his modest criminal record. He keeps framed in his office a yellowing traffic citation from the Marshall County, Miss., sheriff's office, which jailed him for three days and fined him $35 when he was a civil rights worker in the summer of 1964, claiming he lacked proper registration for his red Volkswagen Beetle. That was the same summer that Kendall's onetime roommate, Andrew Goodman, was murdered with two co-workers by white segregationists.

Kendall was a star student at Indiana's Wabash College, a small men's school, and won a Rhodes scholarship to Oxford in 1966. At Yale Law School, where he matriculated in the fall of 1968, he actively opposed the Vietnam War, coauthoring a handbook on draft avoidance, but nonetheless enlisted in the Army—because he couldn't be intellectually honest and call himself a pacifist, Anne Kendall says. He spent his early professional years after New Haven, where he was an editor of the law review, clerking for Supreme Court Justice Byron White and then specializing in death penalty appeals for

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MONDAY, FEBRUARY 7, 1994 THE WASHINGTON POST

the NAACP Legal Defense Fund in New York City, which he left in 1978 to join Williams & Connolly.

By then Kendall had managed to obtain at least one landmark Supreme Court ruling, prohibiting the death penalty as a punishment for rape. As a lawyer he was known for intense preparation and a near-compulsiveness about tiny points that others would gladly overlook.

"I remember getting a call from David one day in the mid-'70s, saying, 'I need your advice.' " says New York entrepreneur Barry Forman, a friend of Kendall's since they were both Rhodes scholars at Oxford's Worcester College. "So I went over to his Legal Defense Fund office, which was cramped, cluttered and stacked with legal briefs. We shook hands and he said, 'Well, here's my dilemma.' Then he showed me several small chessboards sitting around the room where he had various games in progress. 'I'm playing chess with six of my clients on death row, and I'm afraid that if I do badly they'll lose confidence in me as their attorney. Do you mind going over the positions?' "

Forman, a chess maven, complied. But Kendall, at his wife's insistence, eventually gave up playing chess with his clients; the games seemed to worry him to distraction.

Kendall continued toiling to save clients from the death penalty after he arrived at Williams & Connolly—notably an escaped convict and drifter named John Spenkelink who was sentenced to the electric chair for a 1973 murder in Florida. Kendall worked feverishly to prevent Spenkelink's execution, pleading with then-Gov. Bob Graham for clemency and mounting five appeals to the Supreme Court before his client was electrocuted in May 1979. Kendall—who later bitterly assailed Graham for alleged failure of "political courage" and compared the governor's action to "a Roman emperor's thumbs-up in the Colosseum"—was on hand to witness the execution.

The ordeal clearly took a lot out of him. Greg Craig, one of Kendall's law partners, recalls that Kendall, already thin, lost 15 pounds during the case. Anne Kendall says her husband rapidly aged.

"He changed, he perceptibly changed over the course of the John Spenkelink case," she says. Asked why Kendall put himself through the horror of watching his client die, Anne Kendall theorizes: "It was because of the depth of his loyalty to John. John had asked him to be there. . . . David's fairly thorough, so it's also very much in keeping: He was going to see it through to the end."

Whitewater, of course, is not an issue of life and death. By the lights of official Washington, it's even more important: It might end up being about the life and death of a presidency.

Kendall took over the Clinton account from his partner Robert Barnett, who felt compelled to give up the Clintons as clients when CBS News assigned his wife, Rita Braver, to cover the White House. Barnett, a longtime player on the Democratic Party scene, is just the sort of savvy political operator that one expects to be associated with such a high-profile case. But Kendall, for all his legal expertise, wise counsel and moral fervor, is an unknown quantity in the rarefied realm of political chess—a game in which any lawyer for a president must be well versed.

"It's a hybrid sort of job," says Boston lawyer James St. Clair, noting that representing a president requires not only legal but also a political and public relations skill. St. Clair gained fame as President Nixon's attorney during the Watergate investigation (though, unlike Kendall, he was paid and given a staff and office space by the federal government). "It's not the run-of-the-mill representation, and there are very few people walking around who can help you very much."

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TODAY IN CONGRESS

SENATE

Meets at 10 a.m.
Committee:
Foreign Relations—10 a.m. Nominations of Robert Pelletreau to be assistant sec. of state for near eastern affairs & Wesley Egan to be ambassador to Jordan. 419 Dirksen Office Bldg.

HOUSE

Meets at noon.
Committees:
Education & Labor—10 a.m. Single-payer health care reform plans. 2175 Rayburn House Office Bldg.
Energy & Commerce—9:15 a.m. Health & the environment subc. Health effects of exposure to environmental tobacco smoke. EPA Administrator Carol M. Browner & Surgeon General Joycelyn Elders. 2123 RHOB.
Public Works & Transportation—1 p.m. Economic development subc. Empowerment & enterprise zones. 2167 RHOB.
Ways & Means—1:30 p.m. Health subc. Health care service delivery in inner-city & rural communities. 1100 Longworth House Office Bldg.

MONDAY, FEBRUARY 7, 1994 THE WASHINGTON POST

U.S. Funds Found to Feed Drug Habits

Senate Report Faults Programs Meant to Aid Addicts, Alcoholics

Reuter

Hundreds of millions of dollars in federal disability payments meant to help recovering drug addicts and alcoholics are instead being used to help feed their habits, a Senate report said yesterday.

The report by the minority staff of the Senate Special Committee on Aging and Congress's General Accounting Office found that last year more than 250,000 drug addicts and alcoholics got $1.4 billion in cash from Social Security programs.

But only 78,000 of the beneficiaries were subject to any controls or monitoring of the money received—and those were so loose they invited widespread abuse, the report said.

"Hundreds of millions of scarce federal dollars are flowing directly to drug addicts, who are turning around and buying heroin, cocaine and other illegal drugs on the street the very same day," said Sen. William S. Cohen (R-Maine).

The report concluded that major problems existed in the practice of paying cash under the Social Security Disability Insurance program and other programs to the addicts and alcoholics.

It said far too few protections were in place to prevent tax dollars from going directly to perpetuate rather than treat addiction.

Some of the benefits being spent on drugs or alcohol were harming or even killing the recipients, the report said. Persons appointed to handle benefits for abusers were at times themselves addicts or alcoholics who misused disability payments.

Cohen—the committee's senior Republican, who initiated the investigation in response to reports of widespread abuse—said Congress should consider switching benefits from cash payments to food vouchers or stamps or direct payments to treatment facilities.

The report quoted the director of a Denver homeless shelter as saying that one program in effect was "suicide on the installment plan" because it provided cash to addicts and alcoholics with no requirement for treatment.

Tax Specialists Believe Clintons Likely Took Improper Deductions

Tax Experts Believe Clintons Likely Took Improper Deductions

* * *

Analysis Concludes That IRS [illegible] Actions on Whitewater

By Bruce Ingersoll
Staff Reporter of The Wall Street Journal

WASHINGTON – Four tax experts agree that Bill and Hillary Rodham Clinton appear to have taken nearly $20,000 in improper interest deductions during the 1980s on loans related to Whitewater Development Co.

After analyzing the Clintons' income-tax returns and other financial documents, the tax experts concur that the Internal Revenue Service could probably challenge the Clintons' personal tax deductions for $19,598 in interest paid on corporate loans that the White House acknowledges were Whitewater liabilities. By one expert's calculations, the deductions reduced the Clintons' taxes by more than $8,700.

In addition, the experts say, IRS auditors could probably object to a $1,275 deduction that the Clintons took on their 1988 returns for paying Whitewater's real-estate taxes.

Bruce Lindsey, a senior White House official, angrily denied that the Clintons had taken any improper deductions. He argued that the Clintons have documentation to show that they were entitled to all the deductions in question.

The Wall Street Journal had Steven Bankler, a certified public accountant from San Antonio, Texas, analyze the Clintons' tax returns from 1980 through 1992 to assess how they treated tax issues arising from their Whitewater investment. A group of four other tax experts – a former senior IRS executive, a partner in a major accounting firm, a senior tax manager with a Big Six accounting firm, and Michael Gallagher, a George Washington University professor of accountancy – were sounded out on Mr. Bankler's analysis. Only the senior tax manager could conceive of a tax approach that might allow the Clintons to claim the deductions in question; he says he wouldn't like to defend that approach to IRS auditors. (Of those participating in the Journal's analysis, Messrs. Bankler and Gallager were the only ones willing to be identified.)

Questions have arisen in recent weeks about the Clintons' interest deductions, and as a result the Journal asked for a thorough analysis. The Journal inquiry focused on the 1980s. Time magazine is reporting in this week's edition that questionable interest deductions reduced the Clintons' tax liability by as much as $11,000 in 1978, 1979 and 1980.

The Clintons have acknowledged taking about $40,000 in Whitewater-related interest deductions, which the White House has said made up part of the

Please Turn to Page A6, Column 3

Continued From Page A3

Clintons' total loss of $68,900 on Whitewater, a real-estate venture they undertook in 1978 with James McDougal, owner of now-defunct Madison Guaranty Savings & Loan in Little Rock, Ark. Robert Fiske, the newly appointed special counsel, is investigating, among other things, whether Madison Guaranty funds were illegally diverted into the Whitewater Estates development or into the campaign coffers of then-Gov. Clinton or other politicians.

Where Mr. Lindsey and the tax experts disagree is on the crucial question of whether the Clintons were entitled to deduct interest payents on Whitewater-related loans that were in their names but, by all appearances, had been assumed by Whitewater.

In August 1978, the Clintons and the McDougals bought 230 acres on the White River for $203,000. They financed the purchase with a $20,000 down payment from Union National Bank of Little Rock and a $183,000 mortgage from Citizens Bank of Flippin, Ark. The first loan was in the names of Messrs. Clinton and McDougal and the second in the names of both couples.

In June 1979, they formed Whitewater and transferred the land to the corporation. Four years later, Mr. Clinton borrowed $20,800 from Security Bank of Paragould, Ark., to pay off a high-interest $30,000 note that his wife had obtained from a McDougal-owned bank to put a model home on a lot in Whitewater Estates. Both notes were considered Whitewater liabilities, according to Mr. Lindsey.

The 1979 land transfer was "subject to the existing mortgage," which means that the Clintons could deduct Whitewater interest payments on their personal tax returns, but only if they also listed as income whatever interest Whitewater paid on the loans. The loans were designed in a way that the Clintons would have no net increase or decrease in their taxable income, if Whitewater were making its payments on time.

All but one of the experts agree with Mr. Bankler that the Clintons erred in failing to report any interest income from Whitewater during the years that Whitewater was making the payments on the notes.

The Journal's analysis assumes that all the deductions listed on the Clinton's tax returns were accurate. However, Mr. McDougal told Time that the only money the Clintons ever contributed to Whitewater was $13,350 in interest paid in 1980. The White House denies this allegation.

Under the original financial plan for Whitewater, the Clintons and McDougals were to borrow money for the corporation and reloan it to Whitewater. The corporation was to pay them back with interest and they in turn were to pay the banks. Had the partners adhered to the "form" of that plan, the Clintons' tax returns would show interest income from Whitewater and interest expense paid to the banks. The net result: Income interest would cancel out interest expense.

Where the Clintons erred, the tax experts concur, is they never followed the "form" of the Whitewater financial plan. Instead, Whitewater paid the banks directly, without the Clintons or McDougals acting as financial intermediaries, for several years.

In so doing, under case law, Whitewater effectively assumed the loans and eclipsed the Clintons as the primary borrower on the loans. The Clintons, even though they were still guarantors of the loans and made some payments, couldn't claim any deductions for interest that they paid for Whitewater, according to the experts.

"It's like a father helping his son on home-loan payments for a couple of months," says Mr. Bankler. "Just because he makes the payments, he can't take the interest d[illegible]"

To buttress his argument, Mr. Bankler cites an enormous body of case law dating from a 1935 Supreme Court decision in the landmark Gregory vs. Helvering case, which asserts that the "substance" of transactions takes precedence over the "form."

Mr. Lindsey contends that even though "Whitewater made payments to banks, it doesn't change the nature of transactions." He insists that Whitewater didn't assume the loans from the Citizens, Union and Security banks.

There was "no assumption," he says. "There is no evidence that Whitewater was the primary obligator on those loans."

Mr. Lindsey also dismisses the argument that the first couple erred in not following the form of the Whitewater financial setup.

Mr. Gallagher, the professor of accountancy who specializes in taxes, agrees with Mr. Bankler that the Clintons would face "an uphill fight" arguing against the customary IRS position that substance "controls" form.

Mr. Gallagher cites the authoritative textbook "Fundamentals of Corporate Taxation: Cases and Materials" as saying that the courts long have been willing to set aside the formal documents, such as mortgages and leases, and evaluate the substance of transactions. "The courts," according to the textbook, "are not inhibited from examining the arrangement and restructuring it for tax purposes to comport with economic reality."

Clinton pal's filing probed

Bankruptcy fails to list Whitewater

By Dennis Cauchon
and Debbie Howlett
USA TODAY

James McDougal, President Clinton's business partner in Whitewater Development Co. Inc., may have illegally hidden his ownership in Whitewater when he filed for bankruptcy in September 1991, court records show.

McDougal said his only assets were $300 worth of clothes when he filed for bankruptcy in Los Angeles, records show.

But his lawyer, Sam Heuer, confirmed McDougal has been co-owner of Whitewater from its formation in 1978 until now.

The revelation has prompted the bankruptcy court to take another look. "I'm investigating his potential failure to disclose material assets," said bankruptcy trustee Steven Smith.

Gannett News Service
SUSAN McDOUGAL: Ex-wife also owner

The probe could leave the Whitewater Development Co. Inc. in the hands of unexpected owners — U.S. taxpayers — because the government is McDougal's biggest creditor.

The bankruptcy filing showed that McDougal owes:

▶ $612,560 to Resolution Trust Corp., the federal bailout agency. McDougal owned the once high-flying Madison Guaranty Savings and Loan, whose failure cost taxpayers at least $47 million.

▶ $195,000 to the Internal Revenue Service for failure to pay income tax.

▶ $16,636 to Arkansas for failure to pay income tax.

President Clinton isn't liable for any of McDougal's personal debts, nor is he a focus of the the bankruptcy probe.

But the Whitewater shares Clinton once owned might be seized if the court finds that McDougal improperly shielded his assets. McDougal paid $1,000 to Bill and Hillary Clinton in December 1992 for their 50% share of Whitewater Development.

McDougal and his ex-wife, Susan, have owned the other 50% since the beginning.

The Clintons and McDougals were partners in the company, which bought 230 acres on the White River in north Arkansas.

Heuer, McDougal's lawyer, said he did not know why McDougal did not report his ownership of Whitewater in his bankruptcy filing. "I'm not a bankruptcy lawyer. Maybe it's because it had a negative value of $100,000," he said.

But several bankruptcy lawyers say they can't think of a reason why Whitewater would not be listed as an asset.

"You are obligated to report absolutely everything you own, even if it's just one share and even if you've lost money on it," says lawyer Andy Cain of the American Bankruptcy Institute.

"If you don't accurately report everything, you run the risk of being charged with a crime or not getting the discharge (of debts) that you went to court for," Cain said.

Whitewater still produces money and has value, even though the McDougals and Clintons may not recover their full investment — an amount that remains unclear.

Whitewater assets had a net worth of $42,190 on May 31, 1991, four months before the bankruptcy filing, according to a report prepared for Clinton by lawyer James Lyons.

Also, Arkansas land records indicate Whitewater Development gets income every month from people who bought lots financed by the company. The records show Whitewater completed the sale of one lot for $12,000 on April 15, 1993, and another for $12,500 on June 23, 1993. James and Susan McDougal signed the deeds.

Creditors say they still want their money.

"We haven't collected anything. We consider it an open case," said RTC spokesman Mike Fulwider.

"We'll follow up and file a lien if we find out he has any assets," said Mike Leathers, commissioner of the Arkansas Department of Finance and Administration.

Bentsen: Open Foster's death report to public

Treasury Secretary Lloyd Bentsen said Sunday the public should be allowed to see the Bureau of Alcohol Tobacco and Firearms report on tests performed after White House deputy counsel Vince Foster died last July.

"I don't see a problem with that," said Bentsen, who supervises the agency. But Bentsen said on NBC's *Meet the Press* there is no evidence Foster was murdered.

"I have no doubts at all on that one," Bentsen said when asked if he doubted if Foster killed himself.

The U.S. Park Police, which investigated Foster's death July 20, said he committed suicide.

Foster's body was found with a gun in one hand in a park across the Potomac River from Washington.

But news reports have raised questions about the Park Police investigation into Foster's death. Several media agencies have sought release of reports on his death.

Foster, a longtime friend of the Clintons, was the personal lawyer for President Clinton and first lady Hillary Rodham Clinton in the couple's dealings in a failed Arkansas real estate venture, Whitewater Development Co. Inc.

The Source of Whitewater

Little Rock: Pursuing a vendetta, or the truth?

JOHNSTON—AP

'Extremely bitter': *Nelson in his Little Rock office*

LITTLE ROCK ATTORNEY SHEFFIELD Nelson says he was "just a polite listener" when James McDougal came to see him in early 1992. McDougal, owner of the failed Madison Guaranty Savings & Loan, was angry at two prominent former business partners: Gov. Bill Clinton and Lt. Gov. Jim Guy Tucker. Nelson says that at a series of meetings over the next few months, McDougal made accusations against both men. He also discussed an unsuccessful Ozark vacation-home development he co-owned with Bill and Hillary Clinton called Whitewater. "He wanted the . . . materials passed on to others," Nelson said last week. He says McDougal told him: "Just get them into the hands of some people in the press."

McDougal had the right man. Nelson, a wealthy former utility executive and Clinton's 1990 Republican gubernatorial opponent, is the president's most formidable political enemy in Arkansas—and widely reputed to be an important source of the anti-Clinton documents, tips and raw gossip constantly circulating through Little Rock. Like Cliff Jackson, another local lawyer and an ex-Oxford chum of Clinton's who has steered the press to allegations of draft avoidance and womanizing, Nelson gets frequent visits from out-of-town reporters. From his 34th-floor office in the TCBY building, Whitewater sprang to life as a national news story.

Story disappears: Soon after Nelson says he began meeting with McDougal, Whitewater hit the national newspapers. When an attorney hired by Clinton's presidential campaign showed that the Clintons had lost $69,000 in the venture, the story disappeared. But late last year federal investigators began to look into allegations that Madison had diverted depositor funds into Whitewater and Clinton's 1984 gubernatorial campaign. On Jan. 20, Attorney General Janet Reno named New York attorney Robert Fiske special prosecutor to examine the Clintons' investment in Whitewater and its possible links to Madison's failure.

Nelson expects that the substance of his discussions with McDougal will be part of Fiske's investigation. He says he taped at least one of their conversations. A 38-page transcript—authenticated by Nelson but obtained by NEWSWEEK from independent sources—quotes McDougal saying that the Clintons were not truthful about their Whitewater losses. "I could sink [the claim of a $69,000 loss] quicker than they could lie about it . . . And Bill Clinton knows it," McDougal says, according to the transcript. McDougal's attorney did not respond to requests for comment.

Clinton aides say that Nelson, motivated by resentment and thwarted ambition, is pursuing a vendetta—a charge Nelson denies. The son of an itinerant laborer from Brinkley, Ark., he caught the eye of investment-banking patriarch Witt Stephens as a college student. Stephens gave him a job as a management trainee at Arkla, Inc., the natural-gas utility he controlled. Within 10 years Nelson was president of the company. Once a Democrat, he wanted to run for governor in 1986 but was asked by the incumbent Clinton to wait until 1990. When Clinton ran for a fourth term, Nelson felt betrayed and switched to the GOP. That year, an investigation Clinton ordered reportedly found a 1982 Arkla gas-lease sale "imprudent." Nelson "is extremely bitter about Clinton," says Tucker, now governor.

Some Clinton sources believe Nelson is even financing the legal defense of David Hale, a former Little Rock judge under federal indictment for fraud charges. Hale alleges that he was pressured by Clinton and McDougal into lending $300,000 to McDougal's wife to prop up Madison. Nelson denies any role in Hale's defense. But Clintonites are still wondering how far Nelson will go to settle an old score.

MARK HOSENBALL *in Little Rock*

McDougal: A Look Into the Hillary Papers

WAS HILLARY RODHAM Clinton more deeply involved in legal work for Whitewater partner James McDougal than she has previously acknowledged? In 1985, McDougal hired the Rose law firm to represent his ailing savings and loan, Madison Guaranty, in dealings with state regulators. Mrs. Clinton asked state securities commissioner Beverly Bassett (an appointee of her husband) to allow a novel plan that would have permitted Madison to raise cash by selling preferred stock. Bassett subsequently replied to the firm in a "Dear Hillary" letter indicating her consent. The letter raised the possibility that McDougal received favorable treatment for Madison because of his relationship with the Clintons. Bassett denies extending any special consideration. Mrs. Clinton has said that her personal involvement in the matter was "minimal."

LESTER SLOAN—NEWSWEEK

New records: *First Lady*

But NEWSWEEK has discovered additional correspondence linking Mrs. Clinton to state regulators. In state files, her name is also on a 1985 Rose firm letter asking approval for Madison to set up a brokerage subsidiary. A copy of the letter from files is only partly legible; just the name "Clinton" is visible. But a former state official familiar with the records confirmed last week that the letter contained Hillary Rodham Clinton's full name.

The White House says the letter does not suggest a wider role for Mrs. Clinton in her representation of McDougal than previously disclosed. "I don't think any of that is new information," says Bruce Lindsey, one of President Clinton's senior advisers. Regulators were not enthusiastic about the brokerage scheme, though they never flatly rejected it. They only insisted that Madison be recapitalized through the stock sale first. Neither plan was followed. Buckling under millions in bad loans, Madison needed more than Mrs. Clinton's clout to keep it from failing in 1989.

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doubt she has authoritative qualifications. Just because she has a thought, that doesn't make it true or even important enough to print. Of book reviewer Romano, she says, "He wants me as a violated woman with her legs spread. He needed me there before he could address my work." Am I reading a paperback? I find MacKinnon too angry, antimale and much too confined in her own views.

Bart C. Hood
Cupertino, California

Muddywater of Whitewater

I HAVE A HARD TIME SEEING THE FIRE behind all the smoke being raised about the Clintons' involvement in the so-called Whitewater scandal [THE WHITE HOUSE, Jan. 17]. No one has yet proved any wrongdoing on the part of the President or the First Lady, who apparently tried to fulfill her obligations as an attor-

Don't Rain on Her Parade

For Barbra Streisand some folks might think that having a bad day would be making less than a million bucks. Not so. For Streisand and some 16 of her fans, our item "Streisand: The Year in Tantrums" was enough to spoil things [CHRONICLES, Jan. 17]. John Graham of Belleville, Illinois, via America Online, notes, "Barbra Streisand doesn't need to answer to anybody. She is the greatest theatrical talent of the past 500 years." In her defense, Christopher Morrison of Linden, Virginia, comments, "Leave Barbra alone. She does not denounce, snap or become angry. However, she just might occasionally insist, but like 'buttah.' " Streisand herself reacted to TIME's item with a sense of humor. She writes: "What a bad day I'm having. First I had to fire my chambermaid (the third one this month!) because she didn't have warmed towels waiting for me this morning. Then my bagel got stuck in the toaster. Naturally, I threw the toaster out the window and hit the gardener in the head, causing him to quit in a huff. That's O.K.—I always suspected him of being a closet Republican. But nothing prepared me for your mean-spirited attack. And to think I'm old enough to remember when TIME had real reporting."

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ney to her client. Too many people in Washington and in the media aren't interested enough in the truly important issues affecting the U.S., like the budget and health care.

Andrew K. Jacobson
San Jose, California
AOL: AKJake

KEEP DIGGING. WHY TAKE FILES FROM the office of Vince Foster, the Clintons' personal lawyer and White House counsel, if there was nothing to hide? Maybe you should call this affair Muddywater instead of Whitewater.

Wallace Kane
Santa Maria, California
AOL: WeK8891710

No Knowledge of Wright

I STRONGLY OBJECT TO THE INACCURATE report about the Wexler Group and my colleague Betsey Wright [CHRONICLES, Jan. 17]. Wright has no "ties" to the International Paper Co. [which TIME said sold land to Whitewater development], as you would have learned had you bothered to ask us. Here are the facts: the Wexler Group does perform public affairs work for the American Forest and Paper Association, of which International Paper is a member. But the association retained our firm without knowing Wright worked here, and she does not handle its account. She did once telephone the White House to help schedule a meeting for the group's executives, but to assert a link between one of the association's more than 450 members, Wright and a land-development deal in Arkansas that occurred almost 10 years earlier is ludicrous and unworthy of your publication.

Anne Wexler, Chairman
The Wexler Group
Washington

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Mrs. Clinton's Role in Lawsuit Settlement Questioned
EDS: Edits throughout to tighten.

CHICAGO (AP) Hillary Rodham Clinton represented federal thrift regulators in a $3.3 million lawsuit against a Clinton friend and political ally and ultimately settled the case for $200,000, the Chicago Tribune reported today.

President Clinton's personal and political connections to Dan Lasater have been widely reported. But the Tribune report, based on court records, was the first that Mrs. Clinton had represented the Federal Deposit Insurance Corp. in a lawsuit accusing Lasater of fraud in the failure of a savings and loan.

Thomas Scorza, a former assistant U.S. attorney who teaches legal ethics at the University of Chicago, said Mrs. Clinton's position raises questions about her professional conduct.

``A lawyer is required to represent the interest of their client zealously,'' he said. ``There is a substantial question about whether an attorney was representing a client zealously if the opponent of the client is someone with whom the attorney had a political, financial and personal relationship.''

FDIC spokesman David Barr told the Tribune that FDIC attorneys are trying to find records on the case to learn whether the Rose Law Firm, the Little Rock, Ark., firm for which Mrs. Clinton worked, notified the federal agency of any potential conflict of interest.

The first lady's press office did not immediately return a call today seeking comment. The Tribune reported Mrs. Clinton's office declined to respond specifically about the case but issued a general statement defending her legal ethics.

``Our view is that Hillary Clinton, when a lawyer at the Rose Law Firm, acted with the utmost integrity and professionalism. I have no reason to believe otherwise,'' press secretary Lisa Caputo told the Tribune.

It is the second time conflict of interest question have been raised regarding the Rose firm's work for federal regulators.

In the other case, the firm's senior partner Webster Hubbell, now the No. 3 official at the Justice Department, was paid by the government in 1989 to settle litigation against an accounting firm accused of negligence in the failure of Madison Guaranty Savings and Loan in Arkansas.

The firm, including Mrs. Clinton, had done legal work for the S&L before its failure.

FDIC officials have launched a formal investigation into whether Rose failed to properly inform regulators of the potential conflict.

In the Lasater case, the settlement was reached in 1987. Whether Lasater got off cheaply at the expense of taxpayers depends on his assets at the time and the strength of the evidence against him.

Lasater is a convicted drug dealer who ran a bond trading firm. He signed deals with several thrifts, including First American Savings and Loan in the Chicago suburb of Oak Brook, to trade Treasury bond futures.

First American eventually sued Lasater's bond firm, accusing it of fraud.

First American was seized by federal regulators in 1986, before the lawsuit went to court, and the head of the S&L, former Illinois Gov. Dan Walker, was himself convicted of fraud. About the same time, Lasater was convicted of cocaine trafficking and jailed.

Federal regulators decided to pursue First American's lawsuit. The FDIC hired the Rose Law Firm to handle its cases in Arkansas.

Most of the law firm's S&L legal work was handled by Hubbell. But the firm assigned the Lasater case to Mrs. Clinton and Vincent Foster, the White House lawyer who committed suicide in July, the Tribune reported.

Mrs. Clinton and Foster negotiated the confidential settlement, the report said.

Clinton's ties to Lasater were personal and political.

In the summer of 1985, Clinton successfully lobbied the Arkansas Legislature to approve a contract for Lasater to sell $30.2 million in bonds

for the state police radio system. The contract earned Lasater's firm $750,000.

In the early '80s, Lasater helped Clinton's half brother, Roger Clinton, pay off drug debts. He also encouraged his workers to contribute to Clinton's gubernatorial campaigns.

**** filed by:APW-(AR) on 02/03/94 at 11:20EST ****
**** printed by:WHPR(JEL) on 02/04/94 at 08:47EST ****

The amazing world of Arkansas politics

An administration flack tore into a Washington columnist at an inside-the-Beltway cocktail party not long ago when she asked a good question about his boss and Whitewater: "How can you keep bringing up Whitewater, undermining all the good the Clintons want to do for this country?"

His reply was not meant to intimidate so much as express rage and bewilderment by a Clinton true believer: Impugn the motives of the questioner. Attack with indignation rather than answer the question.

That's the method Bill Clinton used when Jerry Brown asked a Whitewater question in a 1992 campaign debate, suggesting a conflict of interest between the governor's office and the work Hillary Rodham Clinton had done for clients of the Rose law firm with business before one of her husband's regulator's.

"You ought to be ashamed of yourself for jumping on my wife," said Mr. Clinton. "You're not worth being on the same platform as my wife." It was an odd rebuttal from a man who had once campaigned with his wife on the slogan, "Buy one, get one free."

Suzanne Fields

Nevertheless, it worked. Almost everybody, other candidates and most reporters, withdrew from asking questions about Whitewater. But the first lady's role as defender of Madison Guaranty Savings and Loan Association, owned by her partner in Whitewater land development, was more than questionable. According to Rep. Jim Leach, the ranking Republican on the House Banking Committee, it was "unseemly" and "inappropriate." At least. And it still is.

Mr. Leach, who heads the House Republican inquiry into Whitewater-Madison and who is widening his probe to include the selling of tax-exempt state development bonds in Arkansas, is more concerned about the larger picture of "insider deals" and the general way Bill Clinton conducted the people's business in Arkansas.

"What you have is a picture of Milkenesque economic entanglements, in microcosm, in the state of Arkansas," he says, invoking the dread name of Michael Milken, the Wall Street junk bond dealer who served a prison sentence for fraud.

The underlying psychological theory, if not logic, for the lack of investigative reporting into Whitewater-Madison during the presidential campaign is simple. Most reporters were tired of George Bush, and thought Bill and Hillary had suffered enough, enduring the accusations of Gennifer Flowers. If the president wanted to be chivalrous toward his wife in the face of Jerry Brown's accusations, more power to him.

George Bush also declined to pursue Whitewater, for different reasons. Either he was too much the gentleman to fight with the Arkansas street fighter, or he didn't want to be seen as abusing the power of his presidency to assign the Justice Department to pursue a criminal investigation, however legitimate.

Besides that, Whitewater was so complicated almost nobody understood it.

Then Vince Foster, the deputy White House counsel and the Clintons' own personal lawyer, was killed by gunshot in a deserted park near the nation's capital. He left a note, with the remark: "Here ruining people is considered sport." The death was ruled a suicide, and nobody asked questions.

The remark about the sport of ruining people appealed to Washington's sense of power and hubris, but in the note went almost unnoticed, and in light of unfolding events something else in the note may be much more important: "The public will never believe the innocence of the Clintons and their loyal staff." Do the Whitewater documents taken from the Foster office by "loyal staff" just hours after his body was found shed light on that?

We don't know. The White House won't say. We don't know a lot of things about how Mr. Foster died because six months later there's still no autopsy report, which police authorities say is highly unusual.

The paramedics who picked up the body say it was lying neatly, the .38 caliber pistol gripped tightly in the right hand, with only a trickle of blood at the mouth. The paramedics say this is highly unusual, too. Such gunshot wounds usually leave "a real mess." Pathologists agree, adding that after such severe trauma to the mouth and head the gun is nearly always found a considerable distance from the body, so great is the reflex of the arm.

None of these questions have been addressed by the White House. There may be very good answers to all the questions, but until there are, the questions, like the white water on the White River deep in the Ozarks, won't go away.

Suzanne Fields, a columnist for The Washington Times, is nationally syndicated. Her column appears here Monday and Thursday.

Conflict-of-interest probe of Hillary's Arkansas law firm nears end

By Jerry Seper
THE WASHINGTON TIMES

Federal banking regulators say it will take "10 days to two weeks" to end an ongoing probe into a possible conflict of interest involving a failed Arkansas thrift and first lady Hillary Rodham Clinton's former Little Rock law firm.

David Barr, spokesman for the Federal Deposit Insurance Corp., said investigators were "tying up loose ends" in an inquiry that banking regulators had said they were on the verge of completing last month.

The probe is aimed at determining whether the Rose Law Firm told federal regulators during a 1989 government lawsuit against Madison Guaranty Savings and Loan Association that the firm had previously represented the S&L.

The FDIC is looking into accusations that Rose lawyers Webster L. Hubbell, now associate attorney general, and Vincent W. Foster Jr., the deputy White House counsel who killed himself July 20, made false statements to regulators — a criminal offense that could result in the firm being banned from future government work.

Law firms representing the FDIC are required by law to establish potential conflicts of interest before agreeing to represent the government. The Rose firm was paid $400,000 by the government for suing Madison in 1989, four years after it had represented the thrift before state regulators.

Madison, owned by James B. McDougal, a longtime friend and business partner of President and Mrs. Clinton, is the focus of an ongoing Justice Department investigation into suspicions of illegal loans and campaign fraud.

The FDIC launched a formal investigation in December into allegations that Rose had misled federal regulators about the firm's dealings with Madison.

"Our legal division is looking into whether we were misled by the Rose Law Firm back in 1989," Mr. Barr said at the time. "We're looking into all aspects of our dealings with Rose, and nothing has been resolved yet."

Arkansas records show Mrs. Clinton represented Madison in 1985 when the S&L was threatened with being closed as insolvent by state banking regulators — who answered to her husband, then-Gov. Bill Clinton. She was paid $2,000 a month by Mr. McDougal over a 15-month period to offer a preferred stock plan as a means of reorganizing the thrift to keep it in business.

The plan was based on audit findings by Frost & Co., a Little Rock accounting firm. The plan was never put into operation, but Madison wasn't closed by federal banking regulators until 1989, at a cost to taxpayers of $50 million.

In 1989, the Rose firm solicited legal work from the FDIC. Mr. Foster told FDIC officials in a letter that "the firm does not represent any savings and loan associations in state or federal regulatory matters."

The lawsuit, aimed at the Frost audit, was handled personally by Mr. Hubbell, now the No. 3 official at the Justice Department. The FDIC suit charged that Madison and Frost submitted a faulty audit in support of arguments that enabled Madison to remain in business. It was the same audit the Rose firm had filed four years earlier in its defense of Madison before state regulators.

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

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

Mr. Hubbell has recused himself from the current case and declines comment. A Justice Department spokesman has said the associate attorney general recalls the firm's representation of Madison was revealed. An FDIC official said no written record of Mr. Hubbell's exchange with the agency has been found.

The FDIC suit initially sought to recover $10 million in damages on five separate counts. It was settled out of court in 1991 for $1 million, less than the insurance coverage held by Frost at the time.

Mr. McDougal, his then-wife, Susan, and the Clintons were partners in Whitewater Development Corp. at the time of Mrs. Clinton's representation of Madison before state banking regulators.

The Washington Times
THURSDAY, FEBRUARY 3, 1994 ★

B[illegible]-USA-HILLARY 1STLD
NEW ETHICS TANGLE MAY SMUDGE U.S. FIRST LADY
(Eds: adds FDIC comment on agency involved, 10th para, revises para 9 and 11)

By Irwin Arieff

WASHINGTON, Feb 3 (Reuter) - A new ethical tangle involving Hillary Rodham Clinton may further smudge her sparkling image as the model of a modern activist first lady.

Testifying last fall before congressional committees on her plan for health care reform, Mrs Clinton awed lawmakers -- and hogged headlines around the world -- with her polished presentation and mastery of the complex issues at hand.

Now, just a few months later, her blueprint for reform is crumbling and federal authorities are probing possible ethical lapses during her career as an influential lawyer while her husband served as Arkansas governor.

Since sending his wife's plan to Congress, President Clinton has distanced himself from the proposal, stating repeatedly that all but one of its provisions -- a guarantee of universal access to care -- was open to compromise.

In addition, federal investigators have been probing her role in the president's complex ties to Whitewater Development Corp, which are now under investigation by special counsel Robert Fiske.

Mrs Clinton and her Rose Law Firm pursued on behalf of federal banking regulators a suit against an affiliate of the failed Madison Guaranty Savings and Loan institution after earlier representing Madison Guaranty before a state regulator appointed by her husband.

The Federal Deposit Insurance Corp (FDIC) is reviewing whether Mrs Clinton or her firm misled the government about its previous ties to the savings and loan institution, commonly known in the United States as a ``thrift.''

Now, new questions involving Mrs Clinton's ethics as a private lawyer have surfaced in Thursday's Chicago Tribune.

In a matter with strong parallels to the Madison case, the newspaper reported that she may have concealed a conflict of interest in pursuing, also on behalf of federal banking regulators, a legal settlement with a family friend and associate, Arkansas businessman Dan Lasater.

While the Tribune's report identified the federal agency pursuing the suit as the FDIC, FDIC officials said it had been the now-defunct Federal Home Loan Bank Board.

On the board's behalf, Mrs Clinton and her law firm in 1987 settled a lawsuit against Lasater's bond trading firm stemming from its dealings with the failed First American Savings and Loan Association in Oak Brook, Illinois.

While initially filed for $3.3 million, the suit was confidentially settled for $200,000.

Lasater was a personal friend of the Clintons' and of the president's mother, the newspaper said, adding that he had raised money for Clinton's campaigns for governor, lent him his private airplane for campaigning and lent money to Clinton's brother Roger, allegedly to settle a cocaine debt.

The report questioned whether Mrs Clinton should have informed the FDIC of her ties to Lasater before working on the case, and whether the settlement was fair.

Lisa Caputo, Mrs Clinton's spokeswoman, told Reuters the ethics questions were ``being thrown up as diversions'' and said: ``The first lady and this administration are not going to be diverted from the president's agenda.''

A spokesman for the FDIC said he was looking into the matter and would have no immediate comment.

REUTER

**** filed by:RB--(--) on 02/03/94 at 17:37EST ****
**** printed by:WHPR(JEL) on 02/04/94 at 08:46EST ****

B:-CLINTON-HILLARY 2NDLD
SECOND CASE MAY ATTRACT CLINTON INVESTIGATION
(Eds: adds FDIC comment on agency involved, 4th para)

CHICAGO, Feb 3 (Reuter) - Hillary Clinton may not have disclosed her close ties to a family friend when she settled a government lawsuit against him involving a failed Illinois savings and loan, the Chicago Tribune reported Thursday.

The report also raised questions about the fairness of the confidential $200,000 settlement of the original $3.3 million lawsuit arranged against the friend, Dan Lasater, in 1987 by Hillary Clinton and Vincent Foster while acting as attorneys for
a federal banking agency.

The newspaper suggested that the Illinois case could prove as troubling to the Clintons as the Whitewater development investigation if the special prosecutor recently appointed to scrutinise that case makes good on his pledge to publish a report on the Clintons' pre-White House business and political relationships.

The Tribune identified the federal agency pursuing the suit as the Federal Deposit Insurance Corp, but FDIC officials said it had been the now-defunct Federal Home Loan Bank Board.

Lasater, an Indiana-born restauranteur who founded the Ponderosa restaurant chain, underwrote millions of dollars worth of bonds for Arkansas while Bill Clinton was governor and was a strong supporter and financial contributor to Clinton's Arkansas campaigns, the newspaper said.

The report described Lasater as a high-flying figure on the Little Rock social circuit who made friends with Clinton's mother Virginia Kelley at the racetrack. He was convicted in 1986 of possession and distribution of cocaine. He also loaned $8,000 to Clinton's brother Roger, allegedly to settle a cocaine debt, and gave the younger Clinton a job at his Florida horse farm, the report said.

The case involving Lasater raises further questions about potential conflicts of interest while Bill Clinton was governor of Arkansas and his wife was an attorney at the politically-connected Rose Law Firm in Little Rock, the Tribune said.

Asked about the first lady's conduct while at the law firm, Mrs Clinton's spokeswoman Lisa Caputo told Reuters, ``Our view is that Mrs Clinton, while a lawyer at the Rose Law Firm, acted with the utmost integrity and professionalism.''

Special prosecutor Robert Fiske recently began an investigation into the defunct Whitewater land development in which the Clintons' partner was James McDougal, another Little Rock businessman and Clinton supporter who led the Madison Guaranty Savings and Loan into bankruptcy that cost taxpayers $47 million.

Court records reviewed by the Tribune disclosed the confidential settlement of the lawsuit with Lasater, who allegedly made unauthorised and losing trades in highly risky Treasury bond futures contracts for the First American Savings and Loan, located in the Chicago suburb of Oak Brook, the report said.

The savings and loan, which was run by former Illinois governor Dan Walker, lost $361,572 in Lasater's futures transactions and was seized by federal regulators in 1986.

The government decided to pursue the savings and loan's $3.3 million suit against Lasater and enlisted Hillary Clinton's law firm, it added.

Webster Hubbell, now the number three official at the Justice Department, handled most of the firm's work on savings and loans, but Hillary Clinton and Vincent Foster were assigned to the suit against Lasater, the newspaper said.

Foster was White House counsel when he committed suicide last July.

The amount of the $200,000 settlement was discovered by the Tribune in a letter Foster wrote to federal regulators, the newspaper said.

The newspaper quoted legal experts as saying the amount of the

out-of-court settlement may or may not have been justified, depending on Lasater's assets and the strength of the evidence against him.

But Hillary Clinton's participation on behalf of the government may have represented a conflict of interest, the experts said.

Commenting on the report, Cornell University ethics law professor Charles Wolfram told Reuters there was not enough information available to know if there was a true conflict of interest on Hillary Clinton's part.

He said the amount of the settlement may have been perfectly reasonable and just because Lasater had a relationship with Bill Clinton does not mean the same applied to the first lady.

The situation, he said, was ``perfectly opaque.''

REUTER

**** filed by:RB--(--) on 02/03/94 at 19:03EST ****

**** printed by:WHPR(JEL) on 02/04/94 at 08:46EST ****

bc-whitewater
NEXT WHITEWATER CHAPTER:
WILL THERE BE HEARINGS?
UPDATE: Fixing wording of efforts to reach Levy in 17th graph)
By JOHN HANCHETTE=
Gannett News Service=

WASHINGTON The ride seems about to get rougher for the White House in the Whitewater affair.

Only a few days ago, the Republican push for a congressional hearing on the complicated Arkansas realty venture involving the Clintons appeared dead. But it is gaining strength, despite ferocious political infighting and a vigorous game of parliamentary hot potato among Democratic leaders on Capitol Hill.

The administration though unwilling to say so publicly does not want congressional hearings with their lengthy televised sessions, lack of control over witnesses, and probably dozens of news leaks daily from staff and members.

The White House would prefer a quiet, forget-about-it probe by Robert Fiske Jr., the special counsel Attorney General Janet Reno appointed two weeks ago.

The push for Whitewater hearings before the House Banking Committee gained new strength Thursday from two developments:

A report in the Chicago Tribune that Hillary Clinton represented the FDIC in a $3.3 million suit against bond broker Dan Lasater, a friend, fiscal supporter and political ally of her husband. Hillary and law partner Vince Foster, the deputy White House counsel who apparently committed suicide in July, settled the case in 1987 for $200,000. Lasater, a convicted drug dealer, had helped pay off drug debts of Clinton's younger half-brother Roger. In 1985, then-Gov. Clinton successfully urged state lawmakers to approve a no-bid $30 million contract with Lasater for state police radios. Lasater got $750,000 in fees.

A report in the New York Post that former FBI director William Sessions, fired by Clinton, now claims FBI agents were held back from the probe of Foster's mysterious suicide because of an internal Justice Department power struggle in which the Foster had been involved. The FBI role in investigating Foster's gunshot death ``was compromised from the beginning,'' Sessions is quoted. The U.S. Park Police conducted the probe because Foster was found in a federal park. The Park Police report still is kept secret by the White House.

Foster had represented the Clintons in tidying up tax matters relating to their participation in the Whitewater realty venture with business partner James McDougal, owner of Madison Guaranty Savings & Loan. The thrift failed in 1989 at a bailout cost of $60 million to taxpayers.

Much of the Capitol Hill maneuvering involves House Speaker Thomas Foley of Washington and the feisty veteran chairman of House Banking, Rep. Henry Gonzalez, D-Texas.

Bottom line: Gonzalez says the hearings are Foley's decision. Foley says the hearings are Gonzalez's decision.

``The ball really is in the Democratic leadership's court,'' Gonzalez spokesman Julie Black said Thursday. ``The chairman is not going to do anything until the leadership decides.''

Foley: ``As far as hearings are concerned, that's a matter for committees to determine. I don't set up hearing schedules. I don't determine hearings by committees.''

Gonzalez has a reputation for pursuing with full committee hearings the slightest whiff of any banking scandals, regardless of partisan connections. But he steadfastly has refused to call a hearing on Whitewater and Madison Guaranty, despite pressure to do so from ranking Republican Jim Leach of Iowa.

On Tuesday, however, Gonzalez was ambushed in debate on the House floor with a surprise barrage of questions from Rep. Robert Walker, R-Pa., deputy GOP whip. Walker insisted on knowing if Whitewater hearings would be

scheduled. Gonzalez appeared to promise, unequivocally, they would.

``The answer is yes,'' he said at one point, when asked if they would come before congressional adjournment at the end of 1994. ``Oh, long before that.''

Then Wednesday, Gonzalez met privately with other Democratic committee chairmen, and participants told colleagues the subject was how to limit the questioning from Republicans on various Whitewater matters.

Reports in Newsweek that Gonzalez is ``under pressure from aides to Treasury Secretary Lloyd Bentsen to block an inquiry or risk the loss of his chairmanship'' were vigorously denounced Thursday by House Banking Committee staffers. Other Capitol Hill aides said the Bentsen message has been delivered frequently by the Treasury Department's assistant secretary for legislative affairs, Michael Levy, who was not immediately available for comment.

``Levy talks with us all the time,'' said Gonzalez spokesman Black. ``But the chairman has vehemently denied allegations that he was somehow counseling us not to hold Madison hearings. No one at Treasury or the White House has told the chairman what to do. He says he's had more contact with the Bush White House than the Clinton White House.''

Black said Gonzalez long has planned to hold ``oversight'' hearings into the Resolution Trust Corp., the agency cleaning up the S&L mess. Those hearings, required by law every six months, had been inked in for Jan. 26 and Feb. 1, but Bentsen, a member of the RTC oversight board, has had other business.

Black says Foley has been asked to interpret a long-standing House parliamentary rule that would permit Republicans to call any witnesses they want in an RTC oversight hearing even relating to Whitewater so long as 11 of the 20 GOP members of the panel agree.

``Foley has to decide,'' said Black. ``Gonzalez has asked him to make the call.''

**** filed by:GN-F(--) on 02/03/94 at 20:09EST ****
**** printed by:WHPR(JEL) on 02/04/94 at 08:46EST ****

BC-CLINTON-PROSECUTOR
ARKANSAS AWAITS WHITEWATER COUNSEL
By Steve Barnes

LITTLE ROCK, Ark, Feb 3 (Reuter) - The city President Clinton called home for the past 18 years is awaiting the return of the special counsel who will investigate him.

Special Counsel Robert Fiske has made only one visit to Little Rock, on January 25, since his appointment to investigate the Whitewater case, and it was not known when he planned to return to begin work.

The General Services Administration has signed a three-year lease for several thousand feet of space for the special counsel in the building that also houses the Little Rock offices of the FBI.

``They ought to bring a lot of money with them,'' remarked a hopeful cocktail waitress at a trendy west Little Rock restaurant only blocks from the office building where Fiske and his staff will be headquartered.

Fiske, a former U.S. prosecutor, was named independent counsel in the so-called Whitewater case last month.

The investigation centres on whether the failed Madison Guaranty Savings & Loan in Arkansas improperly funnelled money into Clinton's 1984 re-election campaign for governor, and on the Clintons' relationship with businessman James McDougal.

Fiske has said he plans to question Clinton and his wife Hillary under oath.

The Chicago Tribune reported Thursday that a second case involving business ethics in the private dealings of the Clintons may draw Fiske's attention.

The case involves a confidential settlement negotiated by lawyer Hillary Clinton in 1987 in a court case in which she represented the federal government in a suit against Arkansas businessman Dan Lasater, a Clinton family friend, according to the newspaper.

Meanwhile, Little Rock is beginning to take on the atmosphere it had when Clinton was running for president.

``Media junkies are atwitter anew with the famous faces in the Capitol Hotel bar and the expense account American Express cards are again on fire at Does,'' said Max Brantley, editor of the weekly Arkansas Times, referring to two Little Rock establishments popular with reporters and campaign staff members during 1992.

``It's like the campaign all over again,'' said Brantley.

REUTER

**** filed by:RB--(--) on 02/03/94 at 21:25EST ****
**** printed by:WHPR(JEL) on 02/04/94 at 08:45EST ****

USA TODAY · FRIDAY, FEBRUARY 4, 1994 ·

Whitewater paper trail a muddy one

By Dennis Cauchon
USA TODAY

YELLVILLE, Ark. — If the devil is in the details, the spirit of Whitewater may reside on Lot 13 on County Road 666.

Located on a dirt road, Lot 13 is a 2.7-acre wooded plot where Hillary Rodham Clinton built a model home to spark sales of Whitewater lots.

Nothing illegal has been found in its handling, but the paperwork is so sloppy that seemingly simple transactions are clouded in mystery.

Land and mortgage records are an inconsistent mish-mash of dates, dollars and owners.

The imprecise paperwork is all the more unusual because it was done by a banker, James McDougal; a respected lawyer, Hillary Clinton; and a veteran real-estate agent, Chris Wade.

"The whole Whitewater thing smacks of very poor bookkeeping," says Thomas Ochsenschlager, a Washington tax lawyer and accountant.

"From what I can tell, no one was trying to do anything wrong, but it is acutely embarrassing for a partner in the most prestigious law firm in Arkansas to be involved in something with such unusually sloppy paperwork."

If the Clintons did nothing wrong, the Whitewater story has lingered in part because of poor paperwork that might be interpreted as nefarious.

Lot 13 perfectly illustrates the Clintons' paper problems.

The story of Lot 13 should be simple: Hillary Clinton borrowed $30,000, built a modular home and sold it to a Mississippi man. The man went broke. The Clintons got the property back from bankruptcy court and resold it.

But the paperwork at the courthouse here and elsewhere is full of quirks.

For example, the Clintons recorded selling the property for the second time on Nov. 28, 1988 — three days before they recorded buying it back.

[illegible], but it is odd.

The most serious problem for Clinton is that Lot 13 provides a link between the failed Madison Guaranty Savings and Loan and the Clintons.

Records show that in November 1985, Whitewater Development Co. Inc. made a $7,322 payment on a loan taken out by Bill Clinton on Lot 13.

The problem: Whitewater's money to pay Clinton's loan came from Madison Marketing. And Madison Marketing got all its money from Madison S&L, whose failure cost taxpayers at least $47 million. Madison Marketing was owned by Susan McDougal, James McDougal's wife.

White House aide Bruce Lindsey says it's irrelevant whether the money came from a McDougal personal account or Madison Marketing. "There's nothing improper about it," he says. Other quirks:

▶ Bank of Kingston, owned by James McDougal, loaned Hillary Clinton $30,000 on Dec. 16, 1980 — 10 days before she owned Lot 13, which was used as collateral.

It is unusual — but not a crime — for a bank to loan first and get the collateral later.

▶ Hillary Clinton got Lot 13 without paying for it. She paid no income taxes for getting the property, worth about $3,000.

The White House says the lot and home were effectively owned by Whitewater.

Hillary Clinton loaned the $30,000 back to Whitewater in "a mirror loan," says Lindsey, and Whitewater made the loan payments. But no public documents reflect a mirror loan.

"It's pretty hard to construct a scenario where Hillary doesn't have some tax liability on the property," Ochsenschlager says. Most likely she should have reported the value of the property as a dividend from Whitewater, he says.

▶ The Clintons bought Lot 13 again in November 1988, according to county land and bankruptcy court records. Their taxes show they owned the property in March 1987.

▶ The Clintons' tax returns show the property was sold for $23,758. County land and assessor records say it was $28,000.

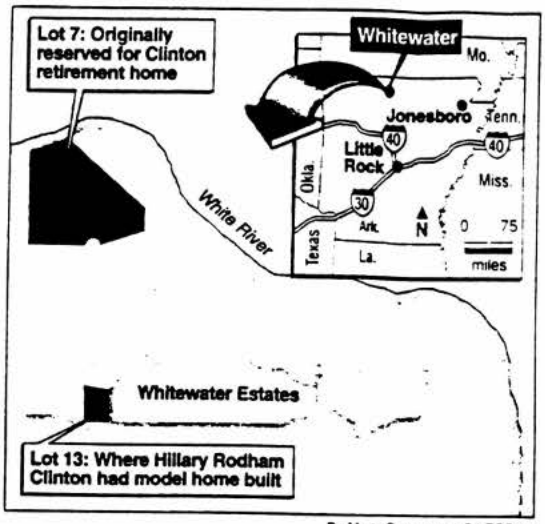
Those discrepancies don't prove wrongdoing, but they illustrate why questions persist.

The White House has answers for most questions.

For example, the Clintons rely on Denver attorney James Lyons' report to show they lost $68,900 on Whitewater, although they haven't claimed the full loss on their taxes.

The Lyons report details the Clintons' Whitewater finances from 1980 through 1991 — except for 1990, which is omitted without explanation.

Lindsey says there was no accountant worksheet for 1990, so the information was merged with 1991.



By Marty Baumann, USA TODAY

News report questions first lady's role in sui

By Dennis Cauchon
USA TODAY

The Chicago Tribune reported Thursday that Hillary Rodham Clinton worked for federal regulators in a lawsuit filed against Clinton friend and investment banker Dan Lasater.

Her law firm settled a $3.3 million suit against Lasater & Co. for $200,000. The case involved First American Savings and Loan, an Oak Brook, Ill., S&L that failed in 1986.

Lasater, a Little Rock businessman, was a political supporter of Gov. Bill Clinton. He also employed Roger Clinton, the president's half-brother. Lasater and Roger Clinton pleaded guilty to cocaine charges that were related.

The suit was handled properly, says Lisa Caputo, Hillary Clinton's spokeswoman. "Mrs. Clinton, when she was a lawyer at the Rose Law Firm, acted with the utmost integrity and professionalism." Of the allegations, she said: "These things are thrown up as a diversion."

In other Whitewater news, Rep. Jim Leach, R-Iowa, asked Thursday for a ruling on whether the head of the Resolution Trust Corp. should remove himself from all Whitewater-related decisions.

RTC acting chief Roger Altman, Clinton's college roommate, is deputy Treasury secretary. He has been filling in as head of the independent agency because the job is vacant.

Leach, who is leading the Whitewater investigation, said the probe puts Altman in "an awkward position" because Madison Guaranty Savings & Loan — a failed thrift owned by Clinton's Whitewater partner James McDougal — is at the center of the controversy.

Altman had no immediate comment. "It's being reviewed," said Treasury spokesman Howard Schloss.

PM-Mrs Clinton-S&L,770
First Lady Settled Government Case Against Family Friend
By RICHARD KEIL= Associated Press Writer=

WASHINGTON (AP) For the second time in a month, conflict-of-interest issues have been raised over the work of the Rose Law Firm, where Hillary Rodham Clinton and Associate Attorney General Webster Hubbell were partners.

On Thursday, it was disclosed that Mrs. Clinton represented the government in an Illinois savings-and-loan case involving a family friend and political supporter, settling the lawsuit against him for less than a dime on the dollar.

The government now is trying to determine whether Mrs. Clinton provided regulators the required notification of a potential conflict of interest, and if so, how she got the contract anyway.

In that case, Mrs. Clinton settled a $3.3 million suit for $200,000 against Dan Lasater, who had personal and political connections to President Clinton.

David Barr, a spokesman for the Federal Deposit Insurance Corp., said the FDIC is now searching its Chicago office to find out if it has any written record of a conflict-of-interest disclosure.

Law and accounting firms generally are barred from representing the government in S&L cases if they have previously represented the S&L, or have personal ties to any officials or targets of the lawsuit.

They are required to notify the federal agency in Mrs. Clinton's case the now-defunct Federal Savings & Loan Insurance Corp. (FSLIC) of any conflicts before getting such contracts.

Lisa Caputo, the first lady's press secretary, said Thursday she did not know whether Mrs. Clinton had supplied FSLIC officials with the required notification. But she offered a broad defense of Mrs. Clinton's legal work.

``Our view is that Mrs. Clinton, while she was a lawyer at the Rose firm, acted with the utmost integrity and professionalism,'' Caputo said.

Officials at the Rose firm in Little Rock, Ark., did not return a call Thursday seeking comment.

The FSLIC, for which Mrs. Clinton settled the lawsuit, was dissolved in 1989 during a reorganization of federal banking agencies, and its records were turned over to the FDIC.

FDIC spokesman Barr said the agency suspects the Lasater case records are at its Chicago office, but they had not been located as of late Thursday.

In another case, Hubbell, the Rose firm's senior partner, was paid by the government in 1989 to settle litigation against an accounting firm accused of negligence in the failure of Madison Guaranty Savings and Loan in Little Rock.

The firm, including Mrs. Clinton, had done legal work for the S&L before its failure.

FDIC officials have launched a formal investigation into whether Rose failed to properly inform regulators of that potential conflict.

The Lasater case was settled in 1987. The question of whether such a settlement was lenient often revolves around the defendant's ability to pay and the degree to which he or she can be blamed for the thrift's financial woes.

Lasater, a convicted drug dealer, ran a bond trading firm. He signed deals with several thrifts, including First American Savings and Loan in the Chicago suburb of Oak Brook, to trade Treasury bond futures.

First American eventually hired the Rose firm to sued Lasater's bond company for fraud, Barr said.

First American was seized by federal regulators in 1986, before the lawsuit went to court, and the head of the S&L, former Illinois Gov. Dan Walker, was himself convicted of fraud. About the same time, Lasater was convicted of cocaine trafficking and jailed.

Federal regulators decided to pursue First American's lawsuit, and FSLIC stuck with the Rose firm in its dealings with Lasater, Barr said.

Most of Rose's S&L work was handled by Hubbell. But the firm assigned the

whitewater - a1843
TTN: National editors) (Includes optional trims)
ederally Insured Deposits Helped Pay Off Clinton Loan (Washn)
By Sara Fritz= (c) 1994, Los Angeles Times=

WASHINGTON Federally insured deposits were diverted from Madison Guaranty Savings & Loan of Little Rock, Ark., in 1985 to make a $7,300 payment on a personal bank loan owed by then-Gov. Bill Clinton and his wife, Hillary, as part of their investment in the Whitewater real estate development, according to congressional investigators.

James McDougal, owner of the thrift and the Clintons' business partner in the Whitewater real estate venture, used the Madison funds to make the payment on a loan the Clintons had obtained to build a model home on the site of the development, Republican staff investigators said.

If corroborated by the ongoing broad federal inquiry into the Whitewater deal, the payment would be evidence that federally insured funds were used to subsidize the Clintons' controversial, ill-fated real estate venture with McDougal and his former wife, Susan.

And the transaction provides a further indication that matters involving Whitewater were not always handled in arms-length, by-the-book fashion.

The $7,300 was not a formal loan to the Clintons, investigators indicated, but rather an informal payment that helped them at a time when Whitewater was experiencing difficulties. The development eventually failed and Madison was later closed by federal regulators in a bailout that cost the U.S. Treasury more than $47 million.

The Clintons, who became business partners with the McDougals in 1978, have said they were purely passive investors in Whitewater and were unaware of any improper or illegal actions McDougal may have made involving Whitewater.

Republicans on the House Banking Committee, however, are pressing for a full public accounting of what they believe was a cozy business relationship between the then-governor and McDougal that may have permitted Madison to operate without strict state regulatory oversight.

``This is clear evidence of a small amount of fire amidst the smoke,'' said Rep. Jim Leach, R-Iowa, ranking Republican on the House Banking Committee, whose staff uncovered the evidence.

``Given the above circumstances,'' said a memo written to Leach by his staff, ``it would appear that federally insured deposits, which, with the later failure of Madison, became, in effect, taxpayer obligations, were transferred for the direct personal benefit of the former governor.''

Both the Clintons and Whitewater took a tax deduction for paying interest on the loan. White House aides have said it was an accidental double deduction. However, this new information may raise the question of whether the Clintons also failed to report the payment on their tax return as personal income.

(Optional add end)

As the memo to Leach noted: ``What remains unclear is the larger question of whether the funds provided by Madison to reduce the Clintons' liability were proper or properly reported as income for income tax purposes ....

``If Madison provided any direct or indirect assistance to Whitewater, presumably half the value of such (assistance) would redound to the advantage of each of the half-owners. In any regard, the above money transfer underscores that then-Gov. Clinton has personal liabilities reduced by a payment from Madison.

``Such payment presumably carries ethical as well as tax implications and is part and parcel of the $47 million to $60 million estimated taxpayer loss at Madison.''

McDougal, who became a friend of Clinton in the late 1960s, when both men worked for Sen. J. William Fulbright, D-Ark., was removed from control of

Madison in 1986 after federal regulators concluded he had followed unsound practices. He was tried and acquitted on charges of bank fraud.

**** filed by:LAWP(--) on 02/04/94 at 02:34EST ****
**** printed by:WHPR(162) on 02/04/94 at 03:22EST ****

Hillary represented FDIC against friend

Paper cites 'glaring conflict of interest'

CHICAGO (AP) — Hillary Rodham Clinton represented federal thrift regulators in a $3.3 million lawsuit against a Clinton friend and political ally and ultimately settled the case for $200,000, the Chicago Tribune reported yesterday.

President Clinton's personal and political connections to Dan Lasater have been widely reported. But the Tribune report, based on court records, was the first to reveal that Mrs. Clinton and the late Vincent Foster had represented the Federal Deposit Insurance Corp. in a lawsuit accusing Mr. Lasater of fraud in the failure of a savings and loan.

"The Illinois S&L case suggests that Hillary Clinton, as a private attorney, had a glaring conflict of interest," it said. "As an attorney for the FDIC she helped negotiate a secret, out-of-court settlement that ended the government's suit against a family friend and an influential benefactor of her husband."

Thomas Scorza, a former assistant U.S. attorney who teaches legal ethics at the University of Chicago, said Mrs. Clinton's position raises questions about her professional conduct.

"A lawyer is required to represent the interest of their client zealously," he said. "There is a substantial question about whether an attorney was representing a client zealously if the opponent of the client is someone with whom the attorney had a political, financial and personal relationship."

FDIC spokesman David Barr told the Tribune that FDIC attorneys are trying to find records on the case to learn whether the Rose Law Firm, the Little Rock, Ark., firm for which Mrs. Clinton worked, notified the federal agency of any potential conflict of interest.

The first lady's press office did not immediately return a call yesterday seeking comment. The Tribune reported that Mrs. Clinton's office declined to respond specifically about the case but issued a general statement defending her legal ethics.

"Our view is that Hillary Clinton, when a lawyer at the Rose Law Firm, acted with the utmost integrity and professionalism. I have no reason to believe otherwise," press secretary Lisa Caputo told the Tribune.

The story described entangled relations among those close to the Clintons in Arkansas, and now serving in the White House, and Mr. Lasater. It noted that in 1987, when Mr. Lasater was sent to prison, he gave legal authority for managing his assets to Patsy Thomasson, a key Clinton supporter in Arkansas.

Miss Thomasson, now director of the White House Office of Administration, was one of three White House employees who entered Mr. Foster's office three hours after his death last summer and oversaw the removal of documents relating to Whitewater and other matters he was working on when he died.

The Tribune story also noted that Mr. Lasater contributed to Mr. Clinton's gubernatorial campaign, sponsored fund-raisers, and lent Roger Clinton $8,000 to pay off a drug debt.

AP

The Clintons attend a prayer breakfast yesterday in Washington.

In the summer of 1985, Mr. Clinton successfully lobbied the Arkansas legislature to approve a contract for Mr. Lasater to sell $30.2 million in bonds for the state police radio system. The contract earned Mr. Lasater's firm $750,000.

It is the second time conflict-of-interest questions have been raised regarding the Rose firm's work for federal regulators.

In the other case, the firm's senior partner, Webster Hubbell, now the No. 3 official at the Justice Department, was paid by the government in 1989 to settle litigation against an accounting firm accused of negligence in the failure of Madison Guaranty Savings and Loan in Arkansas.

The firm, including Mrs. Clinton, had done legal work for the S&L before its failure.

In the Lasater case, the settlement was reached in 1987. Whether Mr. Lasater got off cheaply at the expense of taxpayers depends on his assets at the time and the strength of the evidence against him.

The Washington Times

Parties split on issue of hearin

By J. Jennings Moss
THE WASHINGTON TIMES

House and Senate members broke along largely partisan lines when asked by The Washington Times whether Congress should hold hearings into the Whitewater-Madison affair.

Joining the 177 Republicans who said they would support hearings were nine Democrats — including one committee chairman, Rep. Dan Glickman of Kansas, who heads the Intelligence Committee.

Several senior Democrats and committee chairmen said privately that hearings were inevitable and that postponing hearings could hurt them.

Meanwhile, 120 Democrats and 11 Republicans and one independent who chose to answer a telephone survey by The Washington Times said hearings were not necessary at this time. But many held out the prospect that a review of the matter could be warranted in the future.

In the survey to all 539 senators, representatives and delegates, 190 Democrats and 31 Republicans either had no comment or did not respond. There is one vacancy in the House.

The partisan break is not surprising, as the issue revolves around business dealings President Clinton, a Democrat, had while he was governor of Arkansas during the 1980s.

But some Democrats are becoming increasingly nervous about the potential fallout their stand against hearings could have as some Republicans are using every opportunity to try to force the issue.

"Some say Madison S&L should not be singled out, just because the new president may have been involved. But that's precisely why we should. Special scrutiny is necessary whenever a high public official is involved, even when lesser-known persons may have done similar things and escaped the glare of public attention," said Rep. Ernest Jim Istook, Oklahoma Republican.

But most Democrats argue that hearings are either not needed or would be premature because the special counsel appointed to probe the matter for possible criminal activities has just begun his work. The Republican clamor for a congressional probe, they say, is largely a political ploy to hurt the president.

"Whitewater deals with allegations concerning activities that took place long before Bill Clinton became president," said Rep. Bill Wise, West Virginia Democrat. "If it's a Republican strategy to hold hearings with the idea of embarrassing Bill Clinton, I think it may backfire."

The matter, which has become known in Washington shorthand as Whitewater-Madison, involves an investment Mr. Clinton and first lady Hillary Rodham Clinton made in the Whitewater Investment Corp., a real estate development in the Ozarks.

The Clintons' business partners in the venture were James B. McDougal and his wife at that time, Susan McDougal. Mr. McDougal was the president of Madison Guaranty Savings and Loan Association, which the federal government seized in 1989 and which cost taxpayers $50 million.

Investigators are questioning whether Mr. McDougal spent funds from Madison on Whitewater and whether he funneled Madison money to Mr. Clinton's gubernatorial campaigns. They also are looking into a $300,000 SBA loan Mrs. McDougal received.

Even though Whitewater-Madison surfaced during the 1992 presidential campaign, it did not explode as an issue until last fall.

After repeated calls by the GOP and, ultimately, some senior Democrats, Mr. Clinton finally agreed to the naming of a special counsel to handle the case. Attorney General Janet Reno appointed Robert J. Fiske Jr., a Republican, to the job.

Senate Minority Leader Bob Dole of Kansas and House Minority Leader Robert H. Michel of Illinois then proposed creating a select congressional committee to investigate but then settled for asking for the regular committees of jurisdiction to handle the job.

Republicans want three committees to look into the matter — the Banking, Small Business and Judiciary panels. Democratic chairmen in the House and Senate, so far, have said no.

"There should be a congressional inquiry into Whitewater for the same reason that Sam Ervin conducted one into Watergate at the same time that a special prosecutor was also involved. Congress should not be left in the dark for months or years awaiting the findings of a special counsel," said Sen. Frank Murkowski, Alaska Republican.

Rep. Tim Hutchinson of Arkansas, one of the few Republicans who told The Times they would not support hearings now, said through a spokesman that the special counsel should be allowed to do his job.

If hearings are held, they would be televised, Hutchinson spokesman Brian O'Neel pointed out. "The congressman feels that what comes out of those televised hearings could jeopardize prosecutorial efforts," Mr. O'Neel said.

One congressional investigation used by both sides to draw parallels to the Whitewater-Madison issue is the high-profile series of hearings in 1987 into the Reagan administration's sale of arms to Iran and its aid to the Contra rebels in Nicaragua.

"The congressman believes Whitewater should be pursued in the same manner as Iran-Contra ... What's good for the goose is good for the gander," said Paul Marcone, spokesman for Rep. James A. Traficant, an Ohio Democrat who supports hearings.

Rep. Tim Johnson, South Dakota Democrat, does not favor congressional hearings on Whitewater "because he doesn't want to do anything that would muck up the work of the special counsel," his spokesman John Devereaux said.

"Look at Oliver North. His conviction was overturned because of interference by a congressional committee," Mr. Devereaux said. Mr. North was a key figure in Iran-Contra who testified before Congress only after receiving immunity for his comments.

Rep. Henry Hyde, an Illinois Republican who backs hearings, also invoked Mr. North's name but did so to argue that Democrats were always eager to investigate potential problems in the administrations of Ronald Reagan and George Bush.

"When Oliver North was the prey, it was full steam ahead. But now it's a case of foot-dragging," Mr. Hyde said.

For some of the Democrats who support hearings, they said they were concerned about the structure of the hearings. Some, like Rep. J. Roy Rowland of Georgia, said they had no objection to hearings "to clear the air."

Many Democrats who told the Times that they did not favor hearings now said that they could change their minds depending on the special counsel's report.

"Holding hearings now would be a waste of taxpayers' money. It would be like spending money on a private investigator when police are already on the case. People deserve to have their questions answered, but I don't think they want their tax dollars spent on overkill," said Rep. Blanche Lambert, Arkansas Democrat.

> *"Holding hearings now would be a waste of taxpayers' money."*
> *— Rep. Blanche Lambert*
> *Arkansas Democrat*

Rep. Terry Everett, Alabama Republican, said the special counsel was only looking into possible criminal activity and not any civil misconduct.

"This is an egregious oversight, and it is incumbent upon the Congress to thoroughly investigate all of [sic] aspects of possible wrongdoing in the Whitewater-Madison case. No one should be above the law, not even the president," Mr. Everett said in a statement.

Rep. Corrine Brown, a Florida [illegible] said singling out Madison for congressional scrutiny is wrong.

"Why are we just targeting this S&L? This is the kind of stuff for campaigns. Lets address the issues the American people elected us to do. If we're going to investigate this one S&L, we should investigate them all," she said.

• *Major Garrett, Ronald A.Taylor, Cheryl Wetzstein, Ruth Larson, David Coia and Joyce Price contributed to this report.*

The Washington Times FRIDAY, FEBRUARY 4, 1994

Madison S&L funds paid Clinton loan

Whitewater channeled money, Leach shows with documents

By Paul M. Rodriguez
THE WASHINGTON TIMES

Funds from the faltering Madison Guaranty Savings and Loan Association were funneled through Whitewater Development Corp. to make a payment on a loan to Gov. Bill Clinton in 1985, according to documents released yesterday by the ranking Republican on the House Banking Committee.

The money transfer "underscores that then-Gov. Clinton had personal liabilities reduced by a payment from Madison," Iowa Rep. Jim Leach said in an accompanying statement.

"Such payment presumably carries ethical as well as tax implications and is part and parcel of the $47 [million] to $60 million estimated taxpayer loss at Madison," he said.

The White House declined to comment yesterday.

Mr. Leach, who has been probing the Whitewater-Madison matter since last year, said he was releasing the material to underscore his concerns about continued stonewalling by federal bank regulators who have declined thus far to cooperate with his investigation.

The documents establish for the first time the source of a previously reported — but still unexplained — payment of $7,322.42 on the Clinton loan by Madison owner James B. McDougal. Mr. McDougal and his wife, Susan, were partners with Bill and Hillary Clinton in Arkansas' Whitewater Development Corp.

The source, the documents reveal, was a $7,500 deposit in a Whitewater account from Madison Marketing, a subsidiary of the S&L that was run by Mrs. McDougal. Madison Guaranty failed in 1989 at a cost to taxpayers of about $50 million.

The documents show:

- On Oct. 31, 1985, Whitewater had a bank balance of $12.49, and yet a check signed by Mr. McDougal for $7,322.42 was written on Nov. 7, 1985, on the Whitewater account to Security Bank of Paragould, Ark., as a payment on Mr. Clinton's loan.

That Clinton loan, made in 1983 in the amount of $20,800, was used to pay off the remaining balance of a $30,000 [illegible] on Madison Bank and Trust in 1980 to build a modular home at Whitewater.

- On Nov. 8, the day after the McDougal-Whitewater check for $7,322.42 was written, a $7,500 deposit in the Whitewater account was made by Madison Marketing to cover the check Mr. McDougal had sent as a loan payment for Mr. Clinton. A Federal Home Loan Bank Board exam said Madison Marketing was largely a sham corporation owned by Mrs. McDougal until 1986.

Mr. Leach said he would not characterize these transactions as illegal but as a "possible" diversion of taxpayer funds "on a deferred basis"

see LOAN, page A8

LOAN

From page A1

that should be closely scrutinized.

He said he based his conclusion on a Banking Committee Republican staff memorandum, which was released yesterday along with a letter to Roger C. Altman, the interim head of the Resolution Trust Corp. (RTC), urging his recusal from any probe of the Whitewater-Madison affair.

The undated staff memo to Mr. Leach said that, "based on documentary evidence available to the minority, it appears that Madison Marketing served, in at least one instance, as a conduit of funds from Madison Guaranty to Whitewater and Governor Clinton."

"If this is correct, it would appear that insured funds from the failed Madison Guaranty were diverted and directly benefitted the governor and his investment in Whitewater, a claim Clinton had denied," the memo said.

According to a 1987 article in Arkansas Business, a Little Rock publication, Madison Marketing was actually a fictitious name for Madison Financial Corp. (MFC), Madison Guaranty's real estate operation.

Mrs. McDougal also ran Master Marketing, a sole proprietorship whose office originally was at 1310 Main St., the office of MFC, Arkansas Business reported.

Mrs. McDougal, as the head of Master Marketing, was the recipient of a $300,000 Small Business Administration loan, a third of which ultimately ended up in Whitewater. The loan, which was never repaid, was illegally obtained, according to former Little Rock Judge David L. Hale who says he was pressured by Mr. McDougal and Mr. Clinton to direct the loan to Mrs. McDougal.

Mr. Hale, under indictment for defrauding the SBA on unrelated loans, said all three were aware that Mrs. McDougal was not qualified for the loan but knew that she could qualify for it — on paper — as a female applicant.

Mr. Leach in his strongly worded letter to Mr. Altman [illegible] time also raised ethical issues about having a top Treasury Department official heading the RTC investigation of Whitewater-Madison while serving as a political appointee of President Clinton.

The RTC is the lead independent federal agency responsible for investigating failed savings and loans.

"I have high regard for your personal integrity, but as you know, from the beginning, it has been an awkward situation to have a presidentially appointed and confirmed officer of the Treasury Department also head an independent federal agency, the RTC," Mr. Leach said in his letter to Mr. Altman.

"When this prospect was first suggested at the beginning of the Clinton administration, it did not strike the [GOP] minority as overly unreasonable for a month or two given the fact that no RTC head had been selected," his letter said.

"However, it has been over a year since the administration has been in office and it can only be described as structurally unseemly for a political appointee of an executive branch department to make what are in effect, law enforcement decisions for an independent federal agency as they touch upon the president," Mr. Leach wrote.

The Iowa Republican has been pushing for hearings into the Whitewater-Madison affair over the objection of House Democrats. He also has been trying — unsuccessfully so far — to get relevant documents on Whitewater-Madison from federal agencies, such as the RTC.

House Democrats have appeared in recent days to be softening their opposition to hearings on Whitewater-Madison as part of a mandatory oversight review of the RTC required every six months.

Mr. Leach said in his letter that he was still trying to work out arrangements with banking agencies to get documents, and hoped the RTC is at least pursuing all leads involving Whitewater-Madison, including any White House documents turned over recently to the Justice Department by the White House.

These White House documents have not been released by the Justice Department because they are covered by a federal subpoena and thus are protected by strict secrecy rules.

Some of these documents are believed to include confidential reports prepared by White House Deputy Counsel Vincent W. Foster Jr., a friend and personal lawyer to the Clintons, who committed suicide in July.

"If the White House chooses to use the Justice Department to shield Whitewater documents not only from the public and Congress, but from other government agencies, such as the RTC, which have legitimate public law enforcement responsibilities, it is hard to believe a responsible resolution of the issues involved can be made by regulatory authorities," Mr. Leach said.

He also said that "time is clearly of the essence for the RTC to make judgments" about any investigation because the statute of limitations for certain kinds of civil penalities will be running out at the end of February.

The Washington Times FRIDAY, FEBRUARY 4, 1994

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Comp ex bus ness dea ings dog C intons

President Clinton and Hillary Rodham Clinton are under investigation for their relationships with James McDougal, owner of Madison Guaranty Savings and Loan and their partner in Whitewater Development Co. Whether they were guilty of anything except bad judgment will be decided by special counsel Robert Fiske. The tangled web:

WHERE THE QUESTIONS BEGAN (1978-'92)

A plan for a budget recreational development has mushroomed into a tale of friendship and business relationships gone awry. It has sparked the appointment of a special counsel and raised calls from Capitol Hill for an investigation.

WHITEWATER

The Clintons, James McDougal and his then-wife Susan McDougal bought 230 acres of Ozark Mountain property on the White River in northern Arkansas in 1978. They borrowed the full $203,000 price, put in roads and subdivided the property into 44 vacation-home lots. They called the venture Whitewater Development Co. Inc. After 14 years, the Clintons sold their interest to James McDougal for $1,000 and say they invested a total of $68,900 – and made no profit.

Hillary Clinton

AP

A partner in the prestigious Rose Law Firm, she handled the family's Whitewater investment, borrowed $30,000 to build a model home on the property and in 1988 sought power-of-attorney to manage the Whitewater venture. It was never granted.

Bill Clinton

AP

A longtime friend of James McDougal, he was Arkansas attorney general when Whitewater was purchased and later, as governor, appointed the state official who regulated all state S&Ls, including McDougal's Madison Guaranty Savings and Loan.

Susan McDougal

Democrat-Gazette

Gave the Ozarks development its name, Whitewater, marketed Madison's land investments and was a partner in her husband's many businesses. They divorced in 1991.

James McDougal

Democrat-Gazette

Friend of Bill Clinton's since the late 1960s. A real estate developer, he briefly served in Clinton's first administration as an economic development aide before becoming a high-flying S&L operator.

David Hale

Named to municipal judgeship by Clinton. In 1986, his firm gave Susan McDougal a $300,000 Small Business Association-backed loan, part of which went to Whitewater. Hale claims he was pressured by Bill Clinton to make the loan; James McDougal and Clinton deny his charge.

MADISON GUARANTY

The McDougals bought a small S&L in 1982, renamed it Madison. The S&L grew rapidly, making high-risk real-estate investments, before failing in 1989 at a cost to taxpayers of at least $47 million.

BANK OF KINGSTON

A bank in Kingston, Ark., partly-owned by James McDougal loaned $30,000 to Hillary Clinton for the model home on a 3-acre Whitewater lot that was transferred to her. No price was recorded on the deed.

THE QUESTIONS

- Did James McDougal give the Clintons a sweetheart deal by making them half owners of Whitewater when their financial contribution was less than 50%?
- Did the Clintons pressure David Hale to loan $300,000 to Susan McDougal?
- How much did the Clintons invest in Whitewater? How much money did the Clintons make or lose?
- Have the Clintons been forthright in describing their roles as merely passive Whitewater investors?

USA TODAY • FRIDAY, FEBRUARY 4, 1994 •

LAW FIRM CONNECTIONS (1985-'89)

Business and politics frequently entwine. But the relationships of a governor, his appointees and his wife — who practices before those appointees — raise some ethical questions.

AP

Hillary Clinton

AP

Bill Clinton

Democrat-Gazette

Susan McDougal

Democrat-Gazette

James McDougal

ROSE LAW FIRM

Hillary Clinton, Vincent Foster and Webster Hubbell were partners in this large, powerful Little Rock firm. Foster became White House deputy counsel and committed suicide in July 1993. Hubbell is now No. 3 official in the Justice Department.

ON RETAINER
The firm was on $2,000 retainer with Madison for 17 months while the S&L was under pressure from regulators. James McDougal says he gave the firm some business at Bill Clinton's request; the White House denies his claim.

THE STOCK DEAL
Hillary Clinton and other Rose firm lawyers asked Beverly Bassett-Schaffer, a state S&L regulator appointed by Bill Clinton, whether it was legal for Madison to sell preferred stock. Bassett said it was in a letter that began "Dear Hillary."

MADISON SUIT
Foster later negotiated a deal to represent the Federal Deposit Insurance Corp. in a suit against Madison's accountants.

CAMPAIGN FINANCE

In 1985, McDougal hosted a fund-raiser at Madison headquarters to offset Clinton's $50,000 gubernatorial campaign debt. Questions have been raised about the source of funds for some contributions.

Beverly Bassett-Schaffer

A Clinton appointee who regulated Arkansas S&Ls, her firm had once represented Madison.

White House

Vincent Foster

Because Whitewater documents were in his office, questions have been raised about links between the land deal and his death. Had close personal relationships with both Clintons.

Webster Hubbell

A former Rose partner, he handled FDIC case against Madison's accountants. His father-in-law, Seth Ward, was an officer in a Madison subsidiary.

MADISON GUARANTY

Under almost constant fire from federal S&L examiners for shaky finances, excessive payments to insiders and risky loans, it was shut down in 1989. James McDougal was removed in 1986. Before he was ousted, he drove a Bentley and his wife drove a Jaguar — both owned by Madison. James McDougal was acquitted in 1990 of bank fraud charges stemming from the S&L's failure.

DOING A FAVOR?
James McDougal says he gave the Rose Law Firm some business at Bill Clinton's request; the White House denies his claim.

Democrat-Gazette

THE SETTLEMENT
Rose was paid $400,000 out of a $1 million settlement from Madison's accountants.

THE QUESTIONS

- Did state regulators go easy on Madison because of the Clintons' friendship and business relationship with the McDougals?
- Was it ethical for Hillary Clinton to represent Madison before a state regulator appointed by her husband?
- Was it ethical for the Rose Law Firm to represent federal regulators after it had done work for Madison?
- Were Madison funds diverted to Clinton's gubernatorial campaign?
- Is Vincent Foster's suicide related to Whitewater?

THE WHITEWATER CHRONOLOGY

1978 Clintons and McDougals buy 230 acres for budget recreational development (44 lots).

1979 Clinton, now governor, appoints James McDougal an economic aide; Clintons, McDougals form Whitewater Development Co. Inc. and transfer land.

1980 Hillary Clinton borrows $30,000 from another McDougal bank to build a model home at Whitewater.

1982 Out of government, James McDougal buys state-regulated savings and loan.

1984 Federal S&L examiners heavily criticize Madison's fast-and-loose operations.

1986 McDougal holds a fund-raiser at Madison to help Clinton pay off a $50,000 campaign debt. Hillary Clinton and Rose Law Firm represent Madison in stock sale plan before a Clinton-appointed regulator.

1985 Federal and state regulators remove McDougal from Madison.

1987 Susan McDougal says Whitewater records are sent to Clintons, who say records were incomplete.

1988 Hillary Clinton asks for Whitewater power-of-attorney at the suggestion of land salesmen; it is not granted.

1989 Madison placed in receivership by federal regulators. Regulators hire Rose Law Firm to handle a suit against Madison's accountants.

1990 McDougal acquitted of bank fraud.

1992 Denver lawyer James Lyons asked by Clinton presidential campaign to review Whitewater and concludes Clintons lost $68,900. Clintons sell out to McDougal for $1,000. Vincent Foster handles sale.

1993 Vincent Foster, now White House deputy counsel, commits suicide in July. White House counsel Bernard Nussbaum removes Whitewater files from Foster's office. In December, Clintons agree to give all Whitewater files to Justice Department.

1994 Clintons' lawyers acknowledge they arranged for Whitewater documents to be subpoenaed, preventing their public release. Special counsel Robert Fiske is named by Attorney General Janet Reno to investigate Whitewater, Foster's suicide and related matters.

Source: USA TODAY research by Dennis Cauchon and Judy Keen; coordinated by Warren Springer

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PAPER TRAIL ('87 to present)

The state and content of Whitewater financial records as they move through various hands, and why they're important:

Democrat-Gazette

James McDougal

Primarily responsible for Whitewater's financial decisions and records. Susan McDougal says Whitewater's financial records were sent to the governor's mansion in 1987 at the Clintons' request. The Clintons say they have only incomplete records.

Bill and Hillary Clinton

In 1988, Hillary Clinton sought power-of-attorney over Whitewater; she did not receive it.

James Lyons

Denver lawyer and a Clinton friend who was asked by Clinton's 1992 presidential campaign to document the Clintons' Whitewater investments. He reported the Clintons lost $68,900, but his accountants qualify their opinion because they had incomplete records.

White House

Vincent Foster

Arranged sale of the Clintons' interest to James McDougal in 1992. As White House deputy counsel, he continued to handle Whitewater. Lyons called him on the day he committed suicide but the two did not talk.

USA TODAY

Bernard Nussbaum

Foster's boss, he removed Whitewater documents from Foster's office after the suicide, first sorting them in the presence of U.S. Park Police and Justice Department officials.

David Kendall

The Clintons' private lawyer, he negotiated the Justice Department subpoena for Whitewater documents, ensuring they wouldn't be released to the public.

By Jeff Mitchell

Robert Fiske

A Republican New York lawyer and former federal prosecutor named Whitewater special counsel last month by Attorney General Janet Reno. Has signed a three-year lease for office space in Little Rock.

THE QUESTIONS

- Might some Whitewater records have been destroyed?
- Was it appropriate [illegible]baum to remove Whitewater papers from Foster's office?
- Does Lyons' report accurately represent the Clintons' Whitewater investment?
- Did the Clintons violate tax laws?
- Did Justice Department officials act properly when they allowed the Clintons' lawyer to negotiate the terms under which the Whitewater papers would be subpoenaed?

By Stephen Conley, USA TODAY

3/3

Little Rock links: Politics, society & ... web

Nagging questions over the Clintons' business relationships have spawned Justice Department and congressional inquiries, which now face the daunting task of distinguishing between what was improper or merely gave the appearance of impropriety in the close-knit culture of Little Rock during the 1980s.

By Judy Keen
and Dennis Cauchon
USA TODAY

LITTLE ROCK — In the 1980s, everyone who mattered knew everyone else here, and they all knew — or wanted to know — their dashing young governor, Bill Clinton, and his lawyer wife, Hillary.

Everyone shopped at the same grocery stores out in the Heights or Hillcrest, where they lived and spent their evenings at the same political events and charity fund-raisers.

So when the April 30, 1985, letter from Little Rock's Rose Law Firm arrived at the Arkansas Securities Department, no one batted an eye.

The letter asked whether it was legal for Madison Guaranty Savings & Loan to sell preferred stock. It was an unusual request by owner Jim McDougal, a business partner of the Clintons whose thrift was already the subject of a scathing bank examiners' report, but it was no big deal.

The letter listed Hillary Rodham Clinton as a contact at the high-powered Rose firm, but even though she was the governor's wife, she was just another lawyer. No big deal.

A copy of the letter was sent to Beverly Bassett, then Arkansas' chief S&L regulator. She was a Clinton appointee and her own law firm had done work for McDougal. But this was Little Rock, so it was no big deal.

But that letter — and Bassett's "Dear Hillary" reply two weeks later — have come to symbolize the clubby, insular Little Rock where a few dozen power elite were entwined politically, socially and financially.

No wonder that Robert Fiske, special counsel named by Attorney General Janet Reno to probe Madison, the Clintons, McDougal, and their Whitewater Development Co. Inc., calls Little Rock "the center of gravity." Those sometimes incestuous links have become a very big deal.

The questions facing Fiske: Did they evolve into illegal or unethical conduct by either Clinton? Were Madison funds improperly diverted or used to pay political or personal debts of prominent Arkansans, including the Clintons? Was the July 1993 suicide of Vincent Foster — a former partner of Hillary Clinton who became White House deputy counsel — linked to Whitewater?

By Jeff Mitchell

MODEL HOME: In 1980, Hillary Rodham Clinton borrowed $30,000 to have this house built on Lot 13 of the Whitewater development. It reportedly was built to help make the development more appealing to potential investors.

As Fiske dissects the Whitewater saga, he'll focus on the tangled ties between the Clintons and McDougal, whose Madison S&L failed in 1989 and cost taxpayers at least $47 million. Some connections are clear:

Clinton made McDougal a first-term economic aide. McDougal and his ex-wife, Susan, were partners with the Clintons in Whitewater. McDougal raised money for Clinton's campaign. McDougal hired Hillary Clinton's firm.

Bruce Lindsey, a senior Clinton adviser who was then a partner in another big Little Rock law firm, says it's the same everywhere. "I understand how this can look to people who think we all are married to our second cousins," he says, but it's inevitable that power brokers move in the same circles.

Although Arkansas is home to plenty of big firms, like TCBY and Wal-Mart, Little Rock's tight elite is especially common in the South and dates back to 19th-century plantation's class system, historians say. "Arkansas' history is a small elite, virtually no middle class and a large number of poor people," says Arkansas political scientist Robert Savage.

"The elite in this state has looked after itself for sure — self-interest is the nature of all groups — but it's also made an honest and dedicated effort to bring up the whole state," says Willard Gatewood, a historian of the South and former chancellor of the University of Arkansas.

Bassett, now Beverly Bassett-Schaffer, says all the talk of elitist mutual back-scratching is overstated. She never met McDougal, she says, and never knew the Clintons were partners in Whitewater.

As for Hillary Clinton's representation of Madison, Bassett-Schaffer says she was not impressed to see the governor's wife's name on it. "Not one bit. ... She was just this other person at the law firm. If we didn't have an answer she liked, that was just too bad."

Although Bassett-Schaffer acknowledges Little Rock's insiders "weren't as vigilant about appearances at the time," she says, "I want to allay everybody's concerns. Government in Arkansas was not run in a shady fashion or any sort of cronyism that has been transported to Washington, D.C. That's not the way things happened at all. ... We can't help it that you keep running into the same people, but ... there was no effort to protect political friends."

But some say the cozy, casual blurring of business and social boundaries created a climate ripe for abuses that veered into impropriety.

"The government of Arkansas was too close to the power elite," says Rep. Jim Leach, the Iowa Republican whose questions about the Clintons' ties to McDougal, Madison and Whitewater propelled the old relationships into a national issue. "Madison was run as a private piggy bank for insiders as well as some of the Arkansas political establishment."

In Little Rock's new-money universe of the late 1970s and early '80s, McDougal was a self-made player in a baby-blue Bentley. His clout was realized in the exploding banking and real estate boom, but it was borne of politics: He worked for the presidential campaign of John F. Kennedy and the staffs of Sens. John McClellan and J. William Fulbright and in 1982 won a Democratic congressional primary.

Arkansas Democrat-Gazette
BASSETT-SCHAFFER: State S&L regulator

AP
LINDSEY: Elite move in the same circles

LEACH: Questioned the Clintons' ties

McDougal, cerebral and energetic, had known Clinton since Fulbright's 1968 campaign when McDougal assigned Clinton to drive Fulbright. A shared passion for politics grew into friendship.

Little Rock's late-'70s boom "was sort of like Wall Street in the '80s," says Lindsey. "McDougal was in the real-estate market at the right time, he made money," and it was only natural he sought out his friends when he decided to make Whitewater a budget vacation paradise.

"If you go out and you find a piece of property that you think has potential and you don't want to carry the entire risk, you're going to ... pitch that piece of property to people that you are friendly with," Lindsey says.

McDougal's myriad banking and real-estate deals grew and attracted investments from the state's VIPs: current Arkansas Gov. Jim Guy Tucker; Seth Ward, the father-in-law of top Justice Department official Webster Hubbell, a former law partner of Hillary Clinton; Fulbright; Dallas Cowboys owner Jerry Jones.

But regulators' reports show McDougal was a careless manager, especially when it came to Madison. During his tenure as owner, its $6 million in deposits and tiny loan portfolio ballooned to deposits of $123 million. Loans to officers, directors and related parties swelled from $500,000 to $17 million.

[illegible] kind of rapid growth is [illegible] gerous, indicating an S&L is offering high interest rates to attract deposit and making high-interest loans to risky borrowers.

"If you had to pick *the* typical failed S&L, Madison would fit the profile," says consultant Bert Ely, an S&L expert. "It had every symptom: low capital, rapid growth, non-traditional investments, excessive compensation for its officers, etc."

Ely says even its connection to politicians was common: "There was a mutual attraction between politicians and S&Ls. A lot of S&Ls were looking for political cover, politicians were looking for money. But outside of that, many S&L execs were politically active people anyway."

Eventually, McDougal's [illegible] unraveled, ending in Madison's failure and his 1989 indictment for bank fraud. He was later acquitted. During that time, his ties to the Clintons remained intact: Hillary Clinton even sought, but did not receive, power of attorney over Whitewater.

The next chapter played out after Foster's suicide. Whitewater documents were removed from his office two days later. A cryptic, torn suicide note raised more questions about his motivations than it answered.

Leach says the tale of the Clintons, their ambitious business partners and Whitewater boils down to a straightforward question of ethics.

"Leadership is all about issues and moral authority and how the two conjoin," he says. "It comes down to public trust. Ultimately, the larger issue here may end up relating to how the executive branch [illegible] with disclosure and accountability."

THE ATLANTA CONSTITUTION
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Lessons from Lillehammer

Before the 1994 Winter Olympics began in Lillehammer, sports lovers wondered whether the Games would be ruined by controversies and commercialism.

They feared the Harding-Kerrigan hype would overshadow stories about athletic achievements. Many also worried that the attention being given to TV ratings and corporate endorsements would douse the Olympic flame. And, sure enough, there was plenty of obnoxious hype this year about money-making and knee-bashing.

But there was something more. The Winter Olympics turned out to be a largely uplifting event because so many wonderful athletes gave so much of themselves — their hearts as well as their muscles.

Few Americans will forget the sight of speedskater Dan Jansen taking a victory lap with his baby in his arms. Even the coldest heart had to be warmed by the shining eyes of Bonnie Blair as she picked up her fifth gold medal for speedskating. Figure skater Nancy Kerrigan's 1,000-kilowatt smile as she completed her silver-medal performance was enough to outshine the northern lights.

And it wasn't just American athletes who brightened the Olympics. Norway's champion skater Johann Olav Koss called attention to the suffering in Sarajevo — site of the 1984 Winter Olympics — by raising money for the people there.

More than anything, though, the 1994 Winter Games were a success because of the wonderful hospitality of the Norwegians. They cheered for all the champions; they camped on frozen hillsides to watch skiers; they applauded every anthem while proudly waving their own flags.

Journalists and tourists were thoroughly impressed with the Norwegians' good humor while accommodating enormous crowds. Lillehammer, with a population of about 23,000, cheerfully hosted some 160,000 people on any given day.

The Norwegians were able to handle the Games largely because the venues were completed last year. That gave organizers plenty of time to focus on coordinating the volunteers.

The Winter Games were a success because of the hospitality of the Norwegians. They cheered for all the champions; they camped on frozen hillsides to watch skiers; they applauded every anthem while proudly waving their own flags.

Atlanta, host of the 1996 Summer Games, should not forget that lesson. The faster the structures can be completed, the more time we'll have for organizing volunteers.

The Norwegians also managed to make their weather — best described as *cold!* — into a charming feature. Hot beverages were shared, and warm smiles abounded. Though it was freezing outside, no one seemed to mind.

We Georgians know that the weather here in August is best described as *hot!* — we'll have to stir up plenty of iced tea in the summer of 1996. But visitors will not hate our weather if it's bearable by good humor.

The Norwegians also boosted their reputations as hosts by making their country as multilingual as possible. While Atlantans don't have much time to learn second languages, certainly our hotels and restaurants have an obligation to start displaying signs and menus in different languages and hiring multilingual staff.

Finally, Norwegians made a good impression on others by being so united. Their flag was waved proudly everywhere.

Sadly, we Georgians have a flag that divides, rather than unites, us. Getting rid of that divisive symbol will go a long way toward making this state a united community, ready to open its arms to each other and all people.

Give special prosecutor a chance

There may be less to the Whitewater controversy than meets the eye. But from the way the White House has been mishandling the investigation, no one could be blamed for suspecting a major scandal.

This is the latest fumble by the Gang that Couldn't Shoot Straight: Last week, Deputy Treasury Secretary Roger Altman admitted to a Senate committee that he had briefed White House aides on the Resolution Trust Corp.'s probe of Madison Guaranty Savings and Loan. Madison is the failed S&L that is central to investigations into President and Mrs. Clinton's Arkansas financial dealings.

The problem with Altman's passing information about the probe on to the White House is that he is acting head of the Resolution Trust Corp., which is supposed to be an independent federal agency. Altman announced later that he was removing himself from the RTC's investigation of the Whitewater affair. But the political damage was done.

The White House seems to have a tin ear when it comes to Whitewater. The Clintons, who say they have done nothing wrong, dithered for weeks earlier this year as calls mounted for an independent investigation. They finally caved in, allowing Attorney General Janet Reno to name Robert Fiske as special counsel.

Altman's disclosure to the committee came just as special counsel Fiske, a Republican former federal prosecutor with impeccable credentials, was getting his criminal investigation off the ground. Fiske is looking into whether funds from Madison, whose failure will cost taxpayers at least $47 million, either diverted to a failed real estate development called Whitewater or used to help pay Clinton's political campaign debts.

Altman's clearly inappropriate briefing of White House staff members gave Republican critics another opening. With Sen. Alfonse D'Amato (R-N.Y.), declaring, "Something smells rotten in Little Rock," the Republicans are renewing their calls for Watergate-style congressional hearings into Whitewater.

Given the continued bungling from the White House, congressional hearings may sound appropriate. In fact, they would just get in the way of Fiske's criminal probe.

Fiske ought to be given a chance to do his job.

AMERICANS SHRUG OFF CLINTON'S FINANCIAL DEALINGS
Release at 6:30 p.m. EST (2330 GMT)

NEW YORK, Feb 16 (Reuter) - President Clinton's controversial Arkansas real estate dealings do not interest most Americans, even though many believe he probably committed illegal or unethical acts and tried to cover them up, a poll released Wednesday said.

Only 60 percent of adult Americans have seen, read or heard anything about the president's involvement in the Whitewater Development Corp, the failed Arkansas real estate firm now under investigation in which Clinton was a partner, the Harris poll said.

And among those who have heard about Whitewater, a full 83 percent said that it had not changed how they felt about Clinton, according to the poll of 1,252 adults surveyed between February 2 and February 6.

Thirty-five percent of those who have heard about Whitewater believe the president and first lady Hillary Rodham Clinton probably did something illegal, however, and 47 percent said they probably did something unethical or morally wrong, the poll said.

Forty-six percent of those same respondents believe that the president has probably tried to cover up wrongs that were committed, it added.

The survey has a four point margin of error.

Special counsel Robert Fiske was named in January by Attorney General Janet Reno to mount an independent probe of the Clintons dealings in Whitewater, a planned community of vacation homes that failed.

Their partner in the development, James McDougal, ran Little Rock's now-defunct Madison Guaranty Savings and Loan Association, which was closed down by U.S. regulators and had to be bailed out at a cost to taxpayers of over $50 million.

Among other things, Fiske is looking into allegations that McDougal illegally arranged loans from the bank and that some funds may have wound up in Clinton's campaign war chest.

REUTER

AM-NY--Cuomo-Crime,0290
Cuomo Attacks Clinton Call For Death Penalty; Supports Three Strikes Plan

ALBANY, N.Y. (AP) President Clinton's call for the death penalty in the killing of police officers sends ''exactly the wrong message,'' New York Gov. Mario Cuomo said Wednesday.

But Cuomo, during a weekly radio interview, stood behind Clinton's proposal to send violent criminals to prison for life if they have three violent felony convictions. Cuomo said criminals convicted of three violent felonies were probably guilty of many more.

shots in the health care system,'' and asked whether seniors wanted ''the insurance companies and the HMOs that they control to call the shots for the future.''

As far as the industry is concerned, Clinton warned, access to insurance means something quite different.

''They want to give you access just like everybody in this room right now has access to a Mercedes,'' he said.

WHITEWATER PROSECUTOR SEEKS SPECIAL GRAND JURY

By Steve Barnes

LITTLE ROCK, Ark (Reuter) -- Special prosecutor Robert Fiske asked Wednesday for a special grand jury to review evidence in the Whitewater investigation he directs, saying a separate panel was needed ''to do this investigation quickly and thoroughly.''

Fiske met behind closed doors with the federal judge who would authorize the grand jury and said afterward, ''We would like the grand jury empaneled as soon as it reasonably can be, consistent with the procedures in this district.''

Fiske said Judge Stephen Reasoner, chief judge of the Eastern District of Arkansas, indicated he would review the request and decide within a few days whether to call a grand jury.

''We felt it would not be fair to ask a grand jury that was told it would meet only two times a month to sit the additional time we think it will be necessary to do this investigation quickly and thoroughly.''

Fiske would not say how long he thought the probe would take.

Fiske is investigating President Clinton's business affairs while he was governor of Arkansas to determine if depositor funds from the now-defunct Madison Guaranty Savings and Loan were illegally diverted to campaign use in 1984.

He is also checking whether the Whitewater real estate development in north Arkansas, in which the Clintons were investors, improperly benefited from a Small Business Administration-guaranteed loan to the wife of Jim McDougal, Whitewater's developer and the chairman of Madison.

The savings and loan's failure in 1989 cost taxpayers at least $46 million.

It was learned Wednesday that the foreman of the present grand jury is James Burnett, an attorney and Republican Party activist who served as chairman of the National Transportation Safety Board at the appointment of President Ronald Reagan.

''That was not a factor in our request for a new grand jury,'' Fiske said.

Fiske said he requested a special grand jury be empaneled for the 18 months federal procedures allow.

Fiske would not comment on what materials his staff may already have subpoenaed except to note that ''It's fair to say a lot of documents are involved.'' He would not say if documents have been obtained from Little Rock's Rose Law Firm, where Mrs Clinton was a partner.

In a letter to Judge Reasoner made public Tuesday, Fiske suggested that the current grand jury's caseload made questionable its ability to review evidence in the Whitewater investigation ''in a prompt and through manner.''

In a written response to Fiske's request, Judge Reasoner said Fiske's petition did not justify the expense of a second grand jury and scheduled Wednesday's hearing to allow Fiske to ''present and develop his position.''

Reasoner's order closed the hearing to the public and press, citing the potential for disclosures that ''could very well ... hinder the independent counsel's investigation.'' REUTER

Reno pushes for administration's crime bill

By MICHAEL KIRKLAND

BALTIMORE (UPI) The administration's push for President Clinton's crime bill went on the road again Wednesday, with Attorney General Janet Reno calling for its passage during a visit to a Baltimore neighborhood.

President Clinton sounded the same theme during a Tuesday visit to London, Ohio.

Reno met with community leaders in the Greenmount section of the city and said, ''We've got to get the crime bill passed.''

Added Sen. Barbara Mikulski, D-Md., ''We need to have a national outburst for Congress to get off its guidelines'' and pass the crime package.

Baltimore Mayor Kurt Schmoke, who escorted Reno to a public discussion with community leaders, said later ''it's vitally important'' to his city that the crime bill passes because Baltimore needs more police officers and drug treatment programs.

About 48,000 of Baltimore's 750,000 residents about one in every 15 people is addicted to heroin or cocaine, said Schmoke, but there are only about 5,500 spaces available for treatment.

The Senate passed its version of the crime bill late last year, but the House has not passed its proposal. Both bills still have to be reconciled before a final version could be passed and sent to Clinton.

The package would include money to help communities hire 50,000 more police officers, build more prison space and provide boot camps for young offenders.

bc-whitewater-schaffer - a2156
(ATTN: National editors)
Former Securities Regulator Drowning in Whitewater (Fayetteville)
By James Risen= (c) 1994, Los Angeles Times=

FAYETTEVILLE, Ark. At 2:30 each afternoon, Beverly Bassett Schaffer leaves her downtown law offices to pick up her 6-year-old daughter, then the two of them go home to watch children's shows on the Nickelodeon cable channel. For Schaffer, a figure in the political affair known simply as Whitewater, it's a way to briefly shut out the world.

``It's how I deal with the stress,'' she says.

It hasn't really worked. Schaffer moved to this college town in northwestern Arkansas in part to escape the pressures of her former life as a public official. But now she can't hide from the flood of press calls, the camera crews, the constant questions about her actions nine years ago as a top securities regulator in Bill Clinton's state government.

During that time, she approved a petition by Madison Guaranty Savings and Loan to sell preferred stock to raise enough money to satisfy the capital requirements of the Federal Home Loan Bank Board. The lawyer retained by Madison owner James B. McDougal to submit the plan was Hillary Rodham Clinton, a partner in the Rose law firm in Little Rock, Ark. The Clintons were partners with McDougal in the Whitewater land development company.

Madison's condition deteriorated so rapidly that it never took advantage of Schaffer's ruling, and was closed in 1989 by federal regulators. Nevertheless, Schaffer is part of the widening circle of people from Clinton's past who find themselves increasingly on the spot as the White House public relations machinery moves to insulate the first family from the controversy and shift attention to other issues.

With the Clintons deciding not to open their records on the affair to the public or provide a detailed public accounting of it, this group in Arkansas bankers who loaned Clinton money, state officials who had banking oversight, contributors to Clinton's campaigns are being pressed to fill in the vacuum with what they know of what happened.

For some, like Schaffer, the frustration of this position is growing. ``I don't have any spin doctors,'' she says.

In an effort to defend herself and her actions as commissioner of the Arkansas Securities Department, Schaffer is now preparing her own personal ``white paper on Whitewater.'' She says that she wants to lay out her side of the story and get the country off her back.

The central questions in the Whitewater affair include whether the Clintons, as half-owners of the land development venture, were aware that their partner may have been mingling funds from his savings and loan in the land business' accounts. Also raised is whether political influence helped keep that high-rolling savings and loan open longer than it would otherwise have been, increasing the cost to the federal government of its eventual federal bailout. Robert B. Fiske Jr., the special counsel appointed by Attorney General Janet Reno, will take over the federal investigation.

The Clinton acquaintances in Arkansas are increasingly complaining that their pieces of the puzzle are receiving exaggerated attention because the Clintons, at center stage, have not been forthcoming with theirs.

Schaffer insists that her place falls in the category of guilt by association or, more precisely, guilt by false assumption. ``People don't understand Arkansas,'' she said. ``This is a small state, and everybody knows everybody else.''

For Schaffer, the connections in question were with the Clintons and with Madison Guaranty.

While working as a securities lawyer at a Little Rock law firm in the summer of 1984, Schaffer says, she was assigned by one of the firm's partners to complete some paperwork for Madison Guaranty. The Arkansas Securities Commission, then run by Lee Thalheimer, had questions about Madison's far-flung and heavily leveraged real estate ventures, so Schaffer said she wrote a cover letter accompanying Madison owner McDougal's response. The Whitewater project was not included; most of the regulatory questions concerned McDougal's plan to build an island resort complex off the coast of Nova Scotia.

Schaffer insists the assignment was so routine she didn't think to mention it to Clinton [illegible] when Clinton appointed her to succeed Thalheimer a few months later.

But the assignment left behind a paper trail that would haunt Schaffer when Whitewater finally blew up. The questions only intensified when McDougal alleged in press interviews that Clinton appointed Schaffer as securities commissioner as a favor to him.

Schaffer, who held the securities post for six years, angrily denies the allegation, insisting that she had never met or talked to McDougal. ``I still wouldn't know the man if he was in the same room with me,'' she said.

She says she judged the Madison proposal strictly on its merits and wonders why the Clintons have not come forward to help stand up for her, or why Mrs. Clinton herself has not been more forthcoming about her own role.

``I don't know why she hasn't been more open,'' Schaffer says. In the end, she said, ``the people left behind in Arkansas are bearing the brunt of this.''

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**** filed by:LAWP(--) on 02/03/94 at 03:11EST ****

Congress still unsure who will get Whitewater reports
By MICHAEL KIRKLAND=

WASHINGTON (UPI) Whitewater special counsel Robert Fiske will have to report to Congress, Capitol Hill officials said Wednesday, but added they still haven't figured out who in Congress will get the reports.

One source, who spoke under conditions they not be named, said the reports could end up going to the clerks of the House and Senate, where they would be available to everyone in Congress.

The reports would be separate from any possible congressional hearings on Whitewater.

Fiske was appointed by Attorney General Janet Reno on Jan. 20 to investigate the failed Whitewater Development Corp. real estate venture, involving President Clinton, his wife, Hillary Rodham Clinton, and their friend James McDougal. Fiske also will look into McDougal's failed Arkansas thrift and its possible connections to Whitewater.

The regulations under which Fiske was appointed say he ``shall report to Congress statements or reports on the activities of the (special counsel)...'' but do not say how or how often that should be done.

One Capitol Hill official, who spoke under conditions of anonymity, said a logical destination for Fiske's reports would be the Senate Governmental Affairs Committee, where they would have gone if the independent counsel statute had not expired, or the panel's subcommittee on government management.

But he said the reports also could be made to the Senate Judiciary Committee or Senate Majority Leader George Mitchell's office.

Another official involved in the matter said since the regulations simply say ``Congress'' should get the reports, the special counsel may just give them to the clerks of each chamber.

The official added that such a move means the reports also would be available to Republicans, who may try to make political hay out of the matter.

But the official said the Senate Judiciary Committee would be the logical choice for the reports, since Fiske's office was appointed by the Justice Department.

On the issue of hearings, House Speaker Thomas Foley said after a leadership meeting Wednesday that the ``minority'' could bring up Whitewater under strict limits during hearings on the Resolution Trust Corporation and the public bailout of failed savings and loans.

But Foley said, ``I don't think there is any evidence that would justify any hearings in view of the inquiry by the special prosecutor.''

**** filed by:UPI-(us) on 02/02/94 at 14:59EST ****
**** printed by:WHPR(JEL) on 02/03/94 at 08:29EST ****

PM IL--Hillary Illinois S&L,670
Rodham Clinton Legal Dealings Questioned
hmilchtsdmwdc

CHICAGO (AP) Hillary Rodham Clinton represented federal regulators in a suit against a Clinton family friend and political ally accused of contributing to the failure of an Illinois savings and loan, the Chicago Tribune reported today.

Citing court records, the Tribune said Mrs. Clinton settled the $3.3 million suit for $200,000 in 1987 a year after her husband's ties with the defendant had been a campaign issue in his re-election as Arkansas governor.

The case involved Dan Lasater, a convicted felon whose bond trading firm played a part in the troubles of several savings and loans.

Lasater also helped Clinton's half brother, Roger Clinton, pay off drug debts and encouraged his workers to contribute to Clinton's gubernatorial campaigns.

After being elected governor, Clinton successfully lobbied the Arkansas legislature to approve a contract for Lasater to sell $30.2 million in bonds for the state police radio system. The contract earned Lasater's firm $750,000.

Clinton's personal and political connections to Lasater have been widely reported. But the Tribune report was the first that Mrs. Clinton had represented the Federal Deposit Insurance Corp. in a suit against him or anyone else.

Lasater signed deals with several thrifts, including First American Savings and Loan in the Chicago suburb of Oak Brook, to trade Treasury bond futures.

Former Illinois Gov. Dan Walker, who headed First American, later realized his savings and loan was losing money and accused Lasater of trading bonds with thrift funds without informing the thrift's officers.

First American sued Lasater's bond firm, accusing it of mail, wire and securities fraud.

First American was seized in 1986, before the case went to court, by federal regulators who charged Walker with lending himself $1.4 million in federally insured deposits. Walker was convicted of fraud and jailed.

About the same time, Lasater was convicted of cocaine distribution and trafficking and jailed. But federal regulators decided to pursue First American's $3.3 million lawsuit against Lasater.

The Federal Deposit Insurance Corp. hired the Rose Law Firm in Little Rock, Ark., where Rodham Clinton worked, to handle its cases in Arkansas.

Most of the Rose firm's savings and loan legal work was handled by Webster Hubbell, now the number three official in the Justice Department. But the firm assigned the Lasater case to Rodham Clinton and Vincent Foster, the deputy White House counsel who committed suicide last July, the Tribune reported.

Rodham Clinton and Foster negotiated the confidential settlement, the report said.

Whether Lasater got off cheaply at the expense of taxpayers depends on his assets at the time of deal and the strength of the evidence against him.

Thomas Scorza, a former assistant U.S. attorney who teaches legal ethics at the University of Chicago, said Rodham Clinton's decision to represent the government in the case raises questions about her professional conduct.

``A lawyer is required to represent the interest of their client zealously,'' he said. ``There is a substantial question about whether an attorney was representing a client zealously if the opponent of the client is someone with whom the attorney had a political, financial and personal relationship.''

Robert Fiske, former U.S. attorney in New York, has been appointed special prosecutor to investigate the Clintons' business and political dealings.

Fiske will look into the failed Madison Guarantee Savings & Loan and whether government-insured depositors' money was diverted illegally from Madison to Whitewater Development Corp., a planned project of vacation homes.

The president and first lady owned half of Whitewater. Madison's owner, James McDougal, and his then-wife, Susan, owned the other half.

Foster also represented the FDIC in a government suit against an accounting firm used by Madison. FDIC officials in Washington have said they are looking into whether the Rose law firm improperly failed to disclose potential conflicts of interest in that case.

FDIC spokesman David Barr told the Tribune that FDIC attorneys are trying to find records on First American to see whether the Rose Law Firm notified it of any potential conflict of interest.

**** filed by:APW-(IL) on 02/03/94 at 05:01EST ****
**** printed by:WHPR(JEL) on 02/03/94 at 10:27EST ****

PM-Mrs Clinton-S&L,0495
Mrs. Clinton's Role in Lawsuit Settlement Questioned

CHICAGO (AP) Hillary Rodham Clinton represented federal thrift regulators in a $3.3 million lawsuit against a Clinton friend and political ally and ultimately settled the case for $200,000, the Chicago Tribune reported today.

President Clinton's personal and political connections to Dan Lasater have been widely reported. But the Tribune report, based on court records, was the first that Mrs. Clinton had represented the Federal Deposit Insurance Corp. in a lawsuit accusing Lasater of fraud in the failure of a savings and loan.

Thomas Scorza, a former assistant U.S. attorney who teaches legal ethics at the University of Chicago, said Mrs. Clinton's position raises questions about her professional conduct.

``A lawyer is required to represent the interest of their client zealously,'' he said. ``There is a substantial question about whether an attorney was representing a client zealously if the opponent of the client is someone with whom the attorney had a political, financial and personal relationship.''

FDIC spokesman David Barr told the Tribune that FDIC attorneys are trying to find records on the case to learn whether the Rose Law Firm, the Little Rock, Ark., firm for which Mrs. Clinton worked, notified the federal agency of any potential conflict of interest.

The settlement came in 1987. Whether Lasater got off cheaply at the expense of taxpayers depends on his assets at the time and the strength of the evidence against him.

Lasater is a convicted drug dealer who ran a bond trading firm. He signed deals with several thrifts, including First American Savings and Loan in the Chicago suburb of Oak Brook, to trade Treasury bond futures.

First American eventually sued Lasater's bond firm, accusing it of fraud.

First American was seized by federal regulators in 1986, before the lawsuit went to court, and the head of the S&L, former Illinois Gov. Dan Walker, was himself convicted of fraud. About the same time, Lasater was convicted of cocaine trafficking and jailed.

Federal regulators decided to pursue First American's lawsuit. The FDIC hired the Rose Law Firm to handle its cases in Arkansas.

Most of the law firm's S&L legal work was handled by Webster Hubbell, now the No. 3 official in the Justice Department. But the firm assigned the Lasater case to Mrs. Clinton and Vincent Foster, the White House lawyer who committed suicide in July, the Tribune reported.

Mrs. Clinton and Foster negotiated the confidential settlement, the report said.

Clinton's ties to Lasater were personal and political.

In the summer of 1985, Clinton successfully lobbied the Arkansas Legislature to approve a contract for Lasater to sell $30.2 million in bonds for the state police radio system. The contract earned Lasater's firm $750,000.

In the early '80s, Lasater helped Clinton's half brother, Roger Clinton, pay off drug debts. He also encouraged his workers to contribute to Clinton's gubernatorial campaigns.

**** filed by:APW-(AR) on 02/03/94 at 06:36EST ****
**** printed by:WHPR(JEL) on 02/03/94 at 10:27EST ****

Possible Clinton role in collapsed Illinois thrift

CHICAGO (UPI) The special counsel appointed to investigate the Clintons' role in a failed Arkansas land deal also is looking into Hillary Clinton's participation in a settlement involving a collapsed Illinois thrift, it was reported Thursday.

The Chicago Tribune said special prosecutor Robert Fiske is trying to determine whether there was a conflict of interest because at the time Hillary Clinton negotiated a settlement on behalf of the savings and loan, she was an attorney for the Federal Deposit Insurance Corp.

The case involves convicted bond trader Dan Lasater and the First American Savings and Loan Association of Oak Brook, Ill., headed by former Illinois Gov. Dan Walker, who was convicted of using the institution to enrich himself.

Lasater, founder of the Ponderosa steak house restaurant chain, became friends with Clinton's mother Virginia Kelley and his brother, Roger, at the Oaklawn Park racetrack in Hot Springs, Ark., the newspaper reported.

Lasater was a heavy contributor to the president's campaign and his brokerage firm handled some of Arkansas' bond underwriting business. He also reportedly lent Roger Clinton money to pay off a drug debt.

Court records show First American lost at least $361,572 in Treasury bond futures trades promoted by Lasater. Walker sued Lasater for fraud for using First American funds in unauthorized trades.

When First American failed, the FDIC pursued Walker's $3.3 million suit. In the meantime, Lasater had been convicted of drug dealing, the newspaper said.

The suit was assigned to Hillary Clinton and Vincent Foster, the White House counsel who committed suicide last July.

The first lady and Foster negotiated a confidential settlement in 1987, providing for Lasater to pay the government $200,000 in return for dismissal of the suit, the Tribune reported. The first lady has denied any wrongdoing.

**** filed by:UPI-(us) on 02/03/94 at 10:26EST ****
**** printed by:WHPR(JEL) on 02/03/94 at 10:27EST ****

BC-CLINTON-HILLARY
SECOND CASE MAY ATTRACT CLINTON INVESTIGATION-REPORT
CHICAGO, Feb 3 (Reuter) - A second case involving business ethics in the private dealings of President Clinton and wife Hillary may draw the attention of a special prosecutor looking into the Clintons ties with the defunct Whitewater land deal, the Chicago Tribune reported Thursday.

The case involves a confidential settlement negotiated by lawyer Hillary Clinton in 1987 in a court case in which she represented the Federal government in a suit against Arkansas businessman Dan Lasater, a Clinton family friend, according to the Chicago Tribune.

Lasatar, sued by the Federal Deposit Insurance Corporation for $3.3 million to cover what it said was Lasatar's improper use of funds belonging to a failed Oak Brook, Illinois, savings and loan association, paid the government $200,000 to have the suit dismissed, the newspaper said.

``As in Whitewater, the Illinois case places the president and his wife once again in an association with an unsavory wheeler-dealer who had strong personal ties to the Clintons,'' it said.

Attorney Robert Fiske was named as a special prosecutor January 20 to look into the Clintons' business relationship with James McDougal, head of an failed Arkansas savings and loan and
a partner in the Whitewater land development.

In the Lasatar case, the FDIC had hired the Rose Law Firm of Little Rock as its representative. Rose assigned Hillary Clinton, a leading lawyer at the firm, and Vincent Foster to pursue the Lasatar suit. Foster, later a White House counsel for Clinton, committed suicide last July.

The newspaper said Hillary Clinton's office declined comment on the Lasatar case but defended her legal ethics.

``Our view is that Hillary Clinton, when a lawyer at the Rose Law Firm, acted with the utmost integrity and professionalism,'' her press secretary Lisa Caputo said.

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**** filed by:RB--(--) on 02/03/94 at 10:23EST ****
**** printed by:WHPR(JEL) on 02/03/94 at 10:28EST ****

PM-Mrs Clinton-S&L,0495
Mrs. Clinton's Role in Lawsuit Settlement Questioned

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**** filed by:APW-(AR) on 02/03/94 at 06:36EST ****
**** printed by:WHPR(JEL) on 02/03/94 at 10:29EST ****

LEVEL 1 - 8 OF 18 STORIES

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The Washington Post

February 2, 1994, Wednesday, Final Edition

SECTION: FIRST SECTION; PAGE A6

LENGTH: 406 words

HEADLINE: Hill Democrats Promise Hearings on Thrifts

SERIES: Occasional

BYLINE: Susan Schmidt, Washington Post Staff Writer

BODY:

Democratic chairmen of the House and Senate banking committees agreed yesterday to schedule savings and loan oversight hearings that Republicans vowed to use as forums for inquiries about the Whitewater Development Corp. and Madison Guaranty Savings & Loan.

Under pressure from Republicans, Sen. Donald W. Riegle Jr. (D-Mich.) and Rep. Henry B. Gonzalez (D-Tex.) said they will hold hearings in the coming month on the agency disposing of failed S&Ls, the Resolution Trust Corp. The RTC's investigation into Madison's 1989 failure led to the ongoing federal criminal probe into the Whitewater real estate development and President and Hillary Rodham Clinton's ties to the failed S&Ls. Investigators also are examining the Clintons' Whitewater real estate venture, the financial dealings of Arkansas Gov. Jim Guy Tucker (D) and other prominent Arkansans.

Riegle and Gonzalez refused, however, to hold full-fledged hearings on Madison. They have contended that the investigation should be left to newly appointed special counsel Robert B. Fiske Jr.

But with Congress just back from winter recess, it was clear yesterday that Republicans intend to use any chance to raise the Madison issue, creating uncomfortable situations for administration banking officials.

Jonathan Fiechter, acting director of the Office of Thrift Supervision, who has so far refused to release Madison documents to congressional Republicans, was questioned sharply about it during a banking subcommittee hearing yesterday. Ricki Tigert, a friend of the Clintons and the president's nominee to head the Federal Deposit Insurance Corp., promised during her confirmation hearing yesterday to be "extremely sensitive to issues of potential conflicts of interest or any appearance of conflicts of interest" in the FDIC's handling of any matters involving Madison.

Sen. Alfonse M. D'Amato (N.Y.), ranking Republican on the banking committee, reminded Riegle from the Senate floor that RTC officials had not been before the committee for an oversight hearing since last March, though they are supposed to appear every six months. He also expressed his frustration about the RTC's delay in responding to concerns raised by Republicans that civil recovery actions against anyone implicated in Madison's failure will soon be barred unless the time to file claims is extended.

The Washington Post, February 2, 1994

Staff writers Charles R. Babcock and Helen Dewar contributed to this report.

GRAPHIC: PHOTO, SEN. ALFONSE M. D'AMATO

LANGUAGE: ENGLISH

LOAD-DATE-MDC: February 2, 1994

Gonzalez flip-flops on Whitewater hearings

By Paul M. Rodriguez
THE WASHINGTON TIMES

A1

House Banking Chairman Henry B. Gonzalez promised yesterday to hold hearings soon on the Whitewater-Madison affair, then seemingly changed his mind as several powerful House Democrats called for a meeting this week to deal with the burgeoning political mess.

The White House yielded to pressure from Congress and asked for a special prosecutor, but Republican-led efforts have forged ahead to get congressional hearings on President and Hillary Rodham Clinton's involvement in Arkansas' Whitewater Development Corp. and its ties to the failed Madison Guaranty Savings and Loan Association.

Mr. Gonzalez, Texas Democrat, has been successfully fighting GOP efforts for Whitewater hearings, but after mounting criticism in the press, pledged to proceed with Banking Committee hearings.

Tests were done on gun with Foster

The Bureau of Alcohol, Tobacco and Firearms yesterday said it found gunpowder traces on the gun discovered with Deputy White House Counsel Vincent Foster's body and gave the U.S. Park Police a report saying its findings were "consistent" with suicide. Last week an ATF official said the bureau had not conducted tests on the gun.
PAGE A3

The turnabout came during an exchange on the House floor with Republicans, led by Pennsyvlania Rep. Robert S. Walker, with Mr. Gonzalez responding to a battery of questions about whether Congress would hold hearings on the matter this year.

"Yes, of course, long before that. Of course we're going to have a hearing," Mr. Gonzalez said during one point of the early afternoon colloquy.

At another point, Mr. Gonzalez promised to hold separate oversight hearings by the end of February on the Resolution Trust Corporation (RTC),the federal agency that oversees failed S&Ls.

Almost immediately after his statements, some of Mr. Gonzalez staffers said he did not mean to imply he would approve of hearings to probe the Whitewater-Madison affair.

"He only meant to say that he would, as required by law, conduct oversight hearings into the operations of the RTC," said an aide who asked not to be named. "If Republicans want to ask questions about matters that fall within the RTC's authority, such as Madison, then that would be allowed," the aide added.

Democratic leaders, obviously concerned over Mr. Gonzalez' state-

see HEARINGS, *page A14*

HEARINGS

From page A1

ments, moved quickly to a strategy session.

"This is a . . . circus," said a visibly irritated senior Democratic lawmaker when told that Gonzalez staffers had reversed course on Mr. Gonzalez's apparent pledge to hold Banking Committee hearings.

Under Republican pressure, and GOP promises of daily news conferences on a Whitewater-Madison "cover-up," some senior House Democrats called for a special meeting of their leadership to discuss the Whitewater-Madison affair.

"As long as we stand united, there's not going to be any hearings, period," said a second source.

"The House [Democratic] leadership will not allow this to become a televised soap opera to embarrass this president," the source said.

"It could do serious harm to the committee process if suddenly every ranking member started to use this rule," said one Democrat who heads a House subcommittee. He said that while it would be difficult to block all such GOP special hearing calls, most could be stopped.

"We must not appear to waiver on this," said another source familiar with the behind-the-scenes debate among senior Democrats. "Nobody can control Henry from doing what he thinks is right, but at least we can all give him support to stay the current course."

Rep. Jim Leach, Iowa Republican — who has asked Mr. Gonzalez for hearings and is conducting a GOP probe of his own — said the Republicans' desire to have Congress investigate Whitewater "will be tested" in the RTC hearings.

Mr. Leach told reporters that if Democrats continue to stall on holding separate hearings on the matter, he plans to invoke a little used rule in the House that permits the minority party to call witnesses on its own.

"That is something that we will consider," said Mr. Leach, ranking Republican on the Banking Committee.

"House leadership will not allow this to become a televised soap opera."

The meeting among senior Democrats, which could occur today, is to review the rules of the House pertaining to possible Whitewater-related witnesses called by Republicans in any upcoming Banking Committee hearings.

"The speaker has said he wants no hearings, period, and that's what we're going to try to make sure happens, nothing," said one senior Democrat."I'm just following orders."

Sen. Donald W. Riegle Jr., Michigan Democrat and chairman of the Senate Banking Committee, also said yesterday that he would hold oversight hearings on the RTC.

"When that next RTC Oversight Board hearing takes place, any member of the committee may, of course, ask any question of concern involving the RTC," Mr. Riegle said in a statement.

In a letter yesterday, Roger C. Altman, the interim chief of the RTC, assured Sen. Alfonse M. D'Amato, the New York Republican demanding hearings in the Senate, that the cleanup agency would "vigorously pursue all appropriate" civil remedies against Madison, owned by James B. McDougal, a longtime friend of the Clintons' and their partner in Whitewater.

Mr. Altman said the RTC could seek agreements to extend the statute of limitations beyond the Feb. 28 expiration, a move that Mr. D'Amato had requested.

On the Senate floor, Mr. D'Amato held up a poster-size enlargement of the month of February and marked through yesterday's date. "I will continue to bring this calendar to the floor every day so that everyone will be aware that precious time is slipping away," he said.

Democratic officials said yesterday that the biggest challenge to staving off a full-fledged congressional probe of Whitewater-Madison was in the Senate.

"If anybody breaks down, it's going to be Riegle," a Democratic lawmaker said in reference to other senators who broke Democratic ranks and sided with Republicans in calling for the appointment of a special counsel.

"They're the ones who we've got to watch out for," the lawmaker said.

WASHINGTON

A QUICK LOOK AT WHAT'S GOING ON IN THE NATION'S CAPITAL

House banking panel to probe Whitewater

House Banking Committee Chairman Henry Gonzalez, D-Texas, said on the House floor Tuesday that he would hold hearings this year on the Whitewater scandal. "Of course we're going to have a hearing," he said when pressed by Republicans. He had rejected GOP demands for hearings on the failure of an Arkansas thrift linked to President Clinton's investment in the Whitewater land deal, citing the special counsel's separate investigation. "I applaud his willingness to address this controversial issue," said Rep. Jim Leach, R-Iowa. But Gonzalez's staff said he had been agreeing only to hearings on the Resolution Trust Corp. Congress must report twice a year on the RTC, which oversees disposal of failed savings and loans. RTC hearings will give Republicans a chance to raise questions about Whitewater, but key witnesses in the case probably will not testify.

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USA TODAY
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Bosnia peace hopes dim; U.N. chief backs air strikes

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U.N. Secretary-General Boutros Boutros-Ghali on Tuesday backed the use of air strikes in the former Yugoslav republic to open airports and aid airlifts and to protect U.N. peacekeepers. But he also told all parties in the Balkans that negotiations were the only way to end the disastrous war that flared after Bosnia's Muslim government declared independence from Serb-dominated Belgrade.

Bosnian President Alija Izetbegovic said he would not accept an unfair peace to end the war, adding to fears that talks will fail and fighting will intensify.

Raising the stakes further, up to 5,000 Croatian soldiers were reported by aides to Boutros-Ghali to have entered Bosnia to reinforce their kin fighting a revitalized Muslim army. Croatia denied this.

By Diego Giudice, AP
CALDERA: Begins five-year term today

VENEZUELA LEADER: Venezuelan President-elect Rafael Caldera unveiled a politically independent Cabinet of economists, businessmen and diplomats to help him lead the oil-exporting nation out of financial and social crisis. Caldera, 78, takes office today for a five-year term. He inherits an economy in recession, inflation at its highest level in years — 45% annually — a worrisome budget deficit and high interest rates that throttle new investment.

NORTH KOREA CRUSADE: Evangelist Billy Graham arrived in Hong Kong after a four-day visit to officially atheist North Korea, where he preached at a new church and delivered a personal message from President Clinton to President Kim Il Sung. The United States and North Korea are at odds over Pyongyang's refusal to allow international nuclear agency inspectors full access to suspected weapons sites. Meanwhile, Republican senators urged Clinton to resume joint military exercises with South Korea and deploy defensive Patriot missiles in the south.

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THE NATION

Korean War finally ends for N.Y. woman

By Steve Komarow
and Juan J. Walte
USA TODAY

Frank Morales' widow remembers the day in 1950 when her 37-year-old husband, a World War II veteran, was sent off to fight his second war for the United States.

"He was the oldest man in the battalion," M. Morales recalled in a telephone interview. "And we thought ... it didn't seem quite right that he was taken to the front and then directly into battle" in Korea.

Before the year was out, he was missing in action, thought to be one of more than 600 U.S. soldiers killed when the 8th Cavalry was surprised, surrounded and routed in China's devastating rush to North Korea's defense.

Now, more than 43 years later, his widow has been given another shock.

Morales' remains have been identified by Army technicians in Hawaii — the first of the more than 8,100 "unaccounted for" to be identified since the war ended in 1953.

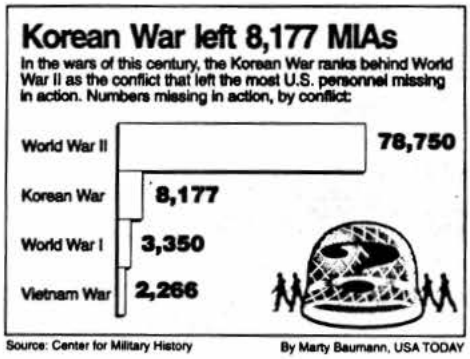
"You can imagine how I felt," when the Army called last week, said M. Morales of New York, who wanted her full name withheld for fear of unwanted attention. "Or how I feel now. ... Oh, my God!"

M. Morales, is the first, but not last, widow to face such shock. The Army expects to identify several more remains soon — but only a fraction of the missing.

Col. Michael Spinello, director of the Army's Casualty and Memorial Operations Center, said 194 coffins have been returned by the Korean People's Army since 1990.

Enough of Morales' remains and personal effects, including dog tags, were together to make identification possible so soon after their Nov. 30 return.

Other coffins revealed only puzzles. Some "contained the remains of more than one individual," Spinello said.



Officials can't say how many remains were returned. Identifications "will not come in large numbers for the foreseeable future," he said.

The passage of time has made identification difficult, and not only because of the inevitable deterioration. A 1973 fire in a St. Louis repository destroyed critical dental records.

New genetic techniques may be useful but "not all remains yield DNA," Spinello said.

Still, Tuesday's news offered hope to some families.

With the end of the Cold War, new information has been made available about Korean MIAs, almost forgotten in the wake of Vietnam. There are reports from Russia some Korean MIAs may have been taken there for interrogation.

A study ordered by the Pentagon said last month as many as 50 captive U.S. servicemen may have been taken from Korea to the Soviet Union and never returned. It's possible others in North Korean POW camps were never re

"We know that there are some that are still alive," said Dolores Alfond, head of the National Alliance of Families For the Return of all America's Missing Servicemen.

The United States should squeeze the North Koreans for information, and any captives, before time runs out, she

Sgt. Morales' time ran out long ago, if not his journey.

M. Morales says her late husband, who would be 80, will be buried this spring — "probably in May" — in his place of birth, the small Puerto Rican town of Naguabo, about 25 miles southeast of San Juan.

'Take the gun out of Irish politics'

Adams urged o make good on peace talk

By Keith Greenberg
and Tom Squitieri
USA TODAY

NEW YORK — Call Gerry Adams a terrorist and the head of the Irish Republican Army's political wing offers his definitions of the word: George Washington. Nelson Mandela.

"George Washington was depicted by the British as a terrorist and I think that is a common ailment that afflicts anyone who opposes colonialism," Adams told USA TODAY.

Black nationalist leader Mandela spent years in prison, was later freed and won the Nobel Peace Prize for his efforts to reconcile South Africa's blacks and whites.

Adams, who has used a 48-hour visit to the USA to try to convince people he also seeks peace, was jailed by the British several times during the 1970s.

"It's easy to make peace with your friends, but the situation here is needing to make e with our enemies. I am quite prepared to go the extra mile with (British Prime Minister) John Major to bring that about," Adams said Tuesday.

By Richard Drew, AP

'PREPARED TO GO EXTRA MILE': Gerry Adams, head of the Irish Republican Army's political wing, talks to reporters in New York. Adams was granted a visa to attend a peace conference.

"We are committed to taking the gun out of Irish politics, but we need the cooperation of the British government."

While Adams has offered no specific ideas to advance the peace process, his message is: We're not as bad as you think; the British government is worse than you've heard.

The paramilitary IRA is fighting British rule in Northern Ireland, seeking unification with the Republic of Ireland. The 24-year struggle has left more than 3,000 dead.

Adams was granted a limited visa to attend a peace conference Tuesday in New York. He must leave the USA today.

"We want him to continue on this path, to go back and say there is a broader base of support (for peace) if they seek redress through this peaceful route," said Sen. Christopher Dodd, D-Conn., who supported the Adams visit.

Adams wanted Washington to take a stronger role in the conflict. That hope was dashed Tuesday by President Clinton.

"The people that have to resolve this are the Irish and the British," Clinton said.

Clinton also said his 1992 campaign vow to name a U.S. envoy for Northern Ireland was overtaken by the Dec. 15 Anglo-Irish peace initiative.

Adams, president of Sinn Fein, the IRA's legal political arm, was invited to join in that pact. He declined, saying he needed "clarifications."

Instead, Adams urged London to resume the secret talks it had conducted with the IRA over the past three years.

"I have no problem with tomorrow sitting down with the man who pressed the trigger and tried to kill me to make peace," Adams said. He was wounded in the neck and shoulder in a 1983 attack.

John Alderdice, head of a moderate Northern Ireland party, questioned Adam's sincerity and demanded he tell the IRA to lay down its arms.

While Adams maintains he has no influence with the IRA, British officials regard him as a de facto IRA leader.

"Sinn Fein acts as an apologist for the IRA," Alderdice said. "If Mr. Adams had the opportunity to perhaps announce a cease-fire, then it would have been a progressive development."

Major also challenged Adams to make good on talk: "All the words, all the prevarications, all the evasions of Sinn Fein will be utterly and completely hollow until they end violence."

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G.O.P. Attacks on Clinton Land Deal

By MICHAEL WINES
Special to The New York Times

WASHINGTON, Feb. 1 — The Republicans today renewed their calls for hearings into the links between President Clinton and a failed Arkansas savings and loan, and they won the Democrats' assent to take at least a brief look into the matter.

How deep, for how long and when were matters that the Democrats studiously left unclear. For now, it appears that Republicans will at most be allowed to question officials at the Federal agency that in 1989 bailed out the bankrupt Arkansas institution, the Madison Guaranty Savings and Loan Association.

Still, it was the first time Democrats had shown any willingness to explore the affair in which Mr. Clinton and his wife joined Madison's owner in an investment in a Arkansas resort project — the Whitewater Development Company — which, like Madison itself, went belly-up.

Among many other things, Republicans want to know what happened to the money that Madison loaned to the project, and whether Mr. Clinton's close ties to Madison's owner led regulators to delay closing the savings and loan. That would have increased the taxpayers' cost of paying off the institution's depositors, an amount that totals at least $47 million.

The minority in Congress looks for a scandal.

What the Republicans won today, after a day of polite requests and angry accusations, was a Democratic promise that the House and Senate Banking Committees will soon hold hearings on the management of the Resolution Trust Corporation, the agency that administers the nationwide savings-and-loan bailout, closing down the failed institutions and liquidating their assets.

The law requires that such hearings be held twice a year, but none has been held for nearly a year, and until today it was not certain that any would be held in 1994.

But in meetings of the House and Senate banking panels this morning, Republicans made it apparent that they would continue to press for a public airing of the questions involving Madison Guaranty wherever possible, and Democrats quickly indicated that hearings on the trust corporation was the best way to do it.

The head of the Senate panel, Donald W. Riegle Jr., Democrat of Michigan, pledged to hold oversight hearings on the whole scope of the bailout agency after another committee member, Senator Alfonse M. D'Amato, Republican of New York, suggested that the agency was dodging its duty to keep the Senate informed about its activities and the Madison affair.

Mr. Riegle later issued a written statement omitting any mention of Madison but noting that "any member of the committee may, of course, ask any question of concern" involving the agency's activities.

It was uglier in the House banking panel. In hearings of its general oversight subcommittee today, Representative Toby Roth, Republican of Wisconsin, was ruled out of order when he tried to ask the Comptroller of the Currency, Eugene Ludwig, about Madison and Whitewater.

"Stop stonewalling," Mr. Roth snapped. And hours later, on the House floor, the chairman of the House Banking Committee, Henry B. Gonzalez of Texas, agreed to hold hearings on the bailout "as soon as it is reasonable to get everybody together."

Mr. Gonzalez refused to say when that might be, but he indicated that it could be before the end of the month.

Hopes That Faded

Republicans had hoped for separate hearings into Whitewater, but those hopes faded when a special prosecutor was named to look into the affair earlier this month. Many legislators worried that a formal inquiry with immunized witnesses could impede a criminal investigation, just as 1987 hearings on the Iran-contra affair hamstrung subsequent trials in that scandal.

Since then, the Republicans have focused on forcing the two banking committees to look into Madison, either in special hearings or through their oversight of the bailout.

Both the Senate and House hearings that were agreed to today are essentially meetings with the Resolution Trust Corporation's own oversight board, which is headed by Treasury Secretary Lloyd Bentsen and includes other top Federal officials like Alan M. Greenspan, the chairman of the Federal Reserve Board.

The rules in the House allow Republicans on the banking committee to call their own witnesses as well, but it was not clear today who might be summoned.

Republican Strategy

The Republicans are hoping that their call for hearings by the end of the month will force the trust corporation to begin civil claims against Madison — and thus recover any further money — before the deadline for doing so, Feb. 28, the fifth anniversary of the institution's takeover.

The acting head of the bailout agency, Roger C. Altman, told Senator D'Amato in a letter that he was mindful of the approaching anniversary. He stated that his agency would "vigorously pursue all appropriate remedies" to recover more money from Madison, including seeking an extension of the civil statute of limitations, if grounds to do so existed.

Mr. D'Amato in turn promised to keep reminding Mr. Altman of his pledge. On the Senate floor today, he displayed for cable-television cameras a huge February calendar with the 28th circled, and the words "Whitewater Countdown" across the top.

"The clock is ticking," Mr. D'Amato said as he scratched a line through Feb. 1.

Judge Says Riot Victim Can Sue Los Angeles

LOS ANGELES, Feb. 1 (AP) — A Federal district judge cleared the way for a trial in a lawsuit against the city by Reginald O. Denny, the truck driver who was severely beaten in rioting that broke out after four white police officers were acquitted in the beating of Rodney G. King.

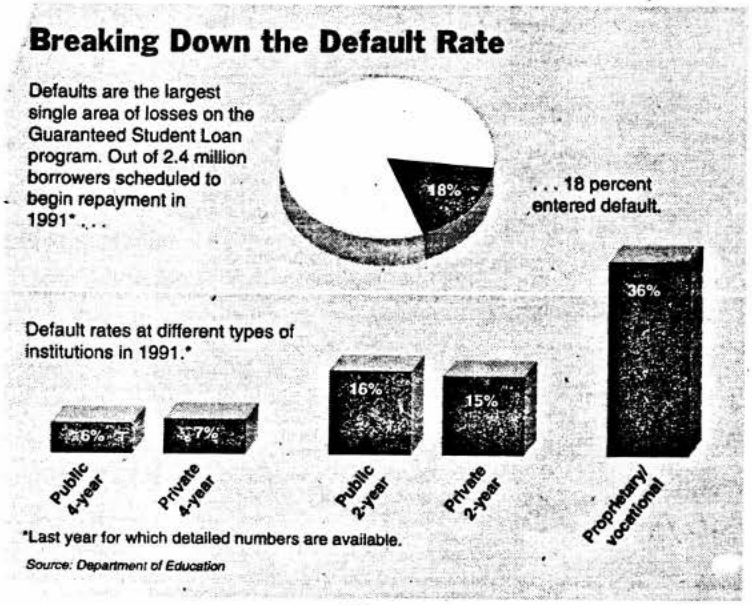
The judge, William Matthew Byrne Jr., ruled on Monday that Mr. Denny and three other riot victims could sue on the ground that they were deprived of their constitutional right to equal protection under the law.

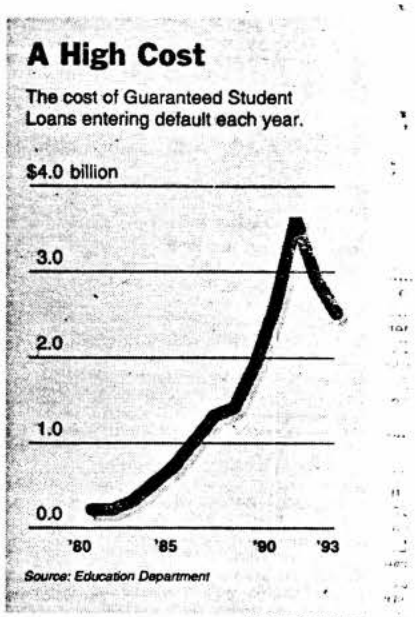
They contend that the police pulled out of the South-Central area, where the riots began in April 1992, because the area is composed of mostly black and Hispanic residents.

Mr. Denny and the others, Takao Hirata, Fidel Lopez and Wanda Harris, said they had been left defenseless. To collect damages, they would have to prove their contention at a trial.

Don't miss Sunday's Times Magazine.

Billions in Fraud, Waste and Abuse





The New York Times

Signs of Financial Trouble at Colleges

Under the Higher Education Act of 1992, the Federal Government has developed a review process to help prevent fraud and abuse of Federal aid money. The review, which would be conducted by the states, would be triggered if a college has one or more of these characteristics.

- A default rate of 25 percent or more on Federally-guaranteed student loans.
- A default rate of 20 percent or more, when more than two-thirds of the students receive Federal student aid, or when two-thirds or more of the college budget comes from Federal student aid.
- Federal student aid was suspended or cut off in the last five years.
- The college, after an audit, must repay more than 5 percent of its student aid funds.
- The college fails to submit audits to the Education Department in a timely way.
- Claims for Federal student aid fluctuate significantly year to year.
- The college fails to meet standards of financial responsibility.
- A change in ownership of the college results in a change of control.
- A private institution has been in the Federal student aid program for less than five years.
- There is a pattern of student complaints relating to management of Federal student aid programs or to misleading or misappropriate advertising.

3/3

WASHINGTON

A QUICK LOOK AT WHAT'S GOING ON IN THE NATION'S CAPITAL

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BC-CLINTON-WHITEWATER-NOMINEE

CLINTON FDIC PICK PLEDGES SENSITIVITY ON WHITEWATER

By Roger Fillion

WASHINGTON, Feb 1 (Reuter) - A friend of President Clinton and Hillary Rodham Clinton vowed Tuesday that if she is confirmed as a top bank regulator, she would be sensitive to conflicts of interest involving the Clintons' role in the Whitewater real estate deal.

But under questioning from Senate Republicans, Washington lawyer Ricki Tigert declined to promise that as chairman of the Federal Deposit Insurance Corp she would disqualify herself from FDIC dealings in the Whitewater matter.

The agency is reviewing whether the First Lady's former law firm misled the government about its work for a now-failed Arkansas savings institution with ties to the Whitewater land deal.

``I will be extremely sensitive to issues of potential conflicts of interest or any appearance of conflicts of interest,'' Tigert told the Senate Banking Committee during a hearing on her confirmation as head of the FDIC.

Tigert, who is expected to be approved by the full Senate, vowed to consult with ethics officials on any matter involving a possible conflict.

And she pledged to ``take the necessary steps to ensure the credibility of the regulatory and enforcement process.''

Tigert, who is 48 and a partner in the Washington law firm of Gibson, Dunn & Crutcher, was nominated to the FDIC post by the president in November.

If confirmed, she would become the first woman to head the 60-year-old agency, which insures deposits up to $100,000 per account in banks and savings institutions.

The FDIC has been without a permanent chairman since the death of William Taylor in August 1992.

As a personal friend of the president and Mrs Clinton, Tigert has participated in the Renaissance Weekends the Clintons have attended in Hilton Head, South Carolina. The New Years' gathering brings together various professionals who work both in and out of government.

During the hearing, Republicans pressed Tigert on that friendship and whether it would make it difficult for her to oversee any FDIC involvement in Whitewater.

Senator Lauch Faircloth, a North Carolina Republican, called it an ``almost impossible situation.''

And New York Republican Alfonse D'Amato asked Tigert point blank whether she would disqualify herself, adding: ``I couldn't see how you could get around this.''

The FDIC is checking its records to see if the Rose law firm of Little Rock, Arkansas, told regulators it represented Madison Guaranty Savings and Loan Association before it was hired by the government for another Madison case.

The firm has insisted it did.

The review is expected to be completed in the next 10 days to two weeks, said acting FDIC Chairman Andrew Hove.

On other matters, Tigert:

-- supported the Clinton administration's plan to merge the regulatory duties of the four existing bank agencies into a single Federal Banking Commission.

-- backed annual regulatory exams for banks.

-- supported efforts to combat lending discrimination, but wants to study further the idea of the FDIC using ``testers'' to check for possible lending bias at banks. The Comptroller of the Currency is implementing such a plan.

REUTER

MORE

**** filed by:RB--(--) on 02/01/94 at 17:36EST ****
**** printed by:WHPR(JEL) on 02/02/94 at 08:27EST ****

Cartoonists & Writers Syndicate — Cummings, Winnipeg Free Press, Winnipeg, Canada

A Whitewater Chronology

Wellesley College Photo
The Clintons in 1979

Summer, 1978 — Bill Clinton, the Arkansas state attorney general, and his wife, Hillary, a Little Rock attorney, become 50-50 partners with James and Susan McDougal to buy 230 acres along the White River in northern Arkansas, planning to profit by selling lots as vacation home sites.

1979 — In January, Clinton sworn in as Arkansas governor for two-year term. The four partners form the Whitewater Development Corp. Due to high interest rates, land sales are poor.

1982 — McDougal buys Madison Guaranty Savings and Loan. Clinton loses re-election for governor.

1984 — Federal regulators say Madison Guaranty is in trouble because of McDougal's unsound lending practices. Hillary Clinton's Little Rock law firm is hired to represent Madison. Clinton wins back governorship.

1985 — McDougal hosts a political fund raiser to pay off Clinton campaign debt. Federal investigators are now trying to determine whether some of the $35,000 raised came illegally from Madison Guaranty, disguised as private contributions.

AP Photo (Democrat-Gazette)
Madison Guaranty Savings and Loan in Little Rock.

Hillary Clinton later represents Madison Guaranty before a Clinton-appointed state regulator, seeking permission for an unusual stock offering to provide much-needed cash for the shaky savings and loan. Permission granted, but the stock offering is never made.

1986 — David Hale, the head of an agency funded by the federal Small Business Administration to help minority businesses, lends $300,000 of SBA money to Susan McDougal. Some of that money is used to buy land that ended up in Whitewater Development Corp.

1989 — Madison Guaranty is declared insolvent and taken over by the federal government.

Reuter Photo
McDougal

1992 — President-elect Clinton and his wife sell their share of Whitewater to McDougal, claiming they lost $68,900 on the venture.

1993 — In July, Deputy White House counsel Vincent Foster shoots himself in an apparent suicide. The Clintons' records on Whitewater are removed from Foster's office and sent to his personal lawyer. These records are later surrendered to the Justice Department.

1994 — On Jan. 12 and under public pressure, Clinton asks Attorney General Janet Reno to name a special counsel to investigate the Whitewater matter. On Jan. 20, she names New York attorney Robert B. Fiske, a Republican with a reputation for integrity.

— George DeWan

He'll Question the Clintons

Whatever is found in the Whitewater investigation by the newly appointed special counsel, Robert B. Fiske, the public is likely to believe it.

Fiske, a 63-year-old, Brooklyn-born Republican, has a rock-solid reputation for integrity on both sides of the political fence. A Yale graduate with a law degree from the University of Michigan, he had two stints as a public prosecutor with the U.S. Attorney's office in New York, where he had a 95 percent conviction rate in more than 4,000 indictments and criminal charges, including the case of drug dealer Nicky Barnes. But Fiske has logged more time as a high-profile defense attorney in the prestigious Wall Street law firm of Davis, Polk and Wardwell. A resident of Darien, Conn., he has three grown children, is an avid fisherman and sails on Long Island Sound.

WRITE US: What's your impression so far on the Whitewater affair?

PAGE RESEARCH: LYNDA RUT

PHOTOCOPY PRESERVATION

NY

Investigating The Clintons

By George DeWan
STAFF WRITER

What is Whitewater? And why is it causing President Bill Clinton such anguish?

Once, in the summer of 1978, Whitewater was just a simple Arkansas real estate investment for Clinton — then state attorney general — and his wife, Hillary. But now, with the recent appointment of a special counsel by the justice department to investigate possible wrongdoing surrounding that investment, Whitewater is not so simple anymore.

Clinton has not been charged with anything, and he denies that he or Hillary did anything wrong. Questions about Whitewater were raised during the 1992 presidential campaign. But the issue was dropped after the Clintons produced evidence that they lost $68,900 in the investment.

New interest in Whitewater developed out of the apparent suicide last July of White House deputy counsel Vincent Foster, who also handled the Clintons' personal legal affairs. It was not learned until December that the Clintons' records on Whitewater — now in the hands of the Justice Department — were removed from Foster's office before investigators probing his death had a chance to examine them.

Reuter Photo
Fiske

If Clinton did nothing wrong, the public is now asking, why did he give the impression of trying to hide something?

Whitewater is about the complicated intertwining of politics and business in the small-town, everybody-knows-everybody atmosphere of Little Rock, the Arkansas state capital. Both 1973 Yale Law School graduates, Hillary in 1978 was a partner at the Rose Law Firm in Little Rock, while Bill Clinton was running for governor. **(See chronology at right.)**

The Whitewater affair arose out of the Clintons' involvement with James B. McDougal, an old friend. McDougal was a politically connected wheeler-dealer who parlayed a small real-estate business into a high-flying 1980s banking operation that later went bust. McDougal bought Madison Guaranty Savings and Loan in 1982 and it failed in 1989. It was like many other savings and loans that failed in the '80s after engaging in what the government calls "unsafe and unsound lending practices," throwing huge amounts of money into risky land and commercial developments that failed. McDougal was indicted on bank fraud charges (unrelated to Whitewater or Clinton), but was acquitted in 1990.

The continuing question is how much the Clintons were tarred by the association with McDougal. There are many unanswered questions that presumably the special counsel will be able to sort out:

- When Clinton was Arkansas governor, did his regulatory agencies give special treatment to McDougal's failing savings and loan association?
- Did McDougal illegally divert depositor funds into Clinton's gubernatorial campaign?
- Should Hillary Clinton have represented McDougal's bank before a state securities regulator appointed by her husband?
- Did Bill Clinton intervene to secure a Small Business Administration loan to McDougal's wife, Susan?
- Was there any link between Whitewater and Vincent Foster's death?

The special counsel, Robert B. Fiske, will investigate whether any federal criminal law was violated in the Clintons' relationships with any of these organizations. The investigation will take at least a year. "It's important for the country to get this done and get it done as quickly and as thoroughly and as fairly as possible," Fiske said. As for Bill Clinton? "I want to get on with the business of my presidency," he said when he agreed to ask Attorney General Janet Reno to appoint a special counsel.

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NEW YORK NEWSDAY, TUESDAY, FEBRUARY 1, 1994

PHOTOCOPY
PRESERVATION

Gonzalez flip-flops on Whitewater hearings

By Paul M. Rodriguez
THE WASHINGTON TIMES

A1

House Banking Chairman Henry B. Gonzalez promised yesterday to hold hearings soon on the Whitewater-Madison affair, then seemingly changed his mind as several powerful House Democrats called for a meeting this week to deal with the burgeoning political mess.

The White House yielded to pressure from Congress and asked for a special prosecutor, but Republican-led efforts have forged ahead to get congressional hearings on President and Hillary Rodham Clinton's involvement in Arkansas' Whitewater Development Corp. and its ties to the failed Madison Guaranty Savings and Loan Association.

Mr. Gonzalez, Texas Democrat, has been successfully fighting GOP efforts for Whitewater hearings, but after mounting criticism in the press, pledged to proceed with Banking Committee hearings.

Tests were done on gun with Foster

The Bureau of Alcohol, Tobacco and Firearms yesterday said it found gunpowder traces on the gun discovered with Deputy White House Counsel Vincent Foster's body and gave the U.S. Park Police a report saying its findings were "consistent" with suicide. Last week an ATF official said the bureau had not conducted tests on the gun.
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The turnabout came during an exchange on the House floor with Republicans, led by Pennsyvlania Rep. Robert S. Walker, with Mr. Gonzalez responding to a battery of questions about whether Congress would hold hearings on the matter this year.

"Yes, of course, long before that. Of course we're going to have a hearing," Mr. Gonzalez said during one point of the early afternoon colloquy.

At another point, Mr. Gonzalez promised to hold separate oversight hearings by the end of February on the Resolution Trust Corporation (RTC),the federal agency that oversees failed S&Ls.

Almost immediately after his statements, some of Mr. Gonzalez staffers said he did not mean to imply he would approve of hearings to probe the Whitewater-Madison affair.

"He only meant to say that he would, as required by law, conduct oversight hearings into the operations of the RTC," said an aide who asked not to be named. "If Republicans want to ask questions about matters that fall within the RTC's authority, such as Madison, then that would be allowed," the aide added.

Democratic leaders, obviously concerned over Mr. Gonzalez' state-

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HEARINGS

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ments, moved quickly to a strategy session.

"This is a . . . circus," said a visibly irritated senior Democratic lawmaker when told that Gonzalez staffers had reversed course on Mr. Gonzalez's apparent pledge to hold Banking Committee hearings.

Under Republican pressure, and GOP promises of daily news conferences on a Whitewater-Madison "cover-up," some senior House Democrats called for a special meeting of their leadership to discuss the Whitewater-Madison affair.

"As long as we stand united, there's not going to be any hearings, period," said a second source.

"The House [Democratic] leadership will not allow this to become a televised soap opera to embarrass this president," the source said.

"It could do serious harm to the committee process if suddenly every ranking member started to use this rule," said one Democrat who heads a House subcommittee. He said that while it would be difficult to block all such GOP special hearing calls, most could be stopped.

"We must not appear to waiver on this," said another source familiar with the behind-the-scenes debate among senior Democrats. "Nobody can control Henry from doing what he thinks is right, but at least we can all give him support to stay the current course."

Rep. Jim Leach, Iowa Republican — who has asked Mr. Gonzalez for hearings and is conducting a GOP probe of his own — said the Republicans' desire to have Congress investigate Whitewater "will be tested" in the RTC hearings.

Mr. Leach told reporters that if Democrats continue to stall on holding separate hearings on the matter, he plans to invoke a little used rule in the House that permits the minority party to call witnesses on its own.

"That is something that we will consider," said Mr. Leach, ranking

"House leadership will not allow this to become a televised soap opera."

Republican on the Banking Committee.

The meeting among senior Democrats, which could occur today, is to review the rules of the House pertaining to possible Whitewater-related witnesses called by Republicans in any upcoming Banking Committee hearings.

"The speaker has said he wants no hearings, period, and that's what we're going to try to make sure happens, nothing," said one senior Democrat."I'm just following orders."

Sen. Donald W. Riegle Jr., Michigan Democrat and chairman of the Senate Banking Committee, also said yesterday that he would hold oversight hearings on the RTC.

"When that next RTC Oversight Board hearing takes place, any member of the committee may, of course, ask any question of concern involving the RTC," Mr. Riegle said in a statement.

In a letter yesterday, Roger C. Altman, the interim chief of the RTC, assured Sen. Alfonse M. D'Amato, the New York Republican demanding hearings in the Senate, that the cleanup agency would "vigorously pursue all appropriate" civil remedies against Madison, owned by James B. McDougal, a longtime friend of the Clintons' and their partner in Whitewater.

Mr. Altman said the RTC could seek agreements to extend the statute of limitations beyond the Feb. 28 expiration, a move that Mr. D'Amato had requested.

On the Senate floor, Mr. D'Amato held up a poster-size enlargement of the month of February and marked through yesterday's date. "I will continue to bring this calendar to the floor every day so that everyone will be aware that precious time is slipping away," he said.

Democratic officials said yesterday that the biggest challenge to staving off a full-fledged congressional probe of Whitewater-Madison was in the Senate.

"If anybody breaks down, it's going to be Riegle," a Democratic lawmaker said in reference to other senators who broke Democratic ranks and sided with Republicans in calling for the appointment of a special counsel.

"They're the ones who we've got to watch out for," the lawmaker said.

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Justice rankles Bush-era State officials, won't charge Clinton-era file searchers

By Michael Hedges
THE WASHINGTON TIMES

A1

The Clinton Justice Department will not prosecute State Department appointees on charges that they searched the private files of former Bush administration officials, rejecting the State Department inspector general's report.

Sherman M. Funk, the inspector general who filed the report in November detailing offenses that could have led to criminal prosecutions, planned to release his findings "in the next day or so," a spokeswoman said yesterday.

The report has been held confidential pending a Justice Department decision on whether to accept its recommendations or decline to prosecute.

Mr. Funk was said to have been surprised by the Justice Department's refusal to prosecute in the case. "We are going to be raising hell," predicted a staff member in the inspector general's office.

Also upset were former Bush appointees who believe that their privacy was violated. A group of former State Department officials said yesterday that the decision was an attempted "stonewall" by the Justice Department and that they were considering filing a civil lawsuit in the matter.

Neither Justice nor State yesterday would release the letter declining to prosecute, but officials from both departments confirmed the decision not to proceed with a criminal case.

Mr. Funk had found evidence of illegal searches and leaks of information from the files after several weeks of investigation last fall.

The day his findings were forwarded to the Justice Department

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FILES

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in a confidential report, two State Department appointees were fired by Secretary of State Warren Christopher.

Joseph Tarver, former director of the White House liaison office at the State Department, and Mark Schulhof, an assistant to Tom Donilon, assistant secretary of state for public affairs, were ordered dismissed by an "angry and disappointed" Mr. Christopher, who had "lost confidence in them," according to a spokesman.

Both men had worked on the Clinton-Gore campaign. Mr. Tarver, a GS-15, had worked for Bob Farmer, who was the Clinton campaign's chief fund-raiser. Mr. Schulhof, a GS-11, was a close adviser to Mr. Donilon, who is considered one of the top advisers to Mr. Christopher, officials said.

The dismissals came after Mr. Christopher received an oral briefing by Mr. Funk describing his findings and conclusion that officials probably had broken the law, according to sources.

Yesterday, former Bush officials expressed their anger and disappointment over the Justice Department decision.

"I think this is outrageous," said Mike Mitchell, a former State Department appointee who thinks that his confidential personnel file was among those searched.

"In the wake of Whitewater, in the wake of 'Travelgate,' it is obvious the administration does not want another scandal," he said. "This is nothing but stonewalling."

Mr. Mitchell said he and other Bush appointees at State will pursue other options to see the matter resolved. "We are looking at other measures, perhaps a civil suit," he said.

The controversy began in early September with a gossipy tidbit in The Washington Post's Federal Page column, which noted what had been found in the files of Bush appointees when they were rummaged by officials in the White House liaison's office at the State Department.

The files searched included those of Elizabeth Tamposi, a former assistant secretary of state who had been involved in the search of Bill Clinton's passport file, and Jennifer Fitzgerald, also a former Bush State Department official, who had been linked romantically with Mr. Bush in unsupported accounts.

State Department officials later said about 160 files had been pulled from storage and searched.

Republican senators, led by Mitch McConnell of Kentucky, requested a special prosecutor to review the case, as Democrats had asked in the case involving President Clinton's passport file.

That request was ignored by Attorney General Janet Reno.

In late 1992, the outgoing Bush Justice Department appointed a special prosecutor, former State's Attorney Joseph diGenova, to conduct a criminal probe into the passport-file case.

Whitewater paper trail a muddy one

By Dennis Cauchon
USA TODAY

YELLVILLE, Ark. — If the devil is in the details, the spirit of Whitewater may reside on Lot 13 on County Road 666.

Located on a dirt road, Lot 13 is a 2.7-acre wooded plot where Hillary Rodham Clinton built a model home to spark sales of Whitewater lots.

Nothing illegal has been found in its handling, but the paperwork is so sloppy that seemingly simple transactions are clouded in mystery.

Land and mortgage records are an inconsistent mish-mash of dates, dollars and owners.

The imprecise paperwork is all the more unusual because it was done by a banker, James McDougal; a respected lawyer, Hillary Clinton; and a veteran real-estate agent, Chris Wade.

"The whole Whitewater thing smacks of very poor bookkeeping," says Thomas Ochsenschlager, a Washington tax lawyer and accountant.

"From what I can tell, no one was trying to do anything wrong, but it is acutely embarrassing for a partner in the most prestigious law firm in Arkansas to be involved in something with such unusually sloppy paperwork."

If the Clintons did nothing wrong, the Whitewater story has lingered in part because of poor paperwork that might be interpreted as nefarious.

Lot 13 perfectly illustrates the Clintons' paper problems.

The story of Lot 13 should be simple: Hillary Clinton borrowed $30,000, built a modular home and sold it to a Mississippi man. The man went broke. The Clintons got the property back from bankruptcy court and resold it.

But the paperwork at the courthouse here and elsewhere is full of quirks.

For example, the Clintons recorded selling the property for the second time on Nov. 28, 1988 — three days before they recorded buying it back.

[illegible], but it is odd.

The most serious problem for Clinton is that Lot 13 provides a link between the failed Madison Guaranty Savings and Loan and the Clintons.

Records show that in November 1985, Whitewater Development Co. Inc. made a $7,322 payment on a loan taken out by Bill Clinton on Lot 13.

The problem: Whitewater's money to pay Clinton's loan came from Madison Marketing. And Madison Marketing got all its money from Madison S&L, whose failure cost taxpayers at least $47 million. Madison Marketing was owned by Susan McDougal, James McDougal's wife.

White House aide Bruce Lindsey says it's irrelevant whether the money came from a McDougal personal account or Madison Marketing. "There's nothing improper about it," he says. Other quirks:

▶ Bank of Kingston, owned by James McDougal, loaned Hillary Clinton $30,000 on Dec. 16, 1980 — 10 days before she owned Lot 13, which was used as collateral.

It is unusual — but not a crime — for a bank to loan first and get the collateral later.

▶ Hillary Clinton got Lot 13 without paying for it. She paid no income taxes for getting the property, worth about $3,000.

The White House says the lot and home were effectively owned by Whitewater.

Hillary Clinton loaned the $30,000 back to Whitewater in "a mirror loan," says Lindsey, and Whitewater made the loan payments. But no public documents reflect a mirror loan.

"It's pretty hard to construct a scenario where Hillary doesn't have some tax liability on the property," Ochsenschlager says. Most likely she should have reported the value of the property as a dividend from Whitewater, he says.

▶ The Clintons bought Lot 13 again in November 1988, according to county land and bankruptcy court records. Their taxes show they owned the property in March 1987.

▶ The Clintons' tax returns show the property was sold for $23,758. County land and assessor records say it was $28,000.

Those discrepancies don't prove wrongdoing, but they illustrate why questions persist.

The White House has answers for most questions.

For example, the Clintons rely on Denver attorney James Lyons' report to show they lost $68,900 on Whitewater, although they haven't claimed the full loss on their taxes.

The Lyons report details the Clintons' Whitewater finances from 1980 through 1991 — except for 1990, which is omitted without explanation.

Lindsey says there was no accountant worksheet for 1990, so the information was merged with 1991.

By Marty Baumann, USA TODAY

News report questions first lady's role in suit

By Dennis Cauchon
USA TODAY

The Chicago Tribune reported Thursday that Hillary Rodham Clinton worked for federal regulators in a lawsuit filed against Clinton friend and investment banker Dan Lasater.

Her law firm settled a $3.3 million suit against Lasater & Co. for $200,000. The case involved First American Savings and Loan, an Oak Brook, Ill., S&L that failed in 1986.

Lasater, a Little Rock businessman, was a political supporter of Gov. Bill Clinton. He also employed Roger Clinton, the president's half-brother. Lasater and Roger Clinton pleaded guilty to cocaine charges that were related.

The suit was handled properly, says Lisa Caputo, Hillary Clinton's spokeswoman. "Mrs. Clinton, when she was a lawyer at the Rose Law Firm, acted with the utmost integrity and professionalism." Of the allegations, she said: "These things are thrown up as a diversion."

In other Whitewater news, Rep. Jim Leach, R-Iowa, asked Thursday for a ruling on whether the head of the Resolution Trust Corp. should remove himself from all Whitewater-related decisions.

RTC acting chief Roger Altman, Clinton's college roommate, is deputy Treasury secretary. He has been filling in as head of the independent agency because the job is vacant.

Leach, who is leading the Whitewater investigation, said the probe puts Altman in "an awkward position" because Madison Guaranty Savings & Loan — a failed thrift owned by Clinton's Whitewater partner James McDougal — is at the center of the controversy.

Altman had no immediate comment. "It's being reviewed," said Treasury spokesman Howard Schloss.

THE WASHINGTON POST WEDNESDAY, FEBRUARY 9, 1994

FDIC Choice Pledges Whitewater Recusal

GOP Senators Question Tigert's Clinton Ties

By Jerry Knight
Washington Post Staff Writer

President Clinton's nominee to head the Federal Deposit Insurance Corp. has promised to keep away from the agency's investigation of Madison Guaranty Savings & Loan, the failed Arkansas thrift that financed Whitewater Development Corp.

Washington attorney Ricki R. Tigert issued the pledge Monday after Senate Republicans threatened to hold up her nomination because of what they contend are conflicts of interest stemming from her friendship with the president and Hillary Rodham Clinton.

In a letter released yesterday by Sen. Alfonse M. D'Amato (N.Y.), the Senate Banking Committee's ranking Republican, Tigert denied any conflicts exist but said she would avoid the Madison investigation because "I am extremely sensitive about even the appearance of any conflict of interest."

D'Amato said Tigert's decision to recuse herself from the Madison matter was "helpful to disposing of questions raised about her independence at a time when the FDIC is conducting investigations into matters involving President and Mrs. Clinton."

The FDIC took over Madison at a cost to the taxpayers of $48 million after it failed in 1989. The FDIC, the Resolution Trust Corp. and the Justice Department are investigating possible violations of banking law and regulations at Madison, including the thrift's loans to finance Whitewater, a residential real estate development in which the Clintons were partners along with Madison President James MacDougal and his wife, Susan.

Tigert said neither her appointment by Clinton to head the agency nor her acquaintance with the Clintons would prevent her from conducting an independent inquiry. She said both the Office of Government Ethics and the ethics officers of the

TIGERT, From C1

FDIC assured her that "no actual conflict of interest is involved, given the casual nature of my friendship [illegible]ons."

At Tigert's confirmation hearing last week, Sen. Lauch Faircloth (R-N.C.) portrayed her as a longtime intimate of the Clintons, but Democratic sources said she had met them fewer than a dozen times over a period of several years.

Faircloth repeatedly pressed Tigert to explain how she could oversee an investigation of people she had known personally.

Yesterday, Faircloth aides said the senator was not satisfied with her response. "It's not the most airtight recusal," a Faircloth spokesman said, predicting Republicans would continue to use Tigert's nomination to raise questions about Madison and Whitewater.

D'Amato warned yesterday that the government is running out of time to take action against Madison officials to recover damages for the S&L's failure.

Dragging a huge "Whitewater Countdown" calendar onto the Senate floor, D'Amato said the statute of limitations for suing Madison officials expires Feb. 28.

The government could keep the case open by asking Madison officials to sign voluntary agreements extending the deadline, D'Amato said, but he complained that RTC officials have refused to disclose whether they have taken that action.

The RTC referred the investigation of Madison to the Justice Department in October 1992, because of possible criminal violations, and usually in such cases the government files civil lawsuits to try to get some of its money back, D'Amato pointed out.

TODAY IN CONGRESS

SENATE

Meets at 10 a.m.
Committees:
Appropriations—2:30 p.m. Closed. Foreign operations subc. Russia & Ukraine. 219 Hart Office Bldg.
Armed Services—9:30 a.m. Pending military nominations. 222 Russell Office Bldg.
Budget—10 a.m. President's proposed FY95 budget. Treasury Sec. Lloyd Bentsen. 608 Dirksen Office Bldg.
Commerce, Science & Transportation—9:30 a.m. Nomination of Ann Brown to be chairman of Consumer Product Safety Commission. 253 ROB.
Finance—10 a.m. Congressional Budget Office analysis of president's health care reform plan. 215 DOB.
Finance—No set time. Nomination of Mary Ellen Withrow to be treasurer of the United States. 215 DOB.
Foreign Relations—10:30 a.m. Pending nominations, including nomination of Strobe Talbott to be deputy secretary of state. 419 DOB.
Foreign Relations—2 p.m. International economic policy, trade, oceans & the environment subc. Foreign aid reform proposal. 419 DOB.
Foreign Relations—3 p.m. East Asian & Pacific affairs subc. Post-embargo status of Vietnam. 216 HOB.
Judiciary—10:30 a.m. Formulating an effective response to gangs. 226 DOB.
Labor & Human Resources—11 a.m. Occupational Safety & Health Act reform. Labor Sec. Robert Reich. 430 DOB.
Veterans' Affairs—2 p.m. VA participation in state health care programs. 418 ROB.

HOUSE

Meets at noon.
Committees:
Appropriations—9:30 a.m. Agriculture [illegible] subc. Review all Agriculture Dept. budget overview & Office of Inspector General overview. 2362A Rayburn House Office Bldg.
Appropriations—10 a.m. Interior & related agencies subc. FY95 approps. for Commission on Fine Arts; Advisory Council on Historic Preservation; & Woodrow Wilson International Center for Scholars. B-308 RHOB.
Appropriations—10 a.m. Labor-HHS-Education subc. FY95 approps. for miscellaneous programs under its jurisdiction. 2358 RHOB.
Appropriations—2 p.m. Commerce, Justice, State & the judiciary subc. FY95 approps. for Federal Maritime Commission & Marine Mammal Commission. H-310 Cap.
Armed Services—1:30 p.m. Pentagon acquisition reform. Defense Sec. William Perry. 2118 RHOB.
Banking, Finance & Urban Affairs—10 a.m. Mark up Consumer Reporting Reform Act. 2128 RHOB.
Budget—10 a.m. President's proposed FY95 budget. OMB Director Leon Panetta. 210 Cannon House Office Bldg.
Education & Labor—9:30 a.m. Mark up Elementary & Secondary Education Amendments. 2175 RHOB.
Energy & Commerce—10 a.m. Energy & power subc. Emergency energy responses to extreme weather conditions. 2218 RHOB.
Energy & Commerce—10 a.m. Telecommunications & finance subc. National Communications Competition & Information Infrastructure Act, focusing on local competition. 2123 RHOB.
Energy & Commerce—11 a.m. Oversight & investigations subc. Fraudulent hospital billing practices. 2322 RHOB.
Energy & Commerce—2 p.m. Health & the environment subc. Mark up to amend Health Service Act to revise & extend programs relating to health of minorities. 2359 RHOB.
Foreign Affairs—9:30 a.m. Foreign aid reform & mark up regarding establishment of a nuclear free zone in South Pacific & expressing sense of Congress with regards to South Pacific region. 2172 RHOB.
Foreign Affairs—1 p.m. Closed. Western Hemisphere affairs subc. Briefing on humanitarian relief efforts in Haiti. 2255 RHOB.
Foreign Affairs—2 p.m. Western Hemisphere affairs subc. Humanitarian relief efforts in Haiti. 2172 RHOB.
Government Operations—10 a.m. Information, Justice, Transportation & Agriculture subc. Review Farmers Home Administration loan portfolio. 2247 RHOB.
Judiciary—10:30 a.m. Civil & constitutional rights subc. Reauth. of U.S. Commission on Civil Rights. 2226 RHOB.
Merchant Marine & Fisheries—1:30 p.m. [illegible] subc. Individual [illegible] Fishery Conservation & Management Act. 1334 Longworth House Office Bldg.
Public Works & Transportation—9:30 a.m. Aviation subc. Adequacy of commuter airline safety standards. 2167 RHOB.
Rules—10 a.m. Legislative Reorganization Act. H-313 Cap.
Science, Space & Technology—10 a.m. With House Permanent Select Intelligence Committee. Commercial remote sensing in post-Cold War era. 2318 RHOB.
Science, Space & Technology—1 p.m. Technology, environment & aviation subc. Present & future of Malcolm Baldrige National Quality Award & its relationship to standards. 2325 RHOB.
Ways & Means—10 a.m. Health subc. American Health Security Act, MediPlan Act, & other single-payer health care reform proposals. 1100 LHOB.
Ways & Means—10 a.m. Select revenue measures subc. Selected tax provisions in admin.'s health care reform proposal. [illegible]

REVIEW & OUTLOOK

FOB Regulation

Today the Senate Banking Committee will vote on Ricki Tigert as head of the FDIC, she having agreed to recuse herself from issues involving the Clintons and Whitewater. Let us all pause to see who is running the rest of the bank regulatory apparatus. Why, Deputy Treasury Secretary Roger Altman, a presidential appointee as well as Georgetown friend, is running the ostensibly independent Resolution Trust Corp. And Eugene Ludwig, another college Buddy of Bill, has been installed as Comptroller of the Currency.

Why, the FOBs are taking over financial regulation, lock, stock and barrel. They haven't quite got the Federal Reserve yet, but they have a regulatory reform proposal that would take care of that. The Clinton folks aren't content to relegate cronies and pals to harmless backwaters like Commerce or Postmaster General or the alter ego of a presidential Counselor. They learned back in Arkansas that it was convenient to have a Beverly Bassett Schaffer sending "Dear Hillary" letters waving through a new capitalization plan for a financial institution.

We're glad to see that a couple of courageous Republicans are blowing the whistle.

North Carolina's Senator Lauch Faircloth, unlike some of his colleagues on Don Riegle's banking committee, isn't willing to let the matter drop with Ms. Tigert's recusal. In the FDIC nominee's first appearance before the committee, the Senator raised the issue of how someone who says she's known the Clintons for eight years and been a Renaissance Weekend regular could convincingly head an agency with an active investigation of the Madison S&L collapse. Ms. Tigert weasled, but later sent Senator Faircloth a recusal statement, which she said was written after consulting FDIC's ethics office. She promised she'll recuse herself from matters "concerning President or Mrs. Clinton in their personal capacities."

While consoling Ms. Tigert on the "unfortunate fate" surrounding her nomination, Senator Faircloth is now wondering about the caveat "personal." Does that remind you of "didn't inhale" or "no price controls?" Sen. Faircloth now wants Ms. Tigert to "expand your recusal" from matters involving the "personal" activities of President and Mrs. Clinton to include their public activities. More pointedly, he asks: "Will you recuse yourself from matters concerning Webster Hubbell, Vincent Foster, Dan Lasater, Frost and Company, Madison Guaranty Savings and Loan, the Worthen Bank Corporation" and onward through all the financial institutions now running under the Whitewater flag? How did we end up with an FDIC head going in recusing herself from the agency's most sensitive business?

Meanwhile, Rep. Jim Leach is wondering about Deputy Treasury Secretary/Interim RTC CEO Roger Altman. The Congressman wrote last week also seeking recusal commitments in matters involving the RTC's investigation of Madison's collapse and relationship to Whitewater. Mr. Leach's tone is cordial, but he thinks the inherent conflicts need to be faced:

"I have high regard for your personal integrity, but as you know, from the beginning, it has been an awkward situation to have a presidentially appointed and confirmed officer of the Treasury Department also head an independent federal agency, the RTC. When this prospect was first suggested at the beginning of the Clinton Administration, it did not strike the Minority as overly unreasonable for a month or two given the fact that no RTC head had been selected.

"However, it has been over a year since the administration has been in office and it can only be described as structurally unseemly for a political appointee of an Executive branch department to make what are, in effect, law enforcement decisions for an independent federal agency as they may touch upon the President."

Finally, we have Mr. Ludwig, appointed by Mr. Clinton to head the comptroller's office, which regulates and examines national banks. They attended Oxford and Yale together, and remain close. Just how close the American Banker described in its Jan. 31 edition, reporting on a videotape taken at a Renaissance Weekend by someone from "Saturday Night Live" who was also there: "The tape featured Mr. Clinton. But it was hard to miss Mr. Ludwig in a bright blue sweater and white shorts. Almost every shot of the President showed the beaming comptroller at his shoulder."

So we have three Friends of Bill or Hillary calling signals, amid a blizzard of recusals, at three traditionally independent bank regulatory agencies. Surely by now enough is known of the Clinton political mores to agree that we're past the point of simply passing all this through as of no consequence. After the Savings and Loan scandal, BCCI, the Keating Five and now whatever Whitewater is, it ought to be at least clear that federal financial regulators should be held to a Caesar's wife standard of propriety and independence. Instead, we get this.

We're quite used to the Clinton White House stonewalling or deriding anyone's inquiries or doubts about its behavior. But we're glad that Senator Faircloth and Rep. Leach are persisting with their questions about the administration's appointment practices. As we run the numbers, Renaissance Weekend plus Whitewater plus the RTC plus the Comptroller plus the FDIC plus regulatory independence does not compute.

THE WALL STREET JOURNAL, THURSDAY, FEBRUARY 10, 1994

Grand Jury To Review Whitewater

THE WASHINGTON POST THURSDAY, FEBRUARY 17, 1994

Special Counsel Says Clinton-Thrift Probe Could Take 1½ Years

By Susan Schmidt
Washington Post Staff Writer

Special counsel Robert B. Fiske Jr. told a federal judge yesterday his investigation of President Clinton's Whitewater real estate venture and ties to a failed S&L may last 18 months, cover more than a million documents and involve 20 or more investigators.

After meeting with Fiske behind closed doors, U.S. District Court Judge Stephen M. Reasoner in Little Rock, Ark., agreed to empanel a special grand jury to exclusively handle the federal probe of Madison Guaranty Savings & Loan, and the Whitewater Development Corp. real estate venture, a corporation jointly owned by President and Hillary Rodham Clinton, Madison owner James McDougal and his former wife, Susan.

"The duties of any grand jury investigating this matter are much more extensive than the court had previously envisioned," Reasoner said in his order.

Early this week, Fiske's office served a subpoena seeking a wide range of documents on the Rose Law Firm, where Hillary Clinton and several high-ranking administration officials were once senior partners. They include Associate Attorney General Webster L. Hubbell, assistant White House counsel William H. Kennedy III, and Vincent Foster, the deputy White House counsel who committed suicide last July. The scope of Fiske's work includes looking at how the investigation into the Foster suicide was handled by the White House and law enforcement officials.

Rose firm lawyers did legal work relating to Madison. Hillary Clinton represented Madison during the mid-1980s when it sought regulatory approval for a stock plan from state officials. McDougal, a longtime Clinton friend, has said he placed the Rose firm on a $2,000-a-month retainer when then-Gov. Clinton complained to him about his family finances.

Hubbell represented the government when it sued Madison's accountants for malpractice in 1990. The Federal Deposit Insurance Corp. has been examining whether Hubbell and the Rose firm properly disclosed possible conflicts of interest in handling the case.

After his meeting with Reasoner, Fiske told reporters in Little Rock that it was necessary to ask for a

See WHITEWATER, A15, Col. 1

WHITEWATER, From A1

special grand jury "because of the importance of this investigation and the importance of doing it as quickly and as thoroughly as possible."

In his order, Reasoner said that even if the regular grand jury was asked to extend its term until the end of the year, it would not be able to complete the investigation. Those grand jurors, who have already begun work on the Whitewater investigation, initially thought they could do the job, Reasoner wrote, but believe it would be impossible now that the "actual scope and magnitude of the duties that would be involved in such a task has become more apparent."

Reasoner asked James Burnett, the foreman of the grand jury, to attend his meeting with Fiske. Burnett served as head of the National Transportation Safety Board under President Ronald Reagan.

In addition to the criminal investigation going on in Little Rock, a special civil task force assembled by the Resolution Trust Corp., the federal agency charged with overseeing the S&L crisis cleanup, has been working feverishly in Kansas City for the past several weeks.

RTC investigators and lawyers, as well as lawyers from the firm of Pillsbury, Madison & Sutro hired under contract by the RTC, are poring over Madison files to see if there are any civil claims that can still be brought against Madison attorneys, officials or borrowers. The statute of limitations on some potential civil claims expires on Feb. 28, five years to the day after Madison failed and was taken over by the government.

The subpoena delivered this week to the Rose firm sought information on a 2½-page list of entities and individuals, according to knowledgeable sources. The list was similar to one contained in a subpoena served last month on Arkansas Gov. Jim Guy Tucker (D), according to a source who has seen both subpoenas. In addition to documents relating to Madison and Whitewater, the Tucker subpoena sought materials on President Clinton, Hillary Clinton and Clinton campaign funds.

Rose firm Managing Partner Ronald Clark could not be reached for comment on the subpoena, but he said in an interview last week that the firm was collecting documents in anticipation of one.

"We are investigating anything and everything that has to do with Madison and Whitewater," said Clark.

> *"We are investigating anything and everything that has to do with Madison and Whitewater."*
>
> —Ronald Clark, Rose firm managing partner

Among the materials being prepared by the Rose lawyers and sought on the Tucker subpoena were documents relating to P.O.M. Inc., a large parking meter manufacturing firm that was owned until recently by Seth Ward, Hubbell's father-in-law, and is now owned by Ward's son, Seth Ward II. Hubbell was P.O.M.'s lawyer, and court documents show that Hillary Clinton did work for P.O.M. as well.

P.O.M. was a Madison borrower, and Seth Ward was a Madison employee. In 1985, P.O.M. was the first company to receive a special "private activity bond" under a program initiated by Clinton when he was governor.

Other individuals and entities listed on the Tucker subpoena related to partnerships and corporations created by Madison owner McDougal, several Madison insiders and borrowers, and materials related to Capital Management Services Inc., a venture capital company that received federal funds from the Small Business Administration.

Capital Management's owner, David Hale, is facing a trial on criminal fraud charges by Fiske's office this spring. Hale has alleged that Tucker and Clinton pressured him to make SBA-funded loans to help Madison, including a $300,000 loan, part of which ended up financing a Whitewater land transaction. Tucker and Clinton have denied pressuring Hale for the loans, and Clinton has said he remembers no such conversations where such loans were discussed.

REVIEW & OUTLOOK

Arkansas Forbearance

So the Federal Deposit Insurance Corp. has determined that Webb Hubbell and the Rose Law firm violated no conflict-of-interest rules when they worked both sides of the street regarding Madison Guaranty S&L of Little Rock in the 1980s. The FDIC's eight-page opinion makes some facts clear: Rose had previously represented Madison before state securities regulators. In doing so it had presented audits prepared by Frost & Co. Then Rose and Mr. Hubbell signed up to represent the government in a suit against Frost over its Madison audits. There is no record that Rose told the FDIC about its previous representation of Madison. Mr. Hubbell and another Rose partner say they remember oral disclosures, but the FDIC personnel involved have no recollection of them.

Webster Hubbell

The FDIC verdict: No conflict here.

When Rose offered the Frost audit to regulators in 1985, the FDIC opinion says, "There is no indication in the records, or based on our review, that the Firm did anything more with respect to the audit in question than take it at face value." And "there is no evidence that the Firm had a close relationship with the S&L;" (To judge by the opinion, the Whitewater partnership between Rose partner Hillary Clinton and Madison owner James McDougal escaped the notice of the FDIC's legal eagles.) And since in 1985 Rose represented the S&L, and in 1989 represented the conservator who took over the S&L after seizure, the interests in the two cases are not "directly adverse."

Somehow it seems to us the interests of a conservator trying to clean up a mess are pretty much adverse to the interests of the folks responsible for making the mess. Indeed, who needs a legal opinion to explain what is clearly a conflict on its face? Having been involved itself, Rose might have an interest in bailing out its former business associates; Rose in fact settled the suit against Frost in 1991 for $1 million, according to several reports much less than the limit of Frost's insurance. Alternatively, Rose might have an interest in protecting itself by blaming other parties for all mistakes. If this isn't a conflict of interest, what is?

But we guess that Arkansas rules now apply at the FDIC, even before the advent of Hillary buddy Ricki Tigert. So it only seems fair that everyone caught up in the S&L maelstrom of the 1980s gets the benefit of these new, more forgiving Arkansas standards of ethics.

A different set of rules applied to law firms that had represented wayward S&Ls, remember, before FOBs started turning up in headlines. Candidate Clinton proclaimed in his 1991 announcement speech that, "When the ripoff artists looted our S&Ls, the president was silent. In a Clinton Administration, when people sell their companies and their workers and their country down the river, they'll get called on the carpet."

And indeed, word of a new, relaxed standard has spread slowly. The day before the FDIC exonerated Rose over Madison, the Resolution Trust Corp. filed a $400 million suit against Streich Lang, a prominent Phoenix law firm that had represented Western Savings and Loan Association. Some of its partners, the RTC alleged, personally profited from the fake sale of some of its properties. The firm's managing director pointed out that the RTC has sued "some of the finest law firms across the country," and that the Phoenix suit "is consistent with the government litigation strategy regarding RTC takeovers."

The granddaddy of these cases concerned Kaye, Scholer, a New York firm that represented Charlie Keating's Lincoln S&L: It was coerced into a $41 million settlement in 1991 when the government froze its assets. The Kaye, Scholer case raised interesting questions in how far a firm can go in making representations for a client the firm does not itself believe. Regulators believe the firm lied to them, but a disciplinary committee of the New York bar has since looked into the case and found no evidence that any Kaye, Scholer partner violated ethical rules. Yet the firm was not allowed to defend itself. John Feerick, dean of Fordham School of Law, says the asset seizure was a "gross abuse of power." This action, he adds, "effectively took away the ability of the law firm to defend itself and forced it into a settlement."

Now that the FDIC has cleared the Rose Firm and Webb Hubbell, we hope it plans to give Kaye, Scholer its money back. Otherwise the lesson of the FDIC memo is that Arkansas forbearance applies only to firms that included the Associate Attorney General and the First Lady. But the same old ferocious rules will apply to ordinary mortals.

RTC Hearings to Give GOP a Chance To Grill Clinton Aides About Thrift

By Albert R. Karr
Staff Reporter of The Wall Street Journal

WASHINGTON – Congressional hearings this week will give Republican lawmakers their first chance to grill Clinton administration officials about legal issues related to a failed Arkansas thrift.

The Senate Banking Committee scheduled a hearing for Thursday on the performance of the Resolution Trust Corp., which is a Treasury Department unit and the government's savings-and-loan cleanup agency. Republicans, led by Sen. Alfonse D'Amato of New York, promise to delve into how the RTC is handling an investigation into any wrongdoing linked to failed Madison Guaranty Savings & Loan.

Various news accounts and GOP allegations have linked Madison, which failed in 1989, to helping Bill and Hillary Rodham Clinton finance their investment in Whitewater Development Co., an Arkansas land-development venture, and to fund-raising for Mr. Clinton's gubernatorial campaign debts. An independent counsel is investigating such claims.

The GOP will get a crack at witnesses including Treasury Secretary Lloyd Bentsen; Deputy Treasury Secretary Roger Altman, who is also interim RTC chief; acting Federal Deposit Insurance Corp. Chairman Andrew Hove; and Jonathan Fiechter, acting head of the Office of Thrift Supervision. The FDIC and OTS also have S&L regulatory powers.

Hearings Are Scheduled

Under GOP pressure, Banking Committee Chairman Donald Riegle (D., Mich.) set the Thursday hearing to receive a report of the Thrift Depositor Protection Oversight Board, which monitors the RTC. Mr. Bentsen is chairman of the oversight board, and Messrs. Altman, Hove and Fiechter are among its members. Rep. Henry Gonzalez (D., Texas), chairman of the House Banking Committee, has agreed to hold a similar hearing, where Rep. Jim Leach (R., Iowa) plans to raise Madison questions. Messrs. Riegle and Gonzalez had rebuffed GOP demands for broader hearings into the Whitewater-Madison issue itself.

Mr. Altman, a college classmate of the president and a longtime friend of the Clintons, is expected to get special GOP attention Thursday. "We intend to fully explore the actions of the RTC and its interim leader in the Madison/Whitewater controversy, including the delayed and incomplete responses to congressional requests for information as well as the question of Mr. Altman's recusal," Sen. D'Amato said. Sen. D'Amato has called for Mr. Altman to remove himself from overseeing matters involving Madison.

Sen. D'Amato, the banking panel's ranking Republican, also has accused the RTC of dragging its heels in the probe. Mr. Altman has said the RTC is conducting a vigorous investigation.

Statute of Limitations

The Senate and House, by 95-0 and 390-1 tallies, have voted to extend the RTC's statute of limitations for fraud and gross negligence in civil claims against S&L wrongdoers. The statute of limitations, which would otherwise run out for Madison and several hundred other thrifts on Monday, will be extended until the end of 1995, when the RTC itself expires.

Sen. D'Amato said Banking Committee Republicans also will question last week's FDIC report that exonerated the Rose Law Firm in Arkansas, where Mrs. Clinton and several administration officials were partners, of violating any conflict-of-interest rules in its dealings with Madison. Some have called the report a "whitewash," Sen. D'Amato said.

About two weeks ago, Ricki Tigert, the president's nominee to head the FDIC, recused herself from matters involving the Clintons and Madison. Ms. Tigert, also a friend of the Clintons, faced possible GOP efforts to block Senate confirmation of her nomination.

U.S. Antitrust Inquiry Praised by Small Bankers

By a Wall Street Journal *Staff Reporter*

WASHINGTON – Small bankers are delighted that the Justice Department has launched an investigation into whether the networks that link automated teller machines are limiting their systems solely to banks that purchase other services from the networks.

Attorney General Janet Reno disclosed the antitrust investigation in a speech to the Independent Bankers Association of America at its annual meeting in Orlando, Fla. If the department finds evidence of antitrust activity, she said, it will press the case in court.

"We were very pleased to hear the attorney general cite this as something they are looking into," said Diane Casey of the bankers association, a trade group of small banks. "Our bankers need access to those systems."

The Justice Department opened the antitrust investigation after receiving complaints that ATM networks were pressuring bankers to purchase other services from the networks. Banks, for instance, could allow their customers to pay bills by telephone or through personal computers, if the bank purchased the service through the network.

U.S. Reserve Assets Increased in January

By a Wall Street Journal *Staff Reporter*

WASHINGTON – U.S. reserve assets rose $801 million in January to $74.24 billion from $73.44 billion in December, the Treasury reported.

January's rise followed a $600 million decline in December.

U.S. reserve assets consist of foreign currencies, gold, special drawing rights at the International Monetary Fund and the U.S. reserve position at the IMF. In January 1993, they totaled $71.96 billion.

The Treasury said holdings of foreign currencies rose $682 million from December to $42.21 billion, while the gold stock was unchanged at $11.05 billion. The reserve position – the ability to draw foreign currency – at the IMF increased $88 million to $11.91 billion and holdings of IMF special drawing rights were up $31 million to $9.07 billion.

THE WALL STREET JOURNAL TUESDAY, FEBRUARY 22, 1994

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LEVEL 2 - 2 OF 2 STORIES

The Associated Press

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February 24, 1994, Thursday, AM cycle

SECTION: Washington Dateline

LENGTH: 856 words

HEADLINE: Senate Republicans Get Chance to Air Whitewater Case

BYLINE: By RICHARD KEIL, Associated Press Writer

DATELINE: WASHINGTON

BODY:

Senate Republicans mounted a furious attack Thursday on the Whitewater affair, accusing Democrats of failing to vigorously pursue the case and raising questions about possible political interference.

Under questioning by GOP members of the Senate Banking Committee, the acting head of the savings and loan cleanup agency acknowledged he recently briefed top White House officials on his agency's investigation of a failed Arkansas thrift at the center of the controversy.

Roger Altman, acting chief executive of the Resolution Trust Corp., said he used the meeting three weeks ago to explain to White House Counsel Bernard Nussbaum how the agency commonly proceeds when the deadline for filing charges in a case is approaching.

At the time, the deadline for filing civil claims in the case of Madison Guaranty S&L was set to expire at the end of February. Congress has since extended the deadline for another two years.

"It was solely to be sure that he understood the legal and procedural framework in which the RTC was working." Altman said of his meeting with Nussbaum.

Altman stressed that such briefings are typical with actual and potential targets of such probes. He characterized the session with Nussbaum, "a very stiff conversation."

Much of the hearing, originally designed to review the RTC's work in general, was dominated by political sniping over the investigation into President and Mrs. Clinton's Whitewater investment and their ties to the failed S&L.

Republicans accused Democrats of failing to vigorously pursue the case. Democrats fired right back, contending that any congressional action on Whitewater could jeopardize a criminal investigation now being conducted by special counsel Robert Fiske.

They also accused the GOP of ignoring the S&L crisis until they could use it for political gain by embarrassing the president.

"We're not talking about where the $ 150 billion in the S&L crisis went," said Sen. John Kerry, D-Mass. "This is why the taxpayers get so fed up - all we do is dig into politics."

As this played out, high-powered witnesses like Federal Reserve Chairman Alan Greenspan and Treasury Secretary Lloyd Bentsen sat and waited.

Sen. Alfonse D'Amato of New York, the panel's ranking Republican, set the tone, criticizing the RTC for not delivering until Wednesday evening a set of documents related to the failure of Madison Guaranty Savings and Loan.

Then he assailed an RTC report into possible conflicts at the Rose Law Firm in Little Rock, Ark., because regulators did not contact "former and current" lawyers at the firm who were knowledgeable about the matter.

"This is really one heck of a thorough report," he said sarcastically.

The firm, including Mrs. Clinton, worked for Madison during the mid-1980s when the troubled S&L sought state approval for a plan to raise new capital. Later, after Madison's failure, the Rose firm was hired by regulators to sue the S&L's accountants. The S&L was owned by James McDougal, a partner with the Clintons in the Whitewater Development Corp., a real estate venture.

Democrats were having none of it.

Kerry, long an RTC critic, came armed with charts showing 193 thrift failures that each cost taxpayers more than the $ 47 million bailout attached to Madison. He also said GOP committee members took little interest in those failures or other problems within the RTC, including when agency whistleblowers testified in a hearing last fall that waste, fraud and incompetence run rampant in the agency.

"Not one Republican cared enough to come ... when those whistleblowers were here to talk to us," Kerry said.

"Can we talk about a coverup?" D'Amato shot back, zeroing in on Whitewater. "It's a whitewash."

Recently, Federal Deposit Insurance Corp. officials investigated whether Rose adequately disclosed potential conflicts, including its prior work for Madison and the fact that the father-in-law of one of its senior partners, Justice Department official Webster Hubbell, had extensive financial dealings with the thrift.

The FDIC ruled last week there was insufficient evidence to take action, saying that the applicable conflict of interest rules weren't enacted until after Rose got the contract.

Sen. Lauch Faircloth, R-N.C., sharply criticized the FDIC report, saying it suffered from "memory lapses" and amounted to "an eight-page plea of insanity."

Regulators heatedly reminded him that under the rules applicable then, only a clear conflict of interest, not simply the appearance of one, would prevent a prospective contractor from working for the government.

Republicans contended that Democrats would have vigorously pursued such a case had it involved a Republican administration, recalling the congressional inquiries into a failed S&L tied to former President Bush's son, Neil.

Sen. Don Riegle, D-Mich., the committee chairman, said a congressional investigation into Whitewater was unnecessary because Fiske has already begun his probe.

"Any effort to undertake a full-blown inquiry would be time consuming and conflict with the legal process," Riegle said. "I don't think we can justify doing that."

LANGUAGE: ENGLISH

LOAD-DATE-MDC: February 25, 1994

LEVEL 2 - 1 OF 2 STORIES

The Associated Press

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February 25, 1994, Friday, PM cycle

SECTION: Washington Dateline

LENGTH: 777 words

HEADLINE: Altman Admits Briefing White House On Procedures in Madison S&L Probe

BYLINE: By RICHARD KEIL, Associated Press Writer

DATELINE: WASHINGTON

BODY:

A Clinton administration official acknowledges he briefed White House aides on the progress of a probe into a failed Arkansas savings and loan with ties to the first family.

In addition, a top federal regulator asked his inspector general today to examine whether Hillary Rodham Clinton's former law firm had "any conflicts of interest or other improprieties..." when it helped the government sue S&L wrongdoers.

Andrew C. Hove Jr., acting chairman of the Federal Deposit Insurance Corp., wrote that "because of the serious nature of this matter, please try to complete your investigation ... within 90 days." The letter to Inspector General James Renick was released by Sen. Alfonse D'Amato, R-N.Y.

At a Senate Banking Committee hearing Thursday, Roger Altman, acting head of the Resolution Trust Corp., revealed that he and a top Treasury Department official briefed White House counsel Bernard Nussbaum and other top administration aides on the procedures the RTC was using to investigate the failure of Madison Guaranty Savings and Loan.

Altman said he initiated the meeting three weeks ago - nearly a month after a special counsel began a criminal probe of Madison's failure - to explain how the agency commonly proceeds when the deadline for filing civil charges in a case is approaching. Also attending the session were Margaret Williams, Mrs. Clinton's chief of staff, and White House attorney Harold Ickes, Altman revealed.

Madison was owned by James McDougal, who along with his then-wife Susan, was a co-investor with the Clintons in the Whitewater Development Corp., a real estate venture. Special Counsel Robert Fiske has launched a criminal probe into whether funds from Madison, whose failure will cost taxpayers at least $ 47 million, were either diverted to Whitewater or used to help pay Clinton's political campaign debts.

"It was solely to be sure that he understood the legal and procedural framework in which the RTC was working," Altman said of his meeting with Nussbaum. "It was a heads-up."

At the time, the deadline for filing civil claims in the case of Madison Guaranty S&L was set to expire at the end of February. Congress has since extended the deadline for another two years.

Under questioning from Sen. Alfonse D'Amato, R-N.Y., Altman conceded that the session was awkward.

"It was a very stiff conversation," Altman added.

Meanwhile, in Little Rock, Ark., the State Bank Department acknowledged it received a subpoena last month for documents involving several Arkansas banks, including four where President and Mrs. Clinton took out loans for his campaign or their Whitewater venture.

The Jan. 13 subpoena was requested by federal prosecutors who did the initial work in the probe of Whitewater and Madison before it was turned over to Fiske.

Altman's admission came in a hearing where Republicans repeatedly claimed the White House has been unable to remain impartial on the matter or open it up to public scrutiny.

"Give the public the information that the public desperately wants," said Sen. Phil Gramm, R-Texas. "I believe that if the president does that, he can free himself of a very heavy burden, and free us too."

GOP lawmakers also won assurances from Hove that the agency's inspector general will review how the agency concluded that the Rose Law Firm of Little Rock, Ark., had not violated conflict of interest rules when it helped sue Madison's former accountants.

Rose had previously represented the S&L when it sought approval from state regulators for a recapitalization plan - and relied in part on the accounting firm's audits.

The FDIC concluded last week in an 8-page report that it could find no written record indicating whether Rose attorney Webster Hubbell, now the No. 3 Justice Department official, notified regulators about the firm's prior work for Madison.

But acting FDIC chairman Andrew Hove pledged to D'Amato that the agency's inspector general would review the matter to make sure it was handled appropriately.

The pledge by Hove - a holdover appointee from the Bush administration - came even though the FDIC has made clear in the past week that the strict conflict-of-interest regulations that now govern the conduct of agency contractors were not in place when Rose sought work in the Madison failure.

"At that time, we were looking only at actual conflicts of interest," Hove said. "Now, we're required to look at the appearance of a conflict as well."

"I find your response totally unacceptable," D'Amato told Hove in criticizing the report.

The RTC concluded on Feb. 8 that it found no evidence that Hubbell or others at Rose revealed the possible conflicts.

LANGUAGE: ENGLISH

LOAD-DATE-MDC: February 25, 1994

LEVEL 1 - 5 OF 18 STORIES

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February 25, 1994, Friday, Final Edition

SECTION: FIRST SECTION; PAGE A9

LENGTH: 962 words

HEADLINE: Agencies Accused of 'Whitewash' on Whitewater

SERIES: Occasional

BYLINE: Susan Schmidt, Washington Post Staff Writer

BODY:

In a sometimes heated debate over the Whitewater investigation, Senate Republicans yesterday questioned top officials of two federal banking agencies whether they are allowing partisan politics to interfere with the inquiry.

In a hearing before the Banking Committee, Sen. Alfonse M. D'Amato (N.Y.), the panel's ranking Republican, lambasted the Federal Deposit Insurance Corp. chairman for his agency's recent report clearing the Rose Law Firm of conflicts of interest, calling it "an incredible whitewash." The Rose firm, whose former partners included Hillary Rodham Clinton, represented the failed Madison Guaranty Savings & Loan before state regulators when Bill Clinton was governor of Arkansas. Acting FDIC Chairman Andrew C. Hove Jr. agreed to have his inspector general investigate the origins of the report.

Republicans also sharply questioned Deputy Treasury Secretary Roger C. Altman, the appointed acting chief of the Resolution Trust Corp., on his meeting three weeks ago with White House counsel Bernard Nussbaum and other Clinton aides to brief them on the RTC's procedures should it decide to file civil claims in the Whitewater investigation.

Altman said he initiated the meeting to give the White House a "heads up" on how the agency would proceed on potential civil claims arising out of the Madison's failure, which cost taxpayers an estimated $ 60 million. Clinton and his wife were joint owners of the Whitewater real estate venture with Madison owner James McDougal, and the Rose Law Firm, where Hillary Clinton was a partner, representing the S&L in the mid-1980s.

Altman said in a meeting with Nussbaum, Hillary Clinton's chief of staff Margaret Williams and White House deputy chief of staff Harold Ickes, he outlined various courses the RTC could take as it approached a Feb. 28 deadline for filing civil claims against Madison officers, directors and lawyers. Since then, Congress has extended the deadline to the end of 1995.

Altman said he told the White House aides the RTC would have to decide whether there was a basis to bring civil claims and, if so, whether to file suit immediately or seek a voluntary extension of the deadline from possible defendants.

"It was solely to be sure that [Nussbaum] understood the legal and procedural framework," Altman told the committee. He said he felt a briefing was

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PRESERVATION

justified because he had been giving such information to inquiring members of Congress.

D'Amato, who praised some aspects of the RTC's Madison investigation yesterday, had urged Altman to recuse himself from the Whitewater probe because it involves the president, who named Altman to his job.

Present at yesterday's session, nominally an oversight hearing on the RTC, were the five top-level officials on a board that oversees the agency. In addition to Altman and Hove, they included Treasury Secretary Lloyd Bentsen and Federal Reserve Chairman Alan Greenspan.

Republicans used the session to turn a harsh light on the Whitewater inquiry and complain about the Democratic majority's refusal to hold hearings on the issue. Democrats, led by Sen. John F. Kerry (Mass.), argued Republicans were engaged in "very partisan singling out of one institution."

They maintained Congress does not need to hold hearings because Whitewater and Madison are subjects of an extensive investigation by Robert B. Fiske Jr., the special counsel appointed by Attorney General Janet Reno.

Much of the hearing was devoted to discussion of a report on the Rose Law Firm released last week by the FDIC's legal division, which examined whether Rose lawyers properly disclosed involvement with Madison when they were hired by the government in 1989 to press a lawsuit against Madison's former accountants.

The FDIC legal division, which originally hired the firm, found there was no conflict of interest. It reached that conclusion despite evidence the firm never disclosed it represented Madison before state regulators, and had cited the accountant's audit work in seeking certain regulatory approvals. Hillary Clinton was one of the attorneys representing Madison.

The FDIC lawyers also decided they would have preferred to know that Rose's lead attorney on the case -- Webster L. Hubbell, now associate attorney general -- had relatives involved in litigation with the government over hundreds of thousands of dollars in Madison loans and commissions. But, they said, under their relatively lax 1989 rules, Hubbell's actions did not constitute a conflict.

"This is the most incredible whitewash," D'Amato told Hove. "I mean, are you serious?"

The RTC has prepared a separate report on the conflicts question that was released by D'Amato. It found the Rose firm failed to disclose potential conflicts of interest, and the study has been sent to the RTC general counsel for review.

The FDIC report said there was not a conflict because Rose lawyers imposed an internal "fire wall" to keep Madison information from Hubbell about his father-in-law, Seth Ward. "That's an Arkansas fire wall," said Sen. Lauch Faircloth (R-N.C.). "You could strike a match behind it, hear the scratch, see the glow and feel the heat."

Hove reluctantly agreed to seek an inspector general's investigation of the report and the handling of another case involving Hillary Clinton. In that

PHOTOCOPY
PRESERVATION

case, also an S&L matter, she signed court documents on behalf of her partner and the lead attorney on the case, former deputy White House counsel Vincent Foster, a leading Rose attorney. The case was against Dan Lasater, a Clinton friend and supporter.

Hillary Clinton signed an amended complaint that reduced damages sought by the government from $ 3.3 million to $ 1.3 million. She was not involved in the final $ 200,000 settlement, according to the FDIC.

LANGUAGE: ENGLISH

LOAD-DATE-MDC: February 25, 1994

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xxx the issue.

In another development at the hearing Thursday, Altman acknowledged that he had met privately with White House officials three weeks ago to brief them on an aspect of the RTC's Whitewater investigation. He said the purpose of the meeting was to inform the White House about the RTC's options in view of the impending expiration of statutes of limitation on civil lawsuits involving Whitewater- and Madison Guaranty-related issues.

Some Republicans raised the question of whether the meeting was improper, given his role as acting chairman of the RTC, which is supposed to be an independent regulatory agency.

``It was solely to be sure that (White House counsel Bernard Nussbaum) understood the legal and procedural framework,'' Altman told the committee. He said he felt a briefing was justified because he had been giving such information to inquiring members of Congress.

**** filed by:LAWP(--) on 02/25/94 at 02:28EST ****
**** printed by:WHPR(162) on 02/25/94 at 03:12EST ****

^BC-CLINTON-WHITEWATER 1STLD (SCHEDULED)<

^U.S. REGULATORS TO REOPEN ROSE LAW FIRM PROBE<

(Eds: Recasts lead, adds quotes, details)< By Roger Fillion<

WASHINGTON (Reuter) - Under fire from Republican lawmakers, U.S. regulators agreed Thursday to reopen their probe of First Lady Hillary Rodham Clinton's former law firm and its dealings with a failed Arkansas savings bank linked to the Whitewater affair.<

The head of the Federal Deposit Insurance Corp said he would turn over to the FDIC's top investigator a report issued last week clearing the Rose law firm of conflict-of-interest violations. Republicans have branded the report a ''whitewash.''<

A separate report issued Thursday by the U.S. savings and loan cleanup agency found that the Little Rock, Arkansas -based law firm failed to disclose its work for Madison Guaranty Savings and Loan, the bank linked to President and Mrs Clinton's money-losing Whitewater land deal.<

It was the first time the cleanup agency, the Resolution Trust Corp (RTC), revealed it had looked into possible conflict of interest by Rose -- where Hillary Clinton and other administration officials were partners -- when the firm was working for the RTC.

Republicans have accused Clinton adminstration officials overseeing the RTC of stalling the government's probe of Madison's 1989 failure.<

''Does the RTC think that there is a special category of people who are above the law?'' Republican Senator Alfonse D'Amato of New York asked during a banking committee hearing on the cleanup agency.<

While Democrats favor full prosecution of any wrongdoers in the multi-billion savings and loan disaster, they accused Republicans of using the Madison case as a political football.<

''There is this outrage directed at one particular situation, and it is so obvious why,'' said Senator Barbara Boxer, a California Democrat.<

Boxer and other Democrats said the Madison affair should be left to the special counsel probing the case.<

But Republicans used the banking panel hearing to grill Clinton officials about the government's probe of Madison, which was run by a close associate of then-Governor Bill Clinton.<

The associate, James McDougal, also was a partner with Clinton and his wife in the Whitewater land development deal.<

Madison and Whitewater are under suspicion of having been used to hide Clinton's 1984 campaign debts from his campaign for governor.<

The FDIC's acting chairman, under pressure from Republicans, agreed to hand over the agency's report on the Rose firm to the FDIC inspector general. Republicans want to ensure the report is unbiased and complete.<

Andrew Hove, the chairman, also agreed to broaden the FDIC's search of government documents to determine Mrs. Clinton's involvement in dealings stemming from the failure of a Chicago savings and loan.<

^(ndy) (ATTN: National editors) (Includes optional trims)
^White House Was Briefed on Whitewater Probe (Washn)
^By Timothy M. Phelps= ^(c) 1994, Newsday=

WASHINGTON Deputy Treasury Secretary Roger Altman said Thursday under questioning by Senate Republicans that he held a private meeting with White House officials three weeks ago to brief them on one aspect of the Whitewater investigation.

Altman, a close friend of President Clinton and his wife, Hillary Rodham Clinton, said he requested the meeting to talk about the then-approaching deadline for a civil suit against the Clintons, Hillary Clinton's former law firm or others concerning Whitewater.

Altman is also the acting head of the Resolution Trust Corp., which is conducting a review of the Whitewater affair to see if any civil laws were violated. A separate criminal investigation has been under way for the past month.

Attending the meeting from the White House, Altman said, were White House Counsel Bernard Nussbaum; Harold Ickes, the president's political troubleshooter on Whitewater; and Margaret Williams, Hillary Clinton's chief of staff.

Sen. Alfonse D'Amato, R-N.Y., the ranking Republican on the Senate Banking Committee, said afterward that the meeting should not have occurred.

''It is totally inappropriate for an appointed head of the RTC to go over and brief the White House,'' D'Amato said. ''It certainly has all the appearances of a cover-up.''

Altman described the session as a ''heads up'' meeting to inform the White House of the RTC's investigation of Madison Guaranty Savings and Loan, a failed Arkansas thrift headed by James McDougal that it took over at a cost of $47 million of taxpayers' money. Part of that investigation includes looking into the alleged diversion of depositor funds from Madison Guaranty to Whitewater, an Arkansas development in which the McDougals and Clintons were partners, or to a Clinton gubernatorial campaign. The RTC also is looking into the possibility of conflicts of interest by the Rose Law Firm or its partners, who included Hillary Clinton and Webster Hubbell, now the associate attorney general.

^(Optional add end)

At the time the statute of limitations for any civil lawsuit against Rose or its partners was less than a month away, and Altman said he told the officials that among the RTC's options were filing a civil suit before the Feb. 28 deadline or asking those involved to waive the statute of limitations. Either one would have caused renewed embarrassment for the White House.

After that meeting, Democrats in the Congress acceded to D'Amato's demand that the statute of limitations be extended until 1995.

Thursday's testimony by Altman and other administration officials came at an oversight hearing of the Banking Committee on the RTC. But committee Republicans turned it into a hearing on Whitewater.

^Distributed by the Los Angeles Times-Washington Post News Service=

The Chicago Tribune has reported that the First Lady may have concealed a conflict of interest in pursuing -- on behalf of federal banking regulators -- a legal settlement with a family friend and associate, Arkansas businessman Dan Lasater.<

Meanwhile, Deputy Treasury Secretary Roger Altman, the RTC's acting chief executive, said he will turn over the savings and loan cleanup agency's findings on the Rose firm to its inspector general.<

''It would guarantee the integrity of the review,'' said D'Amato, the senior Republican on the banking committee.<

The RTC probe found Rose did not disclose previous work for Madison when the law firm was working for the agency.<

It also said Rose did not disclose possible conflicts involving the brother-in-law and father-in-law of Webster Hubbell, a Rose partner who is now the third-ranking official in the Justice Department. Both had sued Madison.<

The RTC report, dated February 8, did not make any recommendations or state whether Rose acted inappropriately.<

The House Banking Committee is expected to hold an RTC hearing next month.<

LEVEL 1 - 4 OF 18 STORIES

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February 26, 1994, Saturday, Final Edition

SECTION: FIRST SECTION; PAGE A7

LENGTH: 1084 words

HEADLINE: Senior Official Steps Aside in Probe Of S&L Linked to Clintons' Venture

SERIES: Occasional

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

BODY:

Deputy Treasury Secretary Roger C. Altman, a political appointee serving as temporary chief of the federal thrift cleanup agency, recused himself yesterday from any further action on the investigation of an Arkansas savings and loan with ties to President Clinton and Hillary Rodham Clinton.

Altman announced he was taking the step one day after revealing during congressional questioning that he recently briefed White House officials on how his agency would proceed with potential civil claims growing out the failure of Madison Guaranty Savings & Loan. Altman's disclosure, under questioning from Republican senators, was criticized as evidence that the White House is improperly interfering in a case that directly affects the Clintons.

Altman also said he will step down as interim head of the Resolution Trust Corp. at the end of March. The administration is expected to nominate a permanent chief soon for the RTC, which by law is supposed to be an independent federal agency. Treasury officials said Altman did not believe the Madison investigation presented a conflict for him but realized there was the appearance of conflict and decided to recuse himself for that reason.

The RTC is disposing of failed S&Ls and pursuing civil and criminal cases against officers, directors, lawyers, accountants, borrowers and others. Hillary Clinton and her former associates at the Rose Law Firm in Little Rock, Ark., represented Madison before state regulators in the mid-1980s.

Altman told the Senate Banking Committee that he contacted White House counsel Bernard Nussbaum about three weeks ago and offered to meet with him to explain what the RTC would do as the deadline for filing civil claims in the Madison probe neared. That deadline was Feb. 28, but Congress has extended it until the end of 1995.

Altman said he met with Nussbaum; Margaret Williams, Hillary Clinton's chief of staff; and the president's deputy chief of staff, Harold Ickes, who has been assigned the task of damage control in the Whitewater probe.

White House officials yesterday defended the meeting. "There's nothing improper about it," said White House press secretary Dee Dee Myers. "He basically informed the White House -- as he did Congress, as he did the press. It was strictly a procedural briefing. There was nothing available that was

not available to members of the press or Congress."

Altman said he told White House aides during the meeting that if the RTC found a claim was warranted, it would either file a lawsuit or ask potential defendants to voluntarily sign agreements extending the deadline. He said he already had given such information to inquiring Republican members of Congress.

Meanwhile, Rep. Jim Leach (Iowa), the ranking Republican on the House Banking Committee, yesterday released portions of a taped conversation in which the Clintons' former business partner, James McDougal, disputes their accounting of their investment in their joint Whitewater land venture. McDougal said in the 1992 conversation that the Clintons never made a $ 9,000 interest payment that they claimed on their 1980 federal income taxes and that they used corporate assets to pay off a personal loan.

In a memo to minority committee members, Leach said McDougal's comments "appear to indicate that the Clintons lost no money in Whitewater" and "suggest that the tax consequences which emanate from this venture merit careful scrutiny."

Leach, who has been gathering documents for hearings he plans to hold next month on the Whitewater matter, said in an interview yesterday that he considered McDougal's comments important because, "he is sitting down with book ledgers, which lends it great credibility." The tape was made during a talk McDougal had in the spring of 1992 with Sheffield Nelson, who ran for governor against Clinton in 1990 and was himself an investor in a project financed through the McDougal-owned Madison Guaranty Savings & Loan.

The Clintons claimed in their 1980 federal tax returns that they made $ 9,000 in interest payments to McDougal related to the Whitewater venture. "They didn't pay me. . . . They have never paid me a penny's interest," McDougal said.

In recent weeks, McDougal has said that he could recall the Clintons putting about $ 13,500 into Whitewater, not the $ 68,900 they claimed when the investment became an issue in the 1992 presidential primaries and since.

Referring to the 1992 taped conversation, Bruce Lindsey, a senior White House aide, said yesterday, "I think he [McDougal] is confused. He has said he is relying on his memory with these amounts, and his memory is mistaken."

Lindsey said in an earlier interview that he believed the Clintons paid McDougal $ 9,000 in 1980 to compensate him for interest he had paid on a joint loan used to finance the Whitewater venture.

Special counsel Robert B. Fiske Jr. is now trying to sort out Whitewater's finances as part of an intense Justice Department investigation.

In the taped conversation with Nelson, apparently just after the Clinton campaign released a report about the Whitewater investment, McDougal said: "I could sink it [the $ 68,900 figure] quicker than they could lie about it if I could get in a position so I wouldn't have my head beaten off. And Bill knows that."

In the transcript, McDougal said the Clintons personally sold "a corporate asset" for which Whitewater had made all the payments. He was referring to a

lot and model home on the Whitewater property. Lindsey said the Clintons made some payments on the lot.

Last night, McDougal said a transcript read to him "sounds fabricated." He told the Associated Press, "I'm reserving any further comment until whatever Republican prepared the transcript makes the original tape available."

In another development, Sen. Alfonse M. D'Amato (R-N.Y.) accused Democratic National Committee Chairman David Wilhelm of using "political intimidation tactics" in a letter criticizing D'Amato for leading the GOP charge on Whitewater.

In the Feb. 25 letter, Wilhelm said D'Amato's own actions "present a clear pattern of conflict of interest over savings and loans and other business interests." As one example, he cited a Senate ethics committee probe of D'Amato's conduct in permitting his brother Armand to send letters under his name to the Pentagon to lobby for a contract.

D'Amato's reply said the letter "reconfirms my suspicion that something is rotten in Little Rock."

Staff writer Ruth Marcus contributed to this report.

LANGUAGE: ENGLISH

LOAD-DATE-MDC: February 25, 1994

Whitewater spurs raucous debate at Senate hearing

GOP charges 'coverup'; Democrats question motives

By Richard Whittle
Washington Bureau of The Dallas Morning News

WASHINGTON — Republicans provoked a verbal brawl over the Whitewater affair at a Senate hearing Thursday, hurling charges of a Clinton administration "coverup" while Democrats questioned GOP motives.

"It seems to me that this committee has an obligation to get out all the facts," said Sen. Alfonse D'Amato, R-N.Y., who launched the debate at a Senate Banking Committee hearing by raising the issue of past business dealings in Arkansas of President Clinton and his wife, Hillary Rodham Clinton.

"I see a coverup here. I see a whitewash here," said Mr. D'Amato, using a routine hearing on the federal agency created to clean up the savings and loan collapse to attack the administration's response to congressional questions on Whitewater.

But committee chairman Sen. Donald Riegle of Michigan and other Democrats argued that a congressional inquiry could interfere with the work of independent counsel Robert B. Fiske Jr.

"I don't think we can justify doing that," Mr. Riegle said.

Mr. Fiske is to examine allegations of improper financial dealings and favoritism in connection with the failed Madison Guaranty Savings & Loan. The Arkansas S&L collapsed in 1989 at a cost to taxpayers of $47 million. On

Please see PARTISAN on Page 22A.

Partisan debate erupts over Whitewater affair

Continued from Page 1A.

Wednesday, Mr. Fiske named a team of eight lawyers who will work in Washington and Little Rock, Ark., on the investigation.

Madison was run by James McDougal, the Clintons' business partner in a money-losing resort venture called Whitewater Development Corp. Mr. Clinton was governor of Arkansas at the time, which has prompted charges of favoritism and questions about whether money from the S&L might have been improperly funneled to his gubernatorial campaign.

In addition, a Little Rock law firm in which first lady Hillary Rodham Clinton and several other top administration officials were partners did legal work for Madison, raising conflict-of-interest questions.

The special counsel, appointed last month, is also investigating the death of deputy White House counsel Vince Foster, a friend of the Clintons who had worked on Whitewater matters. Authorities ruled his death a suicide.

Mr. D'Amato and the committee's other Republicans contended that the Federal Deposit Insurance Corp. had resisted their efforts to pursue a separate inquiry into the tangled tale of Madison and Whitewater.

Sen. John Kerry, D-Mass., adopted the role of the administration's chief defender, accusing the Republicans of "piling on in a partisan fashion" despite the appointment of the special counsel.

"This has nothing to do with federal policy on savings and loans," Mr. Kerry said, complaining that the Republicans were disingenuous to use the hearing on the Resolution Trust Corp. to launch their salvos.

Treasury Secretary Lloyd Bentsen, Federal Reserve Chairman Alan Greenspan and other senior officials called to testify on the RTC's progress in selling off assets of failed S&Ls had to sit through the 90-minute fight on the Whitewater issue before they spoke.

Mr. Bentsen was never asked about Whitewater. Mr. Greenspan, who with Mr. Bentsen sits on a committee that oversees the RTC, was asked by Mr. Riegle whether he was satisfied with the agency's work on Madison. He said he had "not followed it in any manner which would allow me to respond."

Mr. Kerry noted the cost of Madison's failure to the federal government made it 19th among failed S&Ls, "and that's the only one they're asking questions about."

He said the Republicans would be asking about bigger S&L failures if they were sincerely interested in policy rather than just trying to wound Mr. Clinton.

Sen. Phil Gramm of Texas said he and other GOP members of the committee simply wanted to "clear the air" by getting out information that "the American public desperately wants."

Mr. Gramm contended that the Democrats would have created a special congressional investigating committee if similar issues had been raised about former President Ronald Reagan.

Other Republicans argued that they were asking for the same kind of treatment accorded in the past to members of their party, such as former President George Bush's son, Neil, whose involvement in a Denver savings and loan prompted hearings.

The only concession the Republicans won was a promise from the head of the FDIC to have the agency's inspector general examine a recent report on the role of Mrs. Clinton's former law firm.

The Rose law firm of Little Rock, in which Mr. Foster and Associate Attorney General Webster Hubbell were also partners, represented Madison when it was failing and wanted a state agency's approval of a plan to raise more capital. The law firm later was hired by the FDIC to sue Madison's accounting firm.

FDIC officials recently questioned whether the law firm adequately disclosed the fact that Mr. Hubbell and Mrs. Clinton had done legal work for Madison and that Mr. Hubbell's father-in-law had sued Madison over his financial dealings with the S&L.

An FDIC report issued last week, however, found that while the Rose firm would have been in violation of current conflict-of-interest rules, the regulations in effect at the time were more lenient.

Mr. D'Amato called that report "the most incredible whitewash of Watergate that I've seen." Sen. Lauch Faircloth, R-N.C., said it was "an eight-page plea of insanity."

FDIC Acting Chairman Andrew Hove countered that the lawsuit against Madison by Mr. Hubbell's father-in-law had been decided by the time the FDIC hired the Rose firm, making it impossible for Mr. Hubbell to exploit any inside knowledge gained.

Mr. D'Amato was also critical of the RTC, which he castigated for getting documents to him late Wednesday that he said had been available for delivery since Feb. 8.

"Even if you took an Evelyn Wood speed-reading course you'd have trouble getting through it," he said, describing the material as "boxes" of documents. "That's not fair to us and it's not fair to the American people."

Republicans will try to focus the spotlight again on Whitewater next month when the House Banking Committee holds a similar hearing on the RTC.

Committee chairman Henry B. Gonzalez, D-San Antonio, has rejected calls for special hearings on Whitewater. But the ranking Republican on the committee, Rep. Jim Leach of Iowa, has been among the most vocal critics of the administration's handling of the affair.

Also on Thursday Rep. Bill Clinger of Pennsylvania, ranking Republican on the House Government Operations Committee, announced that his staff would review federal agencies' handling of the investigation of White House aide Foster's death.

Mr. Foster, whose work at the White House had included filing a set of delinquent tax returns for Whitewater Development Corp., was found dead of a gunshot wound to the head last July in a Potomac River park. The investigation was conducted by the U.S. Park Police.

The administration has acknowledged that White House aides searched Mr. Foster's office after his death and removed some documents related to Whitewater.

Dallas Morning News 2-25-94

GOP persuades regulators to reopen probe of Rose

By Tony Munroe
THE WASHINGTON TIMES

Under pressure from Republican lawmakers, U.S. regulators agreed yesterday to reopen their probe of Hillary Rodham Clinton's former law firm and its dealings with a failed Arkansas savings bank linked to the Whitewater-Madison affair.

The acting head of the Federal Deposit Insurance Corp. said he would turn over to the FDIC's top investigator a report issued last week clearing Little Rock's Rose Law Firm of conflict-of-interest violations.

Republicans branded that report a "whitewash" during a contentious, 4½-hour hearing in which they lit into their Democratic counterparts for not pursuing the matter.

Minutes after the opening gavel in what was scheduled as a routine hearing on the savings and loan cleanup, Sen. Alfonse M. D'Amato, New York Republican, accused federal regulators of "stonewalling" Republicans in their efforts to determine what happened in the Whitewater-Madison case.

"I see a cover-up here. I see a whitewash here," he said.

Democrats countered that the Republicans were using President Clinton's Whitewater real estate investment for political profit.

"This has nothing to do with federal policy on savings and loans," said Sen. John Kerry, Massachusetts Democrat. "What we're doing now is piling on in a clearly partisan fashion."

High-level officials, including Treasury Secretary Lloyd Bentsen and Federal Reserve Chairman Alan Greenspan, sat and watched the partisan sparring for 90 minutes before they were called on to speak.

Mr. D'Amato chided the Resolution Trust Corp. (RTC) for its eight-page report examining whether there was a conflict of interest involving Mrs. Clinton and the Rose firm, where she was a partner.

Rose represented Madison Guaranty Savings and Loan Association before it failed, then represented the government in a suit that accused Frost & Co., Madison's accounting firm, of negligence in failing to detect Madison's troubles.

In its report, the RTC said: "Interviews of current and former Rose Law Firm attorneys who may be knowledgeable on this matter were not conducted."

"This is really one heck of a thorough report," a sarcastic Mr. D'Amato said at yesterday's hearing.

Mr. D'Amato also blasted the FDIC report, calling it "sophomoric, legalistic mumbo-jumbo that doesn't hold water."

Sen. Lauch Faircloth, North Carolina Republican, called the FDIC report "an eight-page insanity plea."

Acting FDIC Chairman Andrew C. Hove explained that under the rules at the time Rose was awarded the contract, only clear conflicts of interest, not apparant conflicts, were investigated.

Mr. D'Amato asked that the agency's inspector general investigate the matter, to which Mr. Hove agreed.

Sen. Richard C. Shelby, Alabama Democrat, said that while unanswered questions remain, Robert B. Fiske Jr., the special counsel appointed by Attorney General Janet Reno to look into the Whitewater-Madison affair, will handle them.

Leading the Democrats' counterstrike, Mr. Kerry made a show of charts listing 193 failed thrifts that cost taxpayers more than the $50 million it cost to bail out Madison, which was seized by federal regulators in 1989.

Mr. Kerry also recalled hearings held last year on fraud and mismanagement at the RTC, when there was "no hue and cry from my colleagues across the aisle."

But Sen. Pete V. Domenici, New Mexico Republican, cited hearings called by Democrats when President Bush's son, Neil, was involved in the failure of Denver-based Silverado Savings & Loan, and asked for the appointment of a Senate committee to investigate Whitewater-Madison.

Democrats responded that a Senate investigation would be redundant, and any findings could prejudice the investigation already in progress under Mr. Fiske.

"It seems to me we put the matter where it ought to be put," said Sen. Paul S. Sarbanes, Maryland Democrat.

Republicans on the House side will get a crack at Whitewater-Madison during the third week of March when the House Banking Committee plans to hold a hearing on the RTC cleanup job.

Mr. Fiske is investigating Madison and its financial ties to Whitewater Development Corp., an Arkansas land partnership involving President and Mrs. Clinton and Madison owner James B. McDougal and his wife, Susan.

In 1985, Mrs. Clinton was being paid $2,000 a month by Mr. McDougal to represent the failing S&L before state regulators, who sought to close it because of insolvency. She presented a stock preferred plan based on an audit by the Frost firm. The government said four years later that the plan was fraudulent.

Mr. McDougal, who bought Madison Guaranty in 1982, is under investigation by federal authorities for accusations that he manipulated $250,000 in loans through the S&L and diverted other money to the campaigns of several Arkansas politicians, including Mr. Clinton.

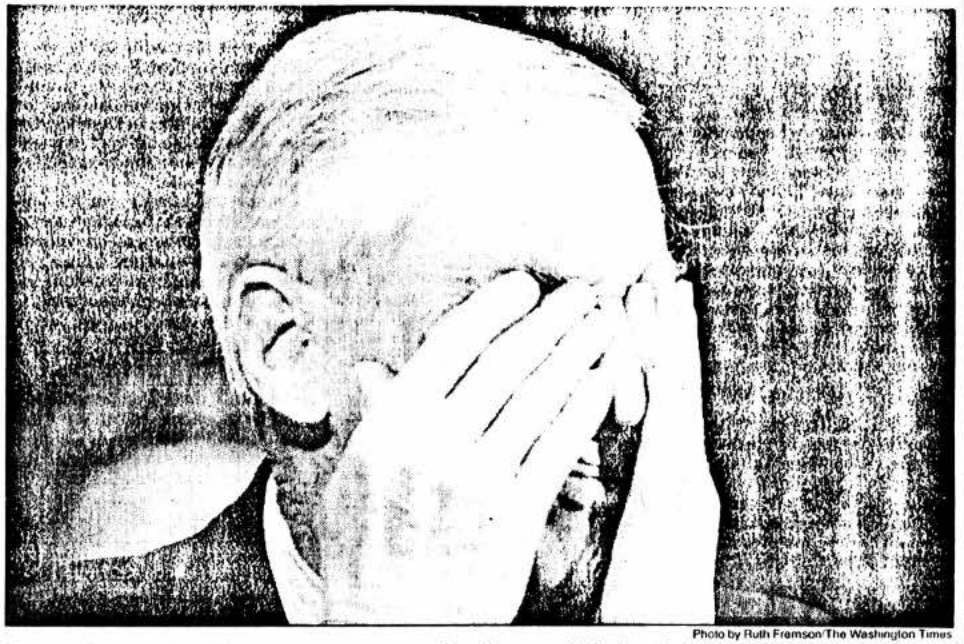

Photo by Ruth Fremson/The Washington Times

Treasury Secretary Lloyd Bentsen appears weary of waiting to testify before the Senate Banking Committee.

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He pi ıg hoı ıe ess veterans

Summit seeks ways to help estimated 250,000 on the street

By Patricia Edmonds
USA TODAY

WASHINGTON — At an unprecedented federal "summit meeting" on homeless veterans, top Clinton administration officials said government must do more for the estimated 250,000 veterans homeless on any given night.

"We've used that number of 250,000 for five or ten years, and the VA's been spending maybe $50 million a year — and I have to ask myself, what are we doing?" said Veterans Affairs Secretary Jesse Brown, who convened the summit of about 700 veterans' advocates. "It doesn't appear we're making any progress."

But at the two-day summit that concludes today, Brown warned that "no government program can solve this problem alone." He said the VA should funnel more money and responsibility to local governments and vets-helping-vets programs.

For the VA to solicit private groups' help to solve the problem "is a phenomenal breakthrough," said Richard Fitzpatrick, executive director of the National Coalition for Homeless Veterans. "It's a major first step."

An estimated one in three homeless U.S. men is a veteran, driven to the streets by some combination of bad luck, joblessness, substance abuse, war-related stress and mental illness.

Housing and Urban Development's Andrew Cuomo told the summit, "We want to get the money out of Washington, back to the community" — but stopped short of specifying increased HUD spending for homeless vets.

Brown noted VA spending on the homeless had risen from $50 million to $70 million since last year — and that for the first time, the VA has $5.5 million to award to non-government vets groups.

Bronx veteran Joseph Wilson, recovering from homelessness and drug addiction, told summit participants there's no time to waste. "As long as veterans are out there on the street," he said, "they're going to keep dying."

By Agence France-Presse
BROWN: Government alone can't solve problem

GOP makes hay on Whitewater

S&L hearings in Senate

By Dennis Cauchon
USA TODAY

WASHINGTON — Senate Republicans hijacked a savings and loan hearing Thursday and turned it into a forum on the Whitewater controversy.

In the process, the Republicans uncovered new details on Whitewater and scored some political points.

Led by a loud and aggressive Sen. Alfonse D'Amato, R-N.Y., the Republicans won an agreement by savings and loan regulators to have two more government watchdogs look into aspects of Whitewater.

In addition, the regulators acknowledged they had recently discussed Whitewater with top White House officials, although the contacts appear to be minor and not improper.

"We're talking about a cover-up," D'Amato replied.

The Whitewater fight came during what was to be a routine hearing on the status of the $150 billion S&L bailout.

Sen. John Kerry, D-Mass., asked the Republicans why they only show up for S&L hearings when they want to put on a political show.

"This is why the taxpayers get so fed up, because all we do is dig into politics," Kerry said. "We're not talking about where the $150 billion went."

The Whitewater controversy involves a wide range of question centering on a vacation property called Whitewater.

President Clinton and his wife, Hillary, were partners in the property with James McDougal, owner of the failed Madison Guaranty Savings. Special prosecutor Robert Fiske is investigating if the Clintons did anything wrong.

At the Senate hearing:

▶ Resolution Trust Corp. acting chairman Robert Altman acknowledged he met three weeks ago with top White House officials to discuss the RTC probe of Madison.

The RTC is the agency that handles failed S&Ls.

Altman said he met with White House Counsel Bernard Nussbaum, White House deputy chief of staff Harold Ickes and Hillary Clinton's chief of staff Margaret Williams. "I describe it as a heads-up and a very stiff conversation," said Altman, who is also deputy Treasury secretary. He said he discussed RTC policy on a legal deadline that required all Madison-related lawsuits to be filed by Feb. 28. Congress later extended the deadline, giving the RTC more time to file suits against the Clintons, if appropriate.

▶ David Kendall, the Clintons' personal lawyer, called the Federal Deposit Insurance Corp. on Feb. 16, said FDIC official Alan Whitney, who took the call. Kendall wanted to know if the FDIC had issued a statement responding to a Chicago *Tribune* article on Hillary Clinton's role representing the government in a suit against a Clinton family friend. Whitney said the call lasted just seconds.

▶ The RTC and FDIC agreed to have their inspectors-general probe whether Hillary Clinton and Justice Department official Web Hubbell broke conflict of interest rules. Hillary Clinton and Hubbell were partners in the Rose law firm, which represented both Madison and S&L regulators.

By John Duricka, AP
CITES 'COVER-UP': Sen. Alfonse D'Amato, R-N.Y., left, questions a witness Thursday. At right is Sen. Don Riegle, D-Mich.

Agencies Accused of 'Whitewash' on Whitewater

By Susan Schmidt
Washington Post Staff Writer

In a sometimes heated debate over the Whitewater investigation, Senate Republicans yesterday questioned top officials of two federal banking agencies whether they are allowing partisan politics to interfere with the inquiry.

In a hearing before the Banking Committee, Sen. Alfonse M. D'Amato (N.Y.), the panel's ranking Republican, lambasted the Federal Deposit Insurance Corp. chairman for his agency's recent report clearing the Rose Law Firm of conflicts of interest, calling it "an incredible whitewash." The Rose firm, whose former partners included Hillary Rodham Clinton, represented the failed Madison Guaranty Savings & Loan before state regulators when Bill Clinton was governor of Arkansas. Acting FDIC Chairman Andrew C. Hove Jr. agreed to have his inspector general investigate the origins of the report.

Republicans also sharply questioned Deputy Treasury Secretary Roger C. Altman, the appointed acting chief of the Resolution Trust Corp., on his meeting three weeks ago with White House counsel Bernard Nussbaum and other Clinton aides to brief them on the RTC's procedures should it decide to file civil claims in the Whitewater investigation.

Altman said he initiated the meeting to give the White House a "heads up" on how the agency would proceed on potential civil claims arising out of the Madison's failure, which cost taxpayers an estimated $60 million. Clinton and his wife were joint owners of the Whitewater real estate venture with Madison owner James McDougal, and the Rose Law Firm, where Hillary Clinton was a partner, representing the S&L in the mid-1980s.

Altman said that in a meeting with Nussbaum, Hillary Clinton's chief of staff Margaret Williams and health care advisor Harold Ickes, he outlined various courses the RTC could take as it approached a Feb. 28 deadline for filing civil claims against Madison officers, directors and lawyers. Since then, Congress has extended the deadline to the end of 1995.

Altman said he told the White House aides the RTC would have to decide whether there was a basis to bring civil claims and, if so, whether to file suit immediately or seek a voluntary extension of the deadline from possible defendants.

"It was solely to be sure that [Nussbaum] understood the legal and procedural framework," Altman told the committee. He said he felt a briefing was justified because he had been giving such information to inquiring members of Congress.

D'Amato, who praised some aspects of the RTC's Madison investigation yesterday, had urged Altman to recuse himself from the Whitewater probe because it involves the president, who named Altman to his job.

Present at yesterday's session, nominally an oversight hearing on the RTC, were the five top-level officials on a board that oversees the agency. In addition to Altman and Hove, they included Treasury Secretary Lloyd Bentsen and Federal Reserve Chairman Alan Greenspan.

Republicans used the session to turn a harsh light on the Whitewater inquiry and complain about the Democratic majority's refusal to hold hearings on the issue. Democrats, led by Sen. John F. Kerry (Mass.), argued Republicans were engaged in "very partisan singling out of one institution."

They maintained Congress does not need to hold hearings because Whitewater and Madison are subjects of an extensive investigation by Robert B. Fiske Jr., the special counsel appointed by Attorney General Janet Reno.

Much of the hearing was devoted to discussion of a report on the Rose Law Firm released last week by the FDIC's legal division, which examined whether Rose lawyers properly disclosed involvement with Madison when they were hired by the government in 1989 to press a lawsuit against Madison's former accountants.

The FDIC legal division, which originally hired the firm, found there was no conflict of interest. It reached that conclusion despite evidence the firm never disclosed it represented Madison before state regulators, and had cited the accountant's audit work in seeking certain regulatory approvals. Hillary Clinton was one of the attorneys representing Madison.

The FDIC lawyers also decided they would have preferred to know that Rose's lead attorney on the case—Webster L. Hubbell, now associate attorney general—had relatives involved in litigation with the government over hundreds of thousands of dollars in Madison loans and commissions. But, they said, under their relatively lax 1989 rules, Hubbell's actions did not constitute a conflict.

"This is the most incredible whitewash," D'Amato told Hove. "I mean, are you serious?"

The RTC has prepared a separate report on the conflicts question that was released by D'Amato. It found the Rose firm failed to disclose potential conflicts of interest, and the study has been sent to the RTC general counsel for review.

The FDIC report said there was not a conflict because Rose lawyers imposed an internal "fire wall" to keep Madison information from Hubbell about his father-in-law, Seth Ward. "That's an Arkansas fire wall," said Sen. Lauch Faircloth (R-N.C.) "You could strike a match behind it, hear the scratch, see the glow and feel the heat."

Hove reluctantly agreed to seek an inspector general's investigation of the report and the handling of another case involving Hillary Clinton. In that case, also an S&L matter, she signed court documents on behalf of her partner and the lead attorney on the case, former deputy White House counsel Vincent Foster, a leading Rose attorney. The case was against Dan Lasater, a Clinton friend and supporter.

Hillary Clinton signed an amended complaint that reduced damages sought by the government from $3.3 million to $1.3 million. She was not involved in the final $200,000 settlement, according to the FDIC.